

600

C O N T E N T S .

- Report on Empire Monetary
and Financial Policy by
a Joint Committee of the
Federation of British
Industries and the Empire
Economic Union. 1931. PP. 1- 25.
X6.1-3.N3 G1
- In-Flation, De-Flation,
Re-Flation: Their Effect
on the Commodity Price
Level. By Waldron
Smithers. (The Problem of
To-day.) X9(JB). 760 X61:74 PP. 26- 34.
G2
- Currency and Credit on a
Metallic Basis. Their
Effect on Trade and on
the Commodity Price
Level of the World. By
H.E.Moon. 1932. PP. 35- 51.
X61:1 G2
- A New British Financial
Policy. Industry's Plan.
1932. X7.3.N3 G2 PP. 52- 64.
- K.J.Back's Financial
System. 1931. PP. 65- 89.
X61:1 G1
- Debts and Reparations. By
Waldron Smithers. 1932. PP. 90- 99.
X755:576 G2
- Proposed Banking Act of
1935. By Winthrop W.
Aldrich. 1935. PP.100-125.
X62:(Z73).N35 G5
- Suggestions for Improving
the Banking System. By
Winthrop W. Aldrich. 1933. PP.126-141.
X62.73-N3 G3
- The Present and Future
Development of Public
Utility Finance. Address
by Harry M. Addinsell.

4

10.

SERVANTS OF INDIA SOCIETY'S LIBRARY,
POONA 4.

FOR INTERNAL CIRCULATION

To be returned on or before the last date stamped below

6-173.

11.

30 MAY 1952

4-190.

12.

11-204.

13.

15-228.

14.

Address by Winthrop W.
Aldrich. 1936.

DP.229-234.

X:5A734.N3 G6

15. The Chief Cause of this
and other Depressions.
By Leonard P. Ayres.

DP.235-260.

1935

X:74273.N3 G5

16. Problems of Financial
Reform and Readjustment
of Public Loans in
China. By Masutaro
Kimura. 1931.

DP.261-274.

X7.41.N3 G1

17. Report on the Currency
System of China. By
Mitsutaro Araki. 1931.

DP.275-323.

X61-11.N3

- 18. A Practical Monetary Policy for the Ottawa Conference. By E. Beddington Behrens. 1932. X6.1-3.N3 G2 pp.324-333.
- 19. 21st Annual Report of the Federal Reserve Board, Washington. 1934. X6212:734 G4 pp.334-481.
- 20. Currency, Banking and Finance. (The Labour Party Policy Report No.1, London.) 1932. X6.3.N3 G2 pp.482-487.
- 21. On Money. By Lord Desborough. X61 G3 pp.488-502.

Dhananjayrao Gadgil Library



GIPE-PUNE-011805

REP

Empire Monetary and Financial Policy

by a Joint Committee

of the

FEDERATION OF BRITISH INDUSTRIES
and the EMPIRE ECONOMIC UNION



Accepted by the GRAND COUNCIL of the
FEDERATION OF BRITISH INDUSTRIES,
October 14th, 1931.



Copies can be obtained from the
Federation of British Industries,
21 Tothill Street, London, S.W.1.

Price 1s. 0d.

7th October, 1931.

The following Report is that of a Joint Committee set up by the Federation of British Industries and the Empire Economic Union to examine and report to both organisations upon the subject of Empire Currency and Financial Policy.

The Committee is much indebted to Sir Frederick Williams-Taylor for the Appendix on the "Monetary Systems of Great Britain, the United States and Canada."

The following were members of the Committee :—

Rt. Hon. L. S. AMERY, M.P.	} For the Empire Economic Union.
Rt. Hon. SIR ROBERT HORNE, P.C., G.B.E., K.C., M.P.	
SIR BASIL BLACKETT, K.C.B., K.C.S.I.	
MR. H. G. WILLIAMS, M.Sc., M.I.C.E.	
SIR FREDERICK WILLIAMS-TAYLOR	} For the Federation of British Industries.
SIR WILLIAM LARKE, K.B.E.	
SIR ROLAND NUGENT.	
MR. R. G. GLENDAY.	

X6-1-3.N3

2

G1 11805

REPORT ON EMPIRE MONETARY AND FINANCIAL POLICY.

Effects of Changes in the Price Level.

1. The importance of the monetary factor in history is coming to be increasingly recognised. The suggestion of Alison and other historians that the decline and fall of the Roman Empire was largely due to price changes consequent on the exhaustion of the Spanish silver mines and on the drain of the precious metals to the East may contain in it more than an element of fact. Certain it is that the immense increase in Europe's stock of currency, following upon the discovery of America, played no small part in the great economic and social advance of the Sixteenth and Seventeenth centuries. No less obvious was the effect of the Californian and Australian gold discoveries in contributing to the great trade expansion of the third quarter of the last century, while the demonetization of silver inaugurated the great depression from 1876-1896, relieved from that date by the opening up of the South African gold field.

2. The influence of the monetary factor is not merely economic but social and political. Price changes raise difficult issues of equity between different classes of the nation. They alter the relative power and status of nations. They give an intensity to other factors which but for them might have been quiescent. Irish political nationalism might well have died out but for the great fall in agricultural prices in the seventies. The same cause to-day finds its outward and visible expression in Indian discontent. In the words of the Macmillan Committee (paragraph 204) :—

"Violent price changes (for what we have said applies *mutatis mutandis* to rising as well as to falling prices) initiate social as well as economic disturbances which leave no part of the national or international order unaffected. But we feel that the significance of what has been taking place in recent months is not always fully grasped. A study of history would, we believe, confirm the opinion that it is in the changes in the level of prices, and

in the consequential alteration in the position of debtors and creditors, entrepreneurs and workers, peasants and the tax gatherer, that the main secret of social trouble is to be found. Looked at from this point of view the events of the last decade are of the most extraordinary kind. A very violent depreciation of money was sufficient in the immediate post-war period to destroy over a large part of the continent of Europe all rational economic calculation and all orderly social and economic development. This violent movement was followed in turn by a period of relative stability in which material well-being progressed markedly. This phase has now been followed by a violent down-turn of prices, the effects of which upon political and social stability have already been very great. The problems thus raised transcend in importance any others of our time and generation and we have regarded it as our main task to expound their significance and to bring forward suggestions for their solution."

3. With the recognition of the importance of the monetary factor inevitably comes the recognition of the need for its control.

"An era of conscious and deliberate management must succeed the era of undirected natural evolution."
"The monetary system of this country must be a Managed System. It is not advisable, or indeed practicable, to regard our monetary system as an automatic system, grinding out the right result by the operation of natural forces aided by a few maxims of general application and some well-worn rules of thumb." (Macmillan Committee : para. 9 and 280.)

Such management, aimed at counteracting the serious economic, social and political effects of price instability, may be a difficult and delicate, but should not be an impossible task. Even if the ideal solution might be attainable only by a degree of international co-operation which is not yet in sight, much can be done by a great and wealthy community like the United Kingdom, and still more by so immensely powerful a group of communities as the British Empire, to shelter its own citizens from the worst effects of world monetary fluctuations, and, indeed, to bring those fluctuations under some measure of control. Nor need such a policy of national and Imperial monetary control interfere with the endeavour to improve international co-operation in this field.

Causes of the World Depression.

4. We agree with the conclusion of the Macmillan Committee that the present world economic crisis is primarily a monetary crisis. It has undoubtedly been accentuated by over-production of certain primary commodities, such as wheat, sugar, coffee and rubber. But it is difficult to see how over-production in particular commodities could have exercised so far-reaching and universal an effect upon the price of all primary products. Nor can improvements in

agricultural methods and extensions of areas cultivated, factors which have been in more or less continuous operation both before and since the war, account—as do the monetary factors—for the actual chronological course of recent price changes. As for general over-production we are inclined to agree with the dictum of Marshall that “the want of a proper standard of purchasing power is the chief cause of the survival of the monstrous fallacy that there can be too much produced of everything.”

5. The fall in wholesale prices is shown in the following table :—

(Average 1913 = 100)

Date.	Cereals and Meat.	Other Foods.	Textiles.	Minerals.	Miscellaneous.	Complete Index.
Average 1924 ...	159·9	169·9	210·6	145·2	131·5	159·3
„ 1928 ...	145·0	149·4	161·7	111·9	119·3	135·1
„ 1929 ...	135·6	136·8	141·9	116·2	112·7	127·2
„ 1930 ...	113·4	122·9	99·1	101·6	101·5	106·8
End Feb., 1930	119·5	132·2	115·1	110·1	108·4	115·9
„ Jan., 1931	94·3	110·8	75·8	91·5	90·4	91·3
„ Feb., 1931	92·9	108·4	78·0	93·5	90·5	91·6

6. The fall in retail prices has been far less. Taking 1924 as 100, the Ministry of Labour Cost of Living Index had only fallen to 85 in the first quarter of 1931 as against a fall to 64 in the case of wholesale prices. This is only the natural consequences of the series of lags and resistances in the adjustment of wages, salaries, and fixed charges to wholesale prices which make a price fall due to currency contraction or inadequacy so serious to the producer. Caught between the falling price of his product on the one hand and, on the other, fixed overhead and debt charges, the natural and highly organised resistance of labour to wage reductions, and the much slower fall in the retail price of his necessities as a consumer, he loses his trade, dismisses men, lets his machinery go unrenewed, or his farm go out of cultivation, and finally goes under.

7. The recent unparalleled fall in prices has been due in the main to a shortage of gold, arising, not so much from a

total insufficiency of the precious metal, as from its maldistribution. This maldistribution has been the result of the action upon the world's existing monetary system of a number of factors. First of these, in public estimation, though not in importance, come reparations and war debts, of which the ultimate recipients are France and the United States. Then come the interest payments due to these countries, and more particularly the United States, in respect of their foreign investments. Thirdly, comes the tariff policy of these countries, which precludes payment of these debts in kind, and creates yet further debts in respect of their favourable trade balance—all ultimately payable in gold.

8. The effect of French and American tariff policy has been accentuated by the combination in Great Britain of a policy of active deflation with the maintenance of Free Imports which, by over-stimulating its imports and restricting its exports, has steadily weakened its hold on the gold supply. The absence of any policy of Imperial economic co-operation is a further factor in accounting for the fact that the British Empire, which produces some 70 per cent. of the world's annual output of gold, and has produced nearly £700 millions since 1919, now holds less than a third of that amount, and is in danger of collapsing from a shortage of its own chief product, while the United Kingdom, although one of the greatest of all creditor nations, has difficulty in finding cash to meet its immediate liabilities.

9. The net total of reparation and war debt payments combined ultimately retained by France and the United States amount at present to about £16 millions and nearly £50 millions a year respectively, the latter sum being due to rise considerably in the near future. The payments due to the United States in respect of the excess of interest on American investments abroad over foreign investments in the United States, amounted in 1930 to some £122 millions and are rapidly increasing. The United States favourable balance of commodity trade averaged £141.3 millions for the years 1924-29 and was £156 millions for 1930. Even deducting the enormous sums spent by American tourists abroad (£166 millions in 1930), and other invisible imports, including immigrant remittances, which up to 1929 actually more than balanced war debt payments, the net balance due in gold to the United States alone amounted for 1930 to nearly £150 millions. It is sufficient to set against these figures the present total and distribution of gold in the world: £2,095 millions, of which over £1,000 millions is already in the United States and nearly £500

millions in France, not to speak of French and American gold at short call in other countries, to realise that, left to themselves, these factors would long before this have drained the world of its last ounce of gold, and, indeed, that, short of a complete change in the situation, that eventuality cannot be very far off.

10. The one countervailing factor has been the foreign investment of the creditor countries. In the case of this country foreign investment has represented a consistent policy, based on long habit and profoundly influenced by the experience that it pays to help debtors through their temporary difficulties. French and American investment has proceeded on very different lines. The French, after their experience with Russia, have been intensely reluctant to lock up any money abroad and have tended to confine themselves to short-term advances. This is almost as bad as the actual hoarding of gold, for either gold has to be kept in reserve to meet sudden demands for repayment, or else the borrowers run the risk of the kind of financial disaster which nearly overtook Germany, and from which recent events have shown us to be by no means immune. America, too, has very largely lent short, and, in any case, her policy of foreign investment has been intermittent and liable to diversion by her own internal fluctuations and by alternating moods of over-confidence and panic. It is this failure of the two great creditor countries either to buy or to lend consistently that has precipitated the general crisis.

The Course of World Deflation.

11. The story begins with the restoration of the gold standard in Europe and the consequent scramble for the gold required for the conventional currency reserves. We were the first to commit ourselves to the restoration of the pound sterling at the old gold parity, and our efforts in that direction, involving a continuous process of deflation culminating in the final attainment of the object aimed at in 1925, imposed a serious additional handicap upon our already high costs of production. In the view of the Macmillan Committee this policy provides "the major part of the explanation of the adverse change in our costs of production compared with elsewhere." So far from accepting the view that our loss of trade has been due to inefficiency, they consider that only a high degree of efficiency could have enabled us to maintain such trade as we have done against so heavy a handicap. As for the argument that the policy we pursued was justified by the benefits accruing to us from our international financial business, the Committee conclude that it is not likely that these benefits have "gone even a fraction of the way towards compensating the losses of wealth through unemployment in recent years."

m/ 12. The general restoration of the gold standard in Europe was only made possible by large-scale American investment. According to the Macmillan Report, the United States, in the four years 1925-1928, invested nearly £1,000,000,000 in foreign long-term securities. This process was deliberately fostered by the Federal Reserve authorities, who, anxious to reduce the accumulation of gold in America, which had reached some £900,000,000, quoted specially low money rates in the autumn of 1927 in order to stimulate a boom in foreign securities. Not only was the gold drain checked, but by the end of June, 1928, nearly £120,000,000 of the gold had found its way back across the Atlantic. The whole world situation was eased and a general return to prosperity seemed at hand. Unfortunately, cheap money in America also contributed to the rise in the price of American common stocks and to the great share boom, which before long began not only to deflect investors from foreign investments, but to suck into its vortex money, both American and European, from overseas. After the crash at the end of 1929 more money was drawn in to meet liabilities, and political uncertainty in Germany and elsewhere has since been responsible for yet further withdrawals. Upon this situation were superimposed the effects of a French position in which reluctance to invest abroad, except to some extent on short call, and the legal limitations upon the powers of the Bank of France combined to create a steady piling up of gold. This result, economically unprofitable, was no doubt in the main unintentional and almost automatic, though perhaps not unwelcome in quarters where a large gold reserve is believed to be a valuable asset in war and not without its influence in diplomacy.

13. With this breakdown, after a short period of expansion of the process of international investment there remained nothing to stop the drain of gold to France and America and the collapse of prices in a world whose currency and credit basis is fast melting away. How little margin was left for a continuance of the process at the beginning of this year is shown by the figures quoted on page 134 of the Macmillan Report. According to these, the creditor countries—i.e., the United States, France, and in a lesser degree Great Britain, Belgium, Holland, Switzerland and Sweden—increased the gold in their Central Banks and Treasuries between January 1, 1929, and January 1, 1931, from £1,277,300,000, or 65 per cent. of the world total, to £1,564,000,000, or 74.5 per cent. of the total, while the gold in the rest of the world went down from £680,000,000 to £531,000,000. As at least two-thirds of this last figure is

6
See Report of Union Corporation Ltd. of South Africa
quoted in Smithers' "Inflation, Deflation, Reflation", p. 114

immobilised under the laws regulating the currency reserves of the debtor countries, it was unlikely even in January, as the Macmillan Report points out, " that the debtor countries can continue much longer to square their international position by parting with gold at the rate of £70,000,000 a year." But since January the rate of flow has doubled, and France and the United States together have sucked up at least another £80,000,000 in seven months.

14. By the middle of 1931 the crisis was fast coming to a head. Premonitory trouble in Austria and other European countries was followed by the imminent collapse of Germany which was only just saved from being driven off the gold standard by emergency action on the part of her creditors, including a moratorium of all war debt and reparations payments. In this crisis the United Kingdom still appeared as one of the strong creditor nations assisting a weaker neighbour.

Britain's Financial Crisis.

15. Within a few weeks supervened our own financial crisis. One main underlying cause of this has been the gradual disappearance of our net trade balance. This country has always in modern times had a substantial excess of visible imports over exports and, within limits, such an excess is only the natural and normal accompaniment of our position as a great shipping nation, as a financial centre, and as a great creditor. But when all the invisible export factors have been taken into consideration it has also regularly had a large net balance available for new oversea investment, and that investment has played no small part in maintaining our export trade. In 1913, while our visible adverse balance amounted to £158 million, our invisible exports amounted to £339 million, leaving a clear net balance of some £181,000,000 available for foreign investment. For the years 1928-29 the average net balance stood at £138,000,000, a figure which allowing for the change in prices was not much more than half the figure for 1913. In 1930 it was down to £39,000,000 and in the present year the deficit is likely to be nearer £100,000,000 than £50,000,000.

16. In spite of this the habit of consistent oversea investment referred to previously would appear to have continued even in the absence of genuinely realised earnings to invest. For the years 1924-30 the average of our oversea investments has exceeded our average net balance by £34.6 million, and even in the first six months of the present year of deficit £42,000,000 were invested overseas. It is difficult to resist the conclusion that at any rate part of our long term

oversea investments of recent years has been made, directly or indirectly, with the short term money left in London by those who found that they could get good terms combined with what they believed to be the very maximum of security.

17. That confidence in the stability of our position began to be shaken when it was realised how seriously the support we had given to various weak positions, more particularly in Austria and Germany, had depleted our own liquid resources. Heavy withdrawals of gold in July were only balanced by an emergency loan of £50,000,000 raised by the Bank of England in France and America. The Report of the Economy Committee, with its very definite statements as to the impending deficit in our Budget, precipitated a panic among foreign investors and depositors, temporarily checked by the formation of a National Government pledged to drastic economies as well as to a complete balancing of the Budget. Even these measures, however, and a further loan by the Government of £80,000,000 in America and France, proved inadequate in face of further withdrawals due not so much to lack of confidence as to the domestic needs and difficulties of some of the countries concerned, and, at the last moment, to a large scale "bear" raid on sterling. On September 21st the Chancellor of the Exchequer announced that the Government had decided to go off the gold standard, and the pound has since fluctuated at a figure of between 15s. and 16s. gold. Norway, Sweden and Denmark have followed suit since.

Stabilising the Price Level.

18. Agreeing with the general analysis of the Macmillan Report as to the causes of the recent fall in prices and as to the disastrous character of its effects, the Committee are also in broad agreement with the one positive general conclusion of the Report which is that the raising of prices above their present level is an immediate necessity, and they declare their emphatic opinion that to allow prices to be stabilised at their present level—not to speak of a further fall—would be—

a serious disaster for all countries of the world alike, and that the avoidance of such an event should be a prime object of international statesmanship. . . . Our objective should be, in so far as it lies within the power of this country to influence the international price level, first of all to raise prices a long way above the present level, and then to maintain them at the level thus reached with as much stability as can be managed. We recommend that this objective be accepted as the guiding aim of the monetary policy of this country.

19. The question then is, what measures can be taken on a national, Imperial or international scale, to restore the world price level, and secure its subsequent stability or to protect this country and the Empire from the effect of its fluctuations.

Reparations and War Debts.

20. Of the remedies suggested the remission of Reparations and War Debts figures very prominently in the public mind. But the figures already given show that these only play a relatively small part in the drain of gold to France and America. The political difficulties in the way of their remission, or even formal scaling down, may prove very great. On the other hand there would probably be very little objection to their indirect scaling down as the automatic consequence of other measures that reduced the present abnormal price of gold. We do not wish in any way to minimise the importance of securing reconsideration of the position in this respect by the United States and France, but we consider that it would be a mistake to concentrate attention upon it to the detriment of more immediately feasible measures.

Fiscal Policy.

21. A more important and promising field is that of fiscal policy. Here while there is little prospect of any immediate or far-reaching change in French or American fiscal policy, there is room for a very substantial reversal of the present gold drain through a change in the fiscal policy of this country and of the British Empire. A glance at the figures will make this clear.

22. The total excess of American exports over American imports for the years 1924-29 average £141.3 millions a year. Over the same period the excess of British imports from the United States over British exports to the United States averaged, according to our statistics, £154 millions a year, a figure which should be reduced to roughly £120 millions to be strictly comparable. In other words, this country has been responsible for six-sevenths of that excess of American exports which has been one of the primary factors in the drain of gold to America. Similarly, in the case of France her large credit balance in her trade with us, averaging £33 millions for 1924-29, has obviously been an important factor in assisting her policy of scraping together and immobilising so much of the world's gold. Our Free Trade policy has, in fact, proved a misfortune for the world as a whole, as well as to ourselves, by handing over the gold, which we should have steadily diffused by consistent overseas investment, to others less capable of using it for world purposes.

23. The actual effect of a domestic tariff in this country on the balance of trade and so on the gold situation would work out roughly as follows : There would be in the first instance a direct reduction in imports. In so far, however, as this was accompanied by a greater volume of home production and employment, direct or indirect, it would involve a large increase in the imports of raw materials required for the additional production, and of foodstuffs required by the workers engaged upon it, which would have to be set off against the reduction in our imports. On the other hand, the export position of our industries would be greatly strengthened, not only by reduction of factory overheads through working more up to capacity, but also by the reduction of taxation, which would follow upon a reduction of unemployment and upon the strengthening of the revenue by the increased total volume of wages and profits. The improvement of our balance of trade through this factor might easily be very much larger than that due to the mere reduction in imports. To these figures would have to be added an improvement in our freight earnings due to increased exports and to the substitution, in our imports, of bulky raw materials and foodstuffs, mostly brought over long ocean voyages in our own ships, for manufactures sent over shorter distances and largely in foreign ships. Lastly, our gold position would be still further strengthened by more active British home investment and, in all probability, also by American investment in prosperous British industries. To some extent it is inevitable that measures, especially fiscal measures, taken to restore the trade balance of this country and to increase employment will have the effect of transferring unemployment abroad. It appears to us, however, to be impossible for this country to continue any longer to gamble on the unrealised expectation of the adoption of a truly international policy by other countries. Alike in our policy of free trade, in our reparation and inter-allied debt policy, in our policy of investment abroad and in our working of the gold standard since 1925, we have gambled on the hope that in due course other countries would take the same view as we took, namely, that general prosperity is in the long run better promoted by international and even altruistic action rather than by a narrowly nationalistic outlook. While it may be true that many of the problems now facing us, in particular the problem of securing a rise in the world level of prices, could best be solved by international action, it has become clear that we can no longer afford to wait and should be failing in our duty if we did not take every possible internal step to set our own house in order. It is probable indeed that the adoption of a tariff by the United Kingdom may not be without effect in bringing about

a reconsideration of the unduly restrictive tariffs of other countries. More generally, too, the revival of British prosperity may, by the development of our market for primary products and the strengthening of our financial power, do so much to improve world prices and world prosperity as to more than offset any incidental temporary hardship inflicted upon others in the initial stages of the process. It is at least arguable that our professedly altruistic policy in trade has in recent years been more injurious than beneficial to the world outside.

The Imperial Aspect.

24. In this connection what applies to the domestic aspect of fiscal policy applies equally to the even more important Imperial aspect. The immediate scope for increased export of our manufactures within the Empire is at least as great as the scope for increased production for the home market, and would, in its turn, strengthen our whole position as regards costs by further increasing our scale of production and by bringing about yet further reductions of taxation made possible by reduction of unemployment and increased yield of revenue through fresh production. The reciprocal increased purchases by us of Empire products would stimulate development overseas and lead to yet further exports, while the whole process of development would attract not only British but American capital.

25. America's excess of exports over imports in her trade with Canada over the years 1924-29 averaged some £48 millions a year, a gold drain comparable to the whole international war debt payments to America. For 1928-29 the figure was nearly £76 millions. For Australia the corresponding adverse balance in her trade with the United States for the same six years was £28.5 millions. It is obvious that if a large part of this trade could be diverted from the United States to this country or to other parts of the Empire the drain of gold to America would be yet further restricted. It is no less obvious that a policy of Imperial Preference which promoted the more rapid development of Canada would at once encourage an inflow of American capital, on which, indeed, the greater part of Canada's recent development has been based, in other words bring back gold now sterilised in the vaults of the Federal Reserve Banks into world use. Here again the figures indicate that the effect, not only on the local situation, but even on world prices, would be by no means inappreciable.

26. In this connection it is worth keeping in mind the fact that a large part of the Empire is on a sterling basis or pegged to sterling by the operation of currency boards which

maintain the exchange at permanent parity. The area of sterling parity includes East and West Africa, the West Indies and Malaya. Purchases from and sales to that area, though they figure in our import and export statistics, have no more effect upon the gold situation than purchases from or sales to Scotland. On the other hand, any net excess of imports into these areas from countries other than the United Kingdom over exports from these areas to countries other than the United Kingdom is *pro tanto* a drain upon our gold, and *vice versa*. The same factor, of course, applies to an even greater extent, in the case of France, to her colonial empire, over the whole of which the French monetary system prevails. Even in the case of the Dominions and India, though they are not on a sterling basis, the fact that their proportion of reciprocal purchases from us is much higher than in the case of foreign countries, makes imports from them constitute much less of a drain on our gold position than foreign imports. The point is one to which we shall recur in connection with the possibility of a common currency basis for the Empire.

27. The effect of Empire development both in reducing our foreign purchases and increasing our own exports is, of course, not confined to the development due to purely fiscal preferences. Preferential inducements, for instance, to the flow of capital into Empire rather than foreign investment might be made to play an important part in a general Imperial policy. The Colonial Stock Act has, in fact, played such a part already. The political difficulties in the way of its continued application to the Dominions, and suggestions for surmounting these are discussed in Appendix I to this Report. The possibility of a preferential differentiation of the various stamp duties on securities is also dealt with in Appendix II.

28. There can be little doubt that the systematic development of the resources of the British Empire would bring about a complete change in the present economic balance of the world. It would, from the outset, check the present out-flow of the gold produced in the Empire, and would probably in course of time draw out again part of the gold now sterilized in France and the United States. But the process would take time, and, in the interval, the existing price shortage constitutes a serious obstacle to development.

Future Supplies of Gold.

29. Moreover, there remains the fact that the existing and prospective gold supply in the world, even if more evenly distributed, is likely to prove seriously inadequate to world needs. The total output is likely to go down (*see* Appendix III to Macmillan Report) from £83 millions in 1930 to about

£76 millions in 1940. The non-monetary demand is slowly increasing and is calculated to rise from £37 millions to £41 millions by 1940. The new gold available to meet the growing monetary needs of the world will thus fall from £46 millions in 1930 to under £35 millions in 1940. On the other hand the world need for increased currency to meet its growing production was estimated by the Gold Delegation of the Financial Committee of the League of Nations in their First Interim Report at either two or three per cent. per annum. It is the latter figure which is confirmed, as necessary to maintain price stability, by the very careful analysis of gold production and prices over the period since 1851 which has been carried out by the Industrial Institute. On this basis, and assuming the retention of the present conventional 40 per cent. gold cover for notes in most gold standard countries, there is already a shortage on the annual supply, rising from £16.3 millions in 1930 to an estimated £48.9 millions in 1940. Even if the gold cover were reduced to 33 per cent., and the rate of increase required taken at the lower figure of two per cent., there would only be a small margin to-day, converted into a small but steadily increasing shortage after 1937.

30. In these circumstances it would appear that the possibility of supplementing the metallic basis of credit by the restoration, in some measure or other, of silver to a place in the world's monetary system deserves serious consideration. Without discussing how far the elimination of silver from the world's currency in the last quarter of the nineteenth century may have played a part in the genesis of the present crisis, it may be worth while briefly referring to the antecedent history of a subject which was once the theme of acute economic and political controversy.

Silver.

31. In spite of the non-participation of this country, which had gone on to a purely gold standard in 1816, the support of the European nations and of the United States had proved amply sufficient up to 1873 to maintain the successful working of a bimetallic system which not only afforded a stable basis of exchange between gold and silver using countries, but also provided an adequate total supply of metallic currency for world needs. In 1873 Germany, placed by the unexpectedly rapid payment of the French War Indemnity of £200,000,000 in a position of having a great surplus of currency, decided, in imitation of England, then at the height of its prosperity, to go on to the gold standard, and proceeded to sell off large quantities of silver. For this the normal market was the French Mint and those of Belgium and other countries of the Latin Union.

32. There is no reason to suppose that the bimetallic system could not have carried the strain; and it was the political motive of putting a spoke in the wheel of the enemy; rather than purely economic considerations, which led to the progressive restrictions imposed by the French Mint which culminated in the complete closing of the Mint to silver in 1876. These measures, followed by the other countries of the Latin Union, and by the United States, in fear of being swamped by the surplus of silver, were originally intended to be temporary. But the situation went too far to be corrected by individual action, and the attempt to restore it by international agreement broke down against the steady opposition of this country, an opposition due to a short-sighted notion that we as a gold standard and creditor country only stood to gain by the extension of the gold standard and by a progressive deflation. This chapter ended in 1893 with the final closing of the American and Indian Mints.

33. The result of the discarding of silver by the greater part of the civilised world was a very severe fall in prices resulting both from the inadequacy of gold and from the devaluation of the currency of the silver using countries of South America and the East. Unable to remove its cause by international action most of the nations concerned took individual steps to counteract its effect on their agriculture and industries by tariff measures. This country, precluded by its theories from taking any such steps, witnessed a disastrous decline of its agriculture, and a serious check to its industrial development.

34. After 1895 the general price situation was greatly eased by the coming into production of the Transvaal deep level gold mines. Most of the world settled down on the gold standard, the outstanding exceptions being China, which remained on a purely silver basis, and India, which maintained a large silver reserve behind an artificially fixed rupee and, as a nation, continued steadily to put its savings into silver. The price of silver, which had before demonetisation stood at about 60d. per ounce had fallen by 1895 to 30d., and, up to the War, fluctuated between that figure and 24d. Once demonetised silver became in the main a commodity subject in general to the same fluctuations as have been experienced in the course of the last half century by other commodities. In the case of silver, however, these fluctuations have from time to time been seriously accentuated by action taken by various countries in regard to that part of their currency in which silver continued to play a part. During the War India's large export balances sent prices up

rapidly and for a few months in 1919-1920 it stood above the pre-1873 figure. The reserve which would have taken place in any event was accentuated by the silver liberated by the debasing of the British token currency and by the substitution of notes for silver over a large part of Europe and the price gradually went down to about 26½d. for 1927-28.

35. Since that date there has been a further tremendous fall, to 13d. an ounce and under, mainly due to the sale or threat of sale of Indian currency reserves in pursuance of the policy, decided upon in 1927, of putting the rupee on a gold basis, and to the adoption of a similar policy by French Indo-China. The effect of this fall upon the political and economic situation in India and China has undoubtedly been serious. The precise extent to which it has also contributed, over and above the causes already discussed, to the general world depression is a matter on which there may well be room for considerable difference of opinion.

36. The fall in silver in the last three years, and, indeed, ever since 1873, may truly be described as an artificial fall mainly due to the action of governments in demonetising or discarding silver. It has not been due to natural causes such as excessive production. As a matter of fact the production of silver during the last 400 years has not exceeded that of gold by more than 14½ to 1; during the last 100 years the ratio has been 11.8, and during the last 30 years 10.9, figures which of themselves clearly could not account for a fall from the standard ratio of 15½, which prevailed before demonetisation began in 1873, to over 70 to-day. Since the war the production from the mines has never equalled the demand. The total shortage from 1920 to 1930 inclusive has been some 328,000,000 ounces, only converted into a surplus by the selling off of demonetised metal by Governments to the tune of 408,000,000 ounces. The fall of the last three years has been mainly due to the sale of over 200,000,000 ounces between 1928 and 1930, chiefly by the Indian and French Indo-Chinese Governments.

37. It can hardly be doubted that there would be advantages to the world as a whole in raising the price of silver as a commodity at any rate to the level of 1927-8. Such a raising of the price of silver might, through its effect on the Indian and Chinese trade, well prove an important step in securing that recovery of wholesale prices generally which we have already, following the Macmillan Report, declared to be the essential remedy for present ills.

38. The advantage due to the mere raising of the price of silver as a commodity would, of course, be greatly enhanced if the silver acquired in the process were utilised by the Western world to expand its shrinking supply of gold. Without going the length of remonetising silver as currency, or of making it legal tender at a definite and permanent ratio, it would substantially increase the amount of gold available, as well as keep up silver prices, if the Central Banks were authorised to keep a percentage of their metallic currency reserve in silver at market price.

39. The inclusion of silver, at a definite and permanent ratio, in the world's monetary system, available for the purposes of international settlement as well as for a strengthening of currency reserves, would no doubt, have great advantages. It would avoid exchange fluctuations between the gold and silver using sections of the world. It could also, at some appropriate ratio, be made to provide, as far as can be foreseen, just about that extra amount of metallic currency basis as would be required to make up for the estimated prospective total shortage of new gold as compared with world needs (apart from maldistribution).

40. But the establishment of any such system would only be possible on the basis of a wide measure of international agreement. The lesser steps mentioned could be taken at once within the Empire, and would in all probability be widely followed outside even in the absence of formal agreement. If the British Government would convene, or agree to attend, an immediate International Conference on Silver, there would be little doubt of its securing decisions which would probably do more to ease the immediate situation, than any others that could be reached in the same time.

41. In giving this measure of support to proposals for the restoration of silver to a place in the world's monetary system, we desire, however, to make it clear that we are not in disagreement with the view of the Macmillan Committee referred to below that in a stable and financially highly developed community, neither gold nor any other metallic backing is required to support an internal note issue, and that a metallic reserve is needed for no other purpose than to meet a foreign drain and provide an international standard of value. Indeed, if all the nations of the world were in a position to confine their metallic reserves to that purpose, the supply of gold alone might well be sufficient for the more limited functions which would then devolve upon it.

Measures for Economising Gold.

42. So far we have discussed measures aimed either at correcting the maldistribution of gold or at supplementing its total volume. There remains the consideration of measures primarily of a banking character dealing with the relationship of the currency generally to the stock of precious metal used as its basis or for the purposes of international exchange. We assume that, at any rate for exchange purposes, the convenience of a metallic medium of exchange will ensure its continued retention, at any rate as an element in the financial machinery of the world.

43. As actual currency the precious metals have, since the War, been superseded in almost all civilised western countries by notes for all but the lower denominations. These notes in most European countries and in the United States have been authorised on the basis of a cover of 40 per cent. gold and the balance in securities. In this country, before the War, the whole paper currency was backed by gold with the exception of less than £20 millions—the fiduciary issue—covered by securities. The fiduciary issue, greatly increased during the War, was fixed in 1928 at £260 millions with provisions for increase in an emergency. With an actual maximum requirement for currency of about £380 millions this figure would mean that some £120 millions of gold, *i.e.*, just over 40 per cent., would have to be held over and above any gold required for the purpose of redressing exchange fluctuations.

44. Even so there is a widespread feeling that existing regulations involve an excessive locking up of gold, and a re-consideration of the conventional 40 per cent. gold cover has been advocated in many quarters. The recommendations of the League Gold Delegation, endorsed by the Macmillan Committee are :—

(1) All gold standard countries should agree that they will not allow gold to pass into active circulation, whether in the form of coins or of gold certificates ;

(2) Central Banks should give collective considerations from time to time to the question whether it would be in the general interest that the legal requirements in force in different countries as to gold reserves should be relaxed or tightened up, and should undertake to use their influence with their Governments to secure changes along the lines indicated, so far as is compatible with their domestic situations ;

(3) Central Banks should be permitted by the laws of their respective countries to reckon balances with the Central Banks of other gold standard countries, or with the Bank for International Settlements, as the equivalent of gold for all the purposes of the law;

(4) Central Banks should not be unduly limited in their power to expand their deposits otherwise than against a corresponding increase in their holdings of gold or the equivalent of gold. Similarly, it should lie within the power of a Central Bank to restrict the volume of its deposits otherwise than by decreasing its holdings of gold.

These suggestions would, no doubt, be of substantial help in normal times in economising the world's supply of gold, and in mitigating the effects of a general world shortage. As against the kind of strain to which the gold standard has recently been exposed their inadequacy is obvious.

45. More effective, if they could really be followed out, are the recommendations of the Macmillan Committee for the close co-operation of the Central Banks of the world in so regulating bank credit as to maintain stability in the rate of new investment, in preserving a proper balance between long term and short term investments, and in preventing the importation of unnecessary gold. But while there is undoubtedly a field for closer co-operation, it may be doubted whether the powers of the Central Banks, even if their outlook were purely international, are really great enough to counteract the forces and tendencies in their respective countries making for particular economic policies or favouring certain types of investment. The United States will not give up their tariff, nor the French investor his dislike of long term investments abroad, to help the Banks bring about a better world distribution of gold.

46. Here again then, while hoping the best from international co-operation, it is essential that we should take our own measures on national and Imperial lines. In this connection the Macmillan Committee, in its recommendations as regards our own currency system, has gone far beyond the suggestions of the League Gold Delegation. It has in fact come out boldly for the complete abandonment of the theory that gold is required as the actual basis of our internal currency, and for the maintenance of an entirely disconnected gold reserve for exchange purposes, the gold reserve only being included as part of the securities held against the note

circulation when it happens to be available. The proposal, in brief, is that a maximum volume of currency, provisionally fixed at a somewhat elastic total of £400 millions, should be issued as required irrespective of the state of the gold reserve. The latter is not to go below a minimum of £75 millions, except in very special emergencies, and is normally to be kept at least as high as hitherto, but with much greater freedom to vary it in accordance with exchange requirements. The figure of £400 millions was, no doubt, taken as a convenient maximum not likely to be exceeded in the near future—and as a possible danger signal against any tendency to inflation. Theoretically speaking no arbitrary limit is necessary, the ordinary bank rate procedure and the sale of securities by the Central Bank affording sufficient protection against inflation and any consequent undue efflux of bullion.

47. The present system is really, the Report points out, a meaningless survival from a period when people still thought in terms of actual metallic currency and were entitled, whenever they wished, to be paid in such currency.

..

The present system is wrong in that it associates the amount of the gold which the Bank of England should hold immobilised and unavailable for export with the amount of the active note circulation. Formerly when the Bank's gold was held for two purposes, partly to meet an external drain, and partly to meet an internal drain, it may have been reasonable to earmark a substantial part of it for the latter purpose. But now that the second purpose has disappeared, and has in part been abolished by law, so that the gold reserve of the Bank is held for no other purpose than to meet a foreign drain, the effect is to forbid the Bank to use the greater part of its gold for the only purpose for which it is held or could be used.

The rigid linking up of gold and currency which compels the contraction of domestic credit because some quite fortuitous circumstance, like an American boom or a Paris panic, withdraws our gold, and only enables domestic expansion to take place when the foreign exchanges are favourable, are obvious objections to a system which is no longer required in order to maintain public confidence. The experience both of the War and of recent weeks confirms the view of the Macmillan Committee that even the most severe crisis does not lead to an internal demand for gold in this country.

48. Presumably the Macmillan Committee intended the note issue to continue to be covered by the same type of security as has covered the fiduciary issue in the past. It has been suggested that a preferable type of security would be, as in the United States, the bill of exchange, on the ground that the currency would then be expanded only in proportion to actual business done and reduced again as the business was completed. The American system is described by Sir F. Williams Taylor in Appendix III, and the subject undoubtedly deserves consideration. We have not, however, seen sufficient evidence of the inadequacy of the present system to adapt itself to our current needs—once the present rigid link with gold is severed—to warrant our recommending any changes beyond those advocated by the Macmillan Committee.

49. While the Macmillan Committee recommend the retention normally of a large gold reserve for exchange purposes it is obvious that, once our trade balance was on a sounder footing, and in the absence of over-investment abroad or excessive short-term borrowing to support such investment, the gold reserve could be reduced to a comparatively narrow margin. That would undoubtedly result in a large saving of gold, which would be correspondingly increased if other countries followed our example.

Empire Currency Co-operation.

50. It is a remarkable fact that in the whole of the Report of the Macmillan Committee there is not a single word to suggest that there is such a thing as the British Empire, still less any consideration of the question whether, in this vital field of money policy, some more effective inter-Imperial co-operation than exists at present has not become necessary. Such co-operation, as has already been mentioned, does exist between the United Kingdom and certain parts of the Colonial Empire. By maintaining permanent parity of exchange, and by dispensing with the use of gold, it has been of great value to all the parties concerned. But no attempt has been made to carry the principle of co-operation into effect in the relations between this country and the Dominions and India. From that point of view the Empire as a whole lives in a state of monetary chaos. It is true that the question was raised, at the instance of New Zealand, at the Economic Conference of 1923. But the view then taken was that we were on the eve of a return to the gold standard which would automatically solve all difficulties.

51. The British Empire is not in the political sense a unitary state. There is in it no central authority, as in the

French Empire, which could impose a single currency system. Any monetary unity that is attainable must be arrived at by free co-operation. Such co-operation might be limited to carrying to its most effective point the kind of co-operation envisaged internationally by the League Delegation and the Macmillan Committee. But it might go a great deal further. There would seem to be no inherent constitutional or practical difficulty in the Central Banking Authorities of the Empire agreeing to constitute a Central Bank of Empire which would act as a clearing bank for all the Central Banks of the Empire. The Committee do not, however, consider that there would be any advantages in elaborating in detail such a scheme or other proposals designed to achieve the same purpose. There is no insuperable difficulty in securing the desired end if once its importance is recognised by the governments concerned and the political will to achieve it becomes manifest. Here again the Committee while admitting that the ideal solution would be a monetary system which secured for mankind generally a reasonable stability of prices and a measure of security against the disastrous sequence of alternate boom and depression, feel that, in the absence of sufficiently far-reaching international co-operation to effect such a purpose, the partner nations of the Empire should not neglect the opportunity afforded by the extent of their trade and resources to secure for themselves the benefits, throughout the Empire, of stable exchanges and of comparatively stable prices, and to give, by their success, an encouraging example to the world.

52. The establishment, over an economic unit of such magnitude as a developed British Empire might well become, of a single stable currency system such as we have adumbrated would not only result in a very large economy of bullion and its liberation for world currency purposes. It would in a large measure tend to control the monetary value of the precious metals and consequently of world currency generally. In the paper read by Dr. Gustav Cassel to the Institute of Bankers in May, 1931, he pointed out that since the War the American dollar has, in fact, been an independent currency. The fact that the United States were rich enough to accept large quantities of gold from outside without allowing their gold to be used for an increase in the supply of means of payment, and had accumulated so much gold that they could pay out almost any amount without reducing the domestic supply of means of payment, made it possible for them to regulate the value of the dollar according to their ideas of American requirements and not according to the gold situation. So far, indeed, from the value of the dollar being adjusted to the value of gold, the value of gold in his view, was adjusted to the

dollar, and he attributes the beginning of the fall in prices largely to the mistaken policy of the Federal Reserve Authorities in trying to combat speculation by credit restriction instead of aiming at preserving the stability of commodity prices. If it is a good thing to have an ultimate goal to work towards, that goal, in the monetary sphere, might well be an Imperial sterling currency, so adjusted as to maintain reasonable price stability for the British Commonwealth, and so powerful as to govern, through the external trade of that Commonwealth, both the value of the metallic medium of exchange and, indirectly, the value of the currencies of the rest of the world—a *Pax Britannica* built up out of the present anarchy in the world's monetary affairs.

APPENDIX I

TRUSTEE SECURITIES OF THE DOMINIONS.

Under the provisions of the Colonial Stock Act, 1900 (reproduced in the Trustee Act, 1925), the loans of Dominions and Colonies are admitted to the list of trustee stocks, under regulations which the Treasury is empowered to make, and the Treasury has hitherto required a Dominion or Colonial Government to declare its readiness to submit to the veto of the Crown, on the advice of Ministers in the United Kingdom, in respect of any legislation which appears to affect adversely the interests of the stockholder.

This provision is constitutionally out of date, so far as the Dominions are concerned, as it is contrary to the general constitutional position crystallised by the Balfour declaration in 1926, and is repugnant to certain of the Dominions.

It means that in reality the stockholder has no effective safeguard, because under the constitutional conventions which are now established it is unlikely that the Treasury could prevail upon the Government of the United Kingdom to disallow any legislation of the Dominions.

The Conference on the Operation of Dominion Legislation and Merchant Shipping Legislation, which reported in 1929 (Cmd. 3479) recommended that the legal power of disallowance by the Imperial Government should be terminated, by the appropriate means, except in respect of the obligations voluntarily assumed by Dominion Governments which desire admittance of their stocks to trustee status. The general position was stated by the Conference in the following terms:—

“ The special position in relation to the Colonial Stock Act, 1900, may conveniently be dealt with in this place. This Act empowers His Majesty's Treasury in the United Kingdom to make regulations governing the admission of Dominion stocks to the list of trustee securities in the United Kingdom. One of the conditions prescribed by the Treasury which at present govern the admission of such stocks is a requirement that the Dominion Government shall place on record a formal expression of its opinion that any Dominion legislation which appears to the Government of the United Kingdom to alter any of the provisions affecting the stock to the injury of the stockholder or to involve a departure from the original contract in regard to the stock would properly be disallowed. We desire to place on

record our opinion that, notwithstanding what has been said in the preceding paragraph, where a Dominion Government has complied with this condition and there is any stock (of either existing or future issues of that Government) which is a trustee security in consequence of such compliance, ~~the~~ right of disallowance in respect of such legislation must remain and can properly be exercised. In this respect alone is there an exception to the position as declared in the preceding paragraph.

"The general question of the terms on which loans raised by one part of the British Commonwealth should be given the privilege of admission to the Trustee List in another part falls naturally for determination by the Government of the latter, and it is for the other Governments to decide whether they will avail themselves of the privilege on the terms specified. It is right, however, to point out that the condition regarding disallowance makes it difficult, and in one case impossible, for certain Dominions to take advantage of the provisions of the Colonial Stock Act, 1900."

The recommendation urged herein is that the practice of requiring a Dominion Government to submit to the right of disallowance of legislation affecting trustee stocks, should be terminated.

The procedure which we propose should be substituted is as follows. A Dominion Government desiring trustee status for a loan would give a general assurance that it would not act in such a way as to prejudice the interests of the stockholders, and it would agree that if any action it took was, in the opinion of the British Government, contrary to that undertaking, it would be willing to submit its action, or failure of action in that respect, to arbitration by an Inter-Imperial tribunal. The tribunal might be the body suggested by the Conference on the operation of Dominion Legislation, for determining differences on justifiable issues between members of the British Commonwealth. This body would take the form of an *ad hoc* tribunal selected from standing panels nominated by the several members of the British Commonwealth.

Alternatively, the tribunal might consist of three arbitrators, one nominated by each side to the particular dispute, with an independent chairman. There are difficulties in the way of the Privy Council's acting as the arbitrating body, but the exact constitution of the body is not of immediate importance.

If this system were adopted, a case would, if the necessity arose, be presented to the Inter-Imperial court by the British Government, acting in the interests of the stockholders. We do not envisage the right of individual stockholders to approach the court.

Should the decision of the court be given against a Dominion, the Dominion would take steps to remove the source of damage to the stockholders' interest, in order to fulfil the undertaking given when the stock received trustee status.

It is not contemplated that a whole policy or course of legislation which might contingently impair the stock should be the subject of arbitration. Arbitration would take place only on legislation which was deemed specifically to endanger the value of the security, and to violate the undertaking given in respect of a particular issue.

A major factor in the terms on which a Dominion loan is floated is the opinion of the City on the standing of the borrower, and procedure proposed will in no way affect the sanction which this provides.

Existing trustee stocks of Dominion Governments would of course still be subject to the assurance given by the borrower to the Treasury at the time the stock was admitted as a trustee security. Our proposals would affect only future issues.

..



APPENDIX II.

STAMP DUTIES AND BRITISH TRADE.

Stamp duties in one form or another and at variable rates have been in existence in this country for a very long time, and accordingly there is a tendency to regard their continued existence as being in the natural course of things.

As the result of the very serious objections which exist, stamp duties have not received the attention which would at once be accorded to them were they being now proposed for the first time.

Of course the outstanding objection to stamp duties lies in the fact that they are duties on transactions and, accordingly, tend to limit the number of transactions which take place and thus are directly a restriction on the activity of many forms of trade.

At the present time when the problem of raising sufficient revenue to meet our national expenditure is an exceedingly acute one, it would naturally be impossible for any Chancellor of the Exchequer to contemplate any root and branch reform of the duties, but nevertheless as the time may come when such a reform will be financially possible, it is desirable that the examination of the problem should contemplate not only what may be possible in the near future, but also what might be done later on.

Apart from the undesirable aspect of stamp duties from the point of view of the general public, they are also a very fluctuating source of revenue to the Chancellor of the Exchequer, and in particular they can be relied upon to show a very heavy fall in yield precisely in those years when the Chancellor of the Exchequer is likely to find it difficult to make both ends meet. A few examples will show the extent of the fluctuations.

In the year which ended March, 31st, 1921, a year marked by exceedingly good trade, until the last three or four months, the revenue from stamp duties amounted to £26,591,000, but in the following year (which was one of very acute depression in trade), the yield fell to £19,638,000. Thereafter the position steadily improved until in the year ended March 31st, 1929, it reached the very large total of £30,060,000. There was then a rapid decline over the next two years, and in the year ended March 31st, 1931, only

£20,650,000 was received in the Treasury. The estimate for the current year is £24 millions, which will almost certainly prove to be a substantial over-estimate.

When one comes to examine the duties in detail it will be found that the main fluctuations occur under two headings, namely, the duties paid in respect of transfers of stocks and shares and those paid in respect of capital of limited companies. As a matter of fact, in the last four or five years the aggregate revenue from the other sources of stamp duties, the principal items of which are the duties payable on the transfer of land and houses and the 2d. stamps on cheques and receipts, have been exceedingly steady, and practically the whole of the fluctuations in the total yield has been the result of fluctuations in connection with the transfer of stocks and shares and the capital duty on limited companies.

The proposals that will be considered in this Memorandum relate exclusively to this section of the stamp duties, the yield of which is such an unreliable support to a Chancellor of the Exchequer in times of adversity.

At the moment of writing the revenue from the stamp duties in these two groups is at a lower level than for many years past. Unfortunately the precise details for the year ended March 31st, 1931, are not available, but the following table shows the position in the previous year:—

YEAR ENDED MARCH 31ST, 1930.

		<i>Great Britain.</i>
		£
Companies share capital duty	... ..	3,771,000
Stocks, Shares, Debentures, etc.		
Transfers of Stocks and Shares	{ On sale	5,525,756
	{ Voluntary dispositions	45,734
Composition for duty from Corporations, etc.	...	378,500
Share Warrants to Bearer	... ..	150,454
Marketable Securities transferable by delivery	... ..	659,440
Bonds, Debentures, etc. (At 2s. 6d. per cent. duty)	... ..	147,566
Loan Capital Duty	... ..	37,499
Contract Notes (Stockbrokers)	... ..	318,625
Letters of Allotment	... ..	6,226
Total	... ..	<u>£11,040,800</u>

Before proceeding to make any proposals as to any changes that might be made in the stamp duties of a kind calculated to be of advantage to British trade, it is necessary in the first place to set out what are the present rates of duty.

In the case of Limited Companies the capital duty in respect of the shares is £1 upon every £100 worth of nominal capital, but in the case of loan capital, whether raised by Local Authorities or Limited Companies the rate is 2s. 6d. on every £100, of which 2s. is repayable if the capital is applied in conversion of an existing loan.

Furthermore, under the Finance Act of 1927 where a Company is established or has increased its capital after the commencement of the Finance Act of that year, in order to acquire the undertaking of, or not less than 90 per cent. of the issued share capital of, any existing company, and the consideration for the acquisition consists as to not less than 90 per cent. in the issue of shares of the transferee company to the existing company or its shareholders certain relief is granted from the company's capital duty.

The stamp duty on transfer on the sale of stocks or shares is at the rate of 1s. for each £5 or part of £5 of the sale value up to a total of £50. Thereafter it is at the rate of 5s. for each £25 or part of £25 up to £300 and thereafter 10s. for each £50 or part of £50.

This scale of duties, except for the graduation in respect of smaller sums, is fundamentally a duty of £1 for each £100 of the sale price of the stocks or share transferred. The same scale applies not only to stocks and shares, but also to marketable securities, which include the registered bonds and debentures of companies, corporations and public bodies.

As bearer securities would escape the taxation on transfer which applies to registered stocks, shares or marketable securities, an attempt is made to equalise the position by charging on the issue by a British Limited Company of share warrants or stock certificates to bearer a sum equal to three times the duty chargeable on a transfer of a similar nominal value of stocks or shares. Ignoring the graduations one may say, therefore, that roughly in respect of the issue of share warrants or stock certificates to bearer there is payable at the time of issue a stamp duty of £3 per cent.

In connection with such warrants or certificates issued by foreign or colonial companies the stamp duty payable is 4s. per £10 or £2 per £100. This stamp duty is payable on the first negotiation in the United Kingdom of such warrants or certificates. Presumably this duty only applies where there is a public issue in this country of such warrants and certificates, for so far as individual transactions may be concerned there is no means by which such would come to the notice of the Inland Revenue Authorities.

We accordingly have the anomaly that if a British Limited Company raises money by the issue of share warrants or stock certificates to bearer, such a company has to pay in stamp duty 50 per cent. more than the amount which would be payable by a foreign or a colonial company making an issue of similar bearer bonds.

Another anomaly arises in connection with the stamp duties payable on marketable securities (*i.e.*, bonds or debentures) which are transferable by delivery. The stamp duty payable on issue by British companies, municipalities or public bodies is at the rate of 4s. for every £10 or part thereof where the bonds are repayable at any time exceeding three years, with lower rates of duty for shorter periods, that is to say, the stamp duty payable is equivalent to £2 per cent. on all bonds exceeding three years in duration.

On the other hand, where such bonds or debentures are issued by a Colonial Government the stamp duty is only 5s. per £100, while in the case of a Colonial Municipality the duty is 2s. for each £10 or part of £10, or the equivalent of 20s. per £100.

The foreign share certificate to bearer, the rate of duty on which was fixed as long ago as 1889 is at the low rate of 3d. for £25 or part thereof payable on the first negotiation in the United Kingdom. This is equivalent to 1s. per £100 and contrasts with the £3 per £100 payable in respect of share warrants issued by British companies. The duty is calculated on the nominal value of the shares to which the certificate relates and, accordingly, where the shares have no par value no duty is payable.

It is well known that in recent years in both Canada and the United States there has been a rapid growth of the practice of issuing shares of no par value, and as a result of our present system of stamp duties no stamp duty is payable when such certificates are first negotiated in the United Kingdom.

The following are a few select instances of share capital passing by delivery. All these shares do, in practice, in the vast majority of transactions, pass from hand to hand and the equity passed by delivery. The table shows very clearly the extraordinary differences which exist in respect of the liability to stamp duty.

1. Registered in the United Kingdom.

BRITISH AMERICAN TOBACCO Bearer Shares.	Duty £3 per £100 nominal.
--	------------------------------

2. Registered in Canada.

CANADIAN PACIFIC RAILWAY SHARES Ordinary Shares of \$25 each.	Duty 1s. per £100 nominal.
BRAZIL TRACTION Ordinary Shares	No par value shares. No duty payable.
INTERNATIONAL NICKEL Ordinary Shares	" "

3. Registered in the U.S.A.

WOOLWORTH SHARES (\$10) ...	Duty 1s. per £100 nominal.
NEW YORK CENTRAL RAILWAY SHARES (Common \$100)	Duty 1s. per £100 nominal.
INTERNATIONAL TELEPHONE AND TELEGRAPH Common Shares	Shares of no par value. No duty payable.

4. Registered in Holland.

UNILEVER (N.V.) Ordinary Shares of Fl. 12 or £1 each	Endorsed Share in the name of Midland Bank Executor & Trustee Co., Ltd., but cannot be transferred.	Duty 1s. per £100 nominal.
Do. Preference		

5. Registered in Sweden.

SWEDISH MATCH Ordinary Shares of Kr. 100 each.	Shares in individual names with coupons attached but registration effected without exchanging Certificates therefore only one Inland Revenue Stamp paid at the following rate.	Duty 1s. per £100 nominal.
---	--	----------------------------

Having stated the present position in respect of the stamp duties on capital issues, let us now turn to the consideration of the modifications it may be desirable to make. In the first place it is evident that the high rate of stamp duties tends to restrict the formation of limited

companies, and all the more so as the duties are payable not on the capital issue, but on the nominal registered capital.

Having regard to the great advantages of the limited liability principle in the development of business, it is certainly a bad thing that taxation should limit its use. Accordingly, on general grounds and without at the moment considering the question of revenue, we would urge the desirability of a reduction in the rate of stamp duty on the share capital of British registered companies.

The rate of duty charged in respect of the loan capital of British companies, corporations and local authorities is so small that there does not seem to be any need for a change. When, however, we come to consider the position of marketable securities transferable by delivery, it seems an anomaly that the rate in respect of United Kingdom securities should be so much higher than those of Colonial Governments and Colonial Municipalities. There seems a clear case for bringing this rate at least down to that fixed for Colonial Municipalities; and, on the principle that, while favouring an Imperial policy, nevertheless, there should be some advantage to United Kingdom interests over those of the Empire overseas, it might be brought down to a level somewhat lower than that which applies to Colonial Municipalities.

Again, it is an obvious anomaly that the stamp duties in respect of stock certificates to bearer of British companies should be so much higher than those in respect of foreign and colonial companies, and accordingly there is a clear case for a substantial reduction. In order to give some encouragement to Empire countries over foreign countries, it would seem desirable that the stamp duty on the share warrants and stock certificates to bearer of Empire companies on their first negotiation in the United Kingdom should be reduced, while leaving unchanged the rate in respect of foreign companies.

It seems very strange that only a trifling stamp duty should be chargeable in connection with the first negotiation in the United Kingdom of foreign bearer share certificates which are a device which enable foreign companies to obtain British capital without at the same time in the ordinary way according to the owners of that capital a measure of control. Under such a system the individual who has actually provided the capital finds interposed between himself and the company concerned some intermediary who actually holds the shares and, as a result, possesses the voting power.

On the other hand, in the case of share warrants and stock certificates to bearer in foreign companies where, of course, there is some measure of control, the rate of duty is forty times as great as in the case of the foreign bearer share certificates. There seems no reason why these certificates should not bear the same rate of stamp duty as share warrants and stock certificates.

Furthermore, the investment which takes place in foreign companies through the existence of foreign bearer share certificates in respect of shares of no par value should be made liable to stamp duty by requiring that 40s. should be charged on the first negotiation in the United Kingdom on each £100 of the consideration paid in respect of that first negotiation.

If modifications are made on the lines indicated above, there would be created an increased tendency for the capital available to go, in the first place, to the British investments, and in the second, to Empire investments overseas in preference to foreign investments.

We now turn to the consideration of the possibility of using the stamp duty on the issues of capital for the purpose of stimulating the purchase of British goods. This could well be effected by arranging for a complete remission of the stamp duty in respect of that part of the issue which is to be used for the purchase of British goods. If those who are raising the capital are in a position to give a firm undertaking in advance as to the expenditure out of the capital raised which will be devoted to the purchase of British goods, then the remission of stamp duty would take place at once, while in other cases where it was not possible to make a declaration in advance, provision could be made for the subsequent recovery of the stamp duty when the company or corporation concerned had supplied to the Inland Revenue Authorities satisfactory evidence as to the value of British goods purchased.

Or, of course, these methods might be combined.

In the case of overseas enterprises, the phrase "Purchase of British goods" will not need much definition, but in the case of money raised by companies or corporations in the United Kingdom it would be necessary to define clearly what expenditure is entitled to rank in respect of the remission of stamp duty. For example, if a company builds a factory in the United Kingdom, the actual labour must be employed in this country, and accordingly no advantage

would accrue by making a remission of stamp duties in respect of the cost of that labour. On the other hand, the materials used in building the factory might be British or might be imported, and accordingly the remission of stamp duty should be in respect only of the value of the British materials used in the construction, and in respect of all the British plant and machinery installed. It would also be necessary to provide that the remission of the stamp duties should only apply in respect of expenditure which was debited to capital account. No doubt, on a careful examination of the problem, other considerations would present themselves, but at this stage it is only necessary to say that the definition clause in respect of the purchase of British goods would require very careful wording.

Having now indicated the possibilities of using a modification of the stamp duties for the purpose of encouraging British industry, and for the purpose of Imperial development, we set forth a suggested re-arrangement of the stamp duties which would give effect to the suggestions above.

SUGGESTED RE-ARRANGEMENT OF STAMP DUTIES IN RESPECT OF SHARE, STOCK AND LOAN CAPITAL.

	Present Stamp Duties per £100 Nominal.	Proposed Stamp Duties per £100 Nominal.
Share Capital of British Companies	20/-	10/-*
Registered Loan Capital of British Companies and Corporations	2/6	2/6*
Bearer Bonds of British Companies and Corporations	40/-	15/-*
Share Warrants and Stock Certificates to Bearer of British Companies	60/-	30/-*
Share Warrants and Stock Certificates on first negotiation in the U.K.—		
(a) Empire Companies	40/-	30/-*
(b) Foreign Companies	40/-	40/-*
Colonial Government Bearer Bonds	5/-	5/-*
Colonial Municipal Bearer Bonds	20/-	20/-*
Foreign Bearer Share Certificates on first negotiation in U.K.	1/-	40/-
Foreign Bearer Share Certificates in respect of Shares of no par value, on first negotiation in the U.K.	nil	40/- per £100 of the consideration of the first negotiation in U.K.

* In all these cases the duty will be remitted in respect of that part of the issue which is used for the purchase of goods manufactured in the U.K. Included in such goods will be the materials used for the construction of buildings.

Should this scheme be carried into effect, then, on the basis of the revenue of the year ended March 31st, 1930, it would appear that, apart from the remission in respect of the purchase of British goods, there would be some small reduction in the receipts from share warrants to bearer and in respect of bearer marketable securities, *i.e.*, bonds, debentures, &c., and some increase in respect of foreign bearer share certificates. Taking these three headings together, there would probably be some small net loss to the Exchequer. The reduction in the companies' share capital duty would be heavy, namely about £1,900,000.

We now have to consider what would be the effect on the revenue of the remission of stamp duty in respect of the purchase of British goods. Here we are clearly in the region of surmise but, as a provisional estimate, it may be suggested that it would reduce by half the revenue that would be left after taking into account the other modifications that have been suggested.

Accordingly, on the basis of the 1930 figures, the whole revenue in respect of capital duties would be reduced from a total of about £5,140,000 to a little over £1,600,000. This is obviously a larger sum than could be contemplated at the present time and thus the scheme would require re-examination in the light of this fact. Probably the most effective modification would be to preserve the share capital of British companies at the present level of 20s. nominal, in which event the revenue, instead of being about £1,600,000, would be about £2,600,000. If it were felt that this would be too large a loss, then a further modification could be made providing that initially the amount of stamp duty to be remitted in respect of the purchase of British goods should not be the whole amount of the duty but half the amount. In this case the net loss of revenue would be in the neighbourhood of £1,250,000.

In the past Issuing Houses in the City have presumably been concerned primarily with the merits of any issue from the purely financial point of view, but having regard to the vital importance of the prosperity of productive industry, it would seem very desirable that in the future the City should take into account not only the merits of an issue from the financial point of view, but also its effect on British production and employment.

The recommendations made in this Report if carried into effect would naturally force the City to take account of these matters, but it would be very desirable if those

responsible in the City would voluntarily adopt a policy of using the power they possess in making arrangements for Public Issues, to ensure that wherever possible the proceeds of those Issues should be used for the purchase of British goods.

From the general trade point of view it would no doubt be very desirable that the stamp duties on the transfer of stocks and shares should be reduced from the high level which now prevails. The needs of national revenue probably rule out for some considerable time to come any change in this direction. When the time comes for making a reduction in these rates of stamp duties, it would seem to me desirable that consideration should be given to the possibility of making the rates preferential in respect of Home and Imperial securities as compared with foreign securities.

APPENDIX III.
CURRENCY SYSTEMS OF
GREAT BRITAIN, U.S.A. AND CANADA.

BY
Sir FREDERICK WILLIAMS-TAYLOR.

It is necessary to specially draw attention to the fact that this memorandum was prepared previous to the suspension by Great Britain of a gold standard.

GREAT BRITAIN—MONETARY SYSTEM.

Under the Currency and Bank Notes Act of 1928 the Bank of England may issue notes against securities to the extent of £260,000,000—the Fiduciary Issue. Above that amount every note must be covered by 100 per cent. gold. Provision is made, however, that the Bank may increase the amount of the fiduciary issue at any time with the consent of the Treasury. This facility has been availed of in the present emergency.

The following is a copy of the Bank of England Statement for the week ended the 22nd July:—

Issue Department.

	£		£
Notes Issued:		Government Debt ...	11,015,100
In Circulation ...	356,098,249	Other Govt. Securities	233,287,546
In Banking Department ...	52,675,597	Other Securities ...	11,625,738
		Silver Coin ...	4,091,616
		Amount of Fiduciary	
		Issue ...	260,000,000
		Gold Coin and Bullion	148,773,846
	£408,773,846		£408,773,846

Banking Department.

	£		£
Proprietors' Capital ...	14,553,000	Govt. Securities ...	34,375,906
Reserve ...	3,526,307	Other Securities:	
Public Deposits (including Exchequer, Savings Bank, Commissioners of National Debt, and Dividend Accounts) ...	16,373,298	Discounts and Advances	£7,098,770
Other Deposits:		Securities	£31,978,676
Bankers	£80,179,250	Notes ...	39,075,446
Other Accounts	£32,764,378	Gold and Silver Coin	1,270,738
	92,943,628		
7 Day and Other Bills	1,454		
	£127,397,687		£127,397,687

The reserve of gold and notes in the Banking Department against deposit liabilities was 49.3 per cent. The reserve of gold in the Issue Department against the notes in circulation was 41.78 per cent.

GREAT BRITAIN—MONETARY SYSTEM.

OBSERVATIONS.

It is alleged against the British system, first, that it is inelastic, *i.e.*, that it checks expansion of home production unless that expansion is accompanied by such an improvement in exports as would bring more gold into the country, and secondly that under it a demand for gold elsewhere for purposes entirely disconnected with the state of British industry, for example, for speculation in America, may reduce currency and credit at home just when they are most needed.

With regard to the first point, as England is largely a manufacturing country relying upon its export trade, it follows that the volume of production is dependent upon the demand from overseas, and it is doubtful if prices have often, if ever, been forced to a level resulting in the serious curtailment of that demand because of credit restrictions.

With regard to the second point, money will always seek the market where it can be employed to most advantage, but if it be practicable to establish measures to prevent the transfer of funds overseas from restricting the volume of credit available for British industry so much the better. But any such measures that would impair confidence in the credit of the United Kingdom would defeat their object as their imposition would accelerate the withdrawal of foreign balances employed in the London market and force the Bank of England to raise its official minimum.

Upon London's prestige as a financial centre depends the ability of Great Britain to preserve the income earned in respect of international banking and associated services which income, with that earned on foreign investments, has been sufficient to maintain a credit balance of payments, notwithstanding a substantial excess of imports over exports. At this time it would seem to be essential that confidence in this country's financial stability should be preserved, and this fact should be born in mind in considering the Macmillan Committee suggestion to divorce our home currency from the gold basis and to use gold only to maintain the exchanges.

British bankers in general do not agree with the contention that industry in the United Kingdom has suffered from insufficient short credit. To-day we are experiencing a lack of demand rather than an under supply of credit. There is probably room for some improvement in our organisation, say by the creation of a financial institution specially organised for the purpose of providing industry with longer term loans than bankers are prepared to grant. It is assuredly contrary to good policy for our big banks to tie up thus any substantial proportion of their resources. The banking difficulties experienced on the continent since the war have been attributable to no small extent to frozen loans in industry. The present financial crisis in Germany is an example.

The Bank of England regulates credit, and it is pertinent to say here that the volume of bank credit bears little or no relation to the note circulation. The perfection in the use of the cheque system in this country provides great elasticity in our credit system and relegates currency almost to the category of pocket money.

The Bank of England increases or reduces credit by operations in the open market, buying bills and securities when it wishes to implement available funds and selling these counters when it is deemed necessary to curtail credit. The official minimum is raised when the Bank finds it necessary to protect its reserve of gold but, it is contended that the effect of an increase of 1 per cent. in the Bank Rate on production is infinitesimal.

So far as international trade is concerned the British system is indubitably a highly valuable factor in its development. The London discount market is pre-eminent, the sterling bill is regarded abroad as the nearest approach to gold and does in fact fulfil the functions of an international currency. Discount rates in London are not subject usually to such violent fluctuations as occur in other financial centres and the knowledge and experience of the discount houses is of inestimable value.

It may be said without fear of contradiction that the British monetary system compares very favourably with that of any other country. Take France where the monetary system is undeveloped. France has no discount market and the Bank of France is legally prohibited from operating in the open market and is therefore deprived of that means of regulating credit. Re-discount facilities are available to the other banks but they are backward in using them for the reason that the Central Institution is in competition with

them through its branches and agencies; moreover, the Bank of France usually charges 2 per cent. over its official minimum for such facilities. Therefore, notwithstanding the vast accumulation of gold in the Bank of France, the other banks have been obliged to withdraw their balances from abroad in the form of the precious metal in order to obtain additional credit. The elasticity of the French system is limited because of an undeveloped cheque system and settlements are more usually effected in note currency.

UNITED STATES—MONETARY SYSTEM.

THE FEDERAL RESERVE SYSTEM.

The currency of the United States is largely Federal Reserve Notes which must be covered to the extent of not less than 40 per cent. in gold (except under special circumstances) and the balance of 60 per cent. in certain forms of collateral, viz. :—

(1) Paper endorsed by member banks and drawn for strictly commercial, industrial or agricultural purposes, or for the purpose of carrying or trading in securities of the United States Government, in other words paper which is eligible for rediscount at a Federal Reserve Bank.

(2) Bills of exchange endorsed by a member bank and bankers' acceptances bought by the Federal Reserve Bank in the open market.

(3) Gold and gold certificates.

Federal Reserve Notes are obligations of the United States Government and are a first lien on all assets of the Federal Reserve Banks. Member banks subscribe to stock in the Federal Reserve Bank to the extent of 6 per cent. (one-half of which is paid up) of the capital *and rest (or surplus)* of the subscribing bank and the uncalled portion of the subscription remains as a liability of the subscribing bank even in case the latter is bankrupt and the payment of the uncalled portion entails demand under the double liability clause. Member banks are able to obtain fresh currency against rediscounted paper or other "eligible" paper, to the extent of 100 per cent. of its face value, but of course such notes must be covered by a gold reserve of 40 per cent.

Federal Reserve Notes are redeemable in gold on demand at the United States Treasury.

The note issue enjoys a high degree of elasticity through the rediscounting privilege of member banks described above.

The power of determining the extent to which the Federal Reserve System as a whole should issue notes rests with the Federal Reserve Banks, but is understood never to have been exercised.

Federal Reserve Banks are required to maintain a reserve of 35 per cent. in gold or "lawful money" which incidentally includes "silver certificates" against their demand deposits.

Member banks must maintain with their Reserve Bank reserves against their demand deposits and time deposits, as follows:—

Banks.	Demand.	Time.
Central Reserve City Banks ...	13%	3%
Reserve City Banks ...	10%	3%
Country Banks ...	7%	3%

FEDERAL RESERVE BANKS.

Federal Reserve Notes in circulation as at 8th July, 1931	\$1,736,922,000
Against which gold was held	\$1,994,380,000
Total Deposit liabilities as at same date	\$2,527,346,000
Ratio of gold reserves to deposits and Federal Reserve Note liabilities combined	80.3%
Ratio of total reserves to deposits and Federal Reserve Note liabilities combined	84.2%

UNITED STATES—MONETARY SYSTEM.

OBSERVATIONS.

The Federal Reserve System is complicated and without an intimate knowledge of its operation it is impossible to describe its influence on the credit structure of the United States. There are critics of the System within as well as without America.

The Federal Reserve System is centralised and controlled by the Federal Reserve Board in Washington, which includes the Secretary of the Treasury, but there are twelve Federal Reserve Banks in the United States spread over a vast area, many of them being from 1,000 to 3,000 miles from Washington. The Governors and Directors of these district central institutions determine, speaking generally, questions of policy in their respective districts, some of which are financial, others industrial or agricultural. Centralised control of general policy is therefore exceedingly difficult and co-ordination between the several districts almost impossible. A criticism levelled against the Federal Reserve Board is absence of objective.

It is also contended by some critics that the Federal Reserve System has no effective control over the banking system of the United States owing to the fact that only 26 per cent. of the 30,000 banks in the country are members of the Federal Reserve System, which cannot be said to be fully established until 100 per cent. control is obtained. Another defect in the monetary system of the United States is that there are far too many small banks. If branch banking had been adopted in that country as in Great Britain and Canada and as recommended by Alexander Hamilton, from whom Canada got the idea, the difference it would have made to the United States is incalculable.

There is a discount market in New York, but it is undeveloped as compared with London and is not an important factor in the credit machinery. It is true there are some \$1,300,000,000 American bank acceptances outstanding, but the Federal Reserve Board aims to regulate credit mainly by purchasing or selling Government securities (vide Section 14, Sub-Section (b) of the Federal Reserve Act), and not bills of exchange. Moreover, the most important single factor in the New York money market is not the bill market but the call loan market in which loans are extended against Stock Exchange collateral. This has obvious disadvantages. During the Stock Markets boom the large corporations in the United States took an active part in call market operations and there considerable lending powers were outside the control of the Federal Reserve Banks. Incidentally it is claimed that the Federal Reserve Board did not utilise the rediscount rate weapon in order to control the situation.

There is another feature of the Federal Reserve System which demands attention.

The official discount rates of the Federal Reserve Banks are maximum rates and not minimum rates, so that banks are able to make a profit on purchases by rediscounting with the former. The question as to whether the Federal Reserve rate should not be a penal rate, *i.e.*, always higher than the outside rate for similar accommodation, is one of considerable controversy.

Federal Reserve Banks may not have directly encouraged the wild speculation that occurred during the boom, but Member Banks were able to utilise the rediscounting facilities with the Federal Reserve Banks provided under the existing system and make advances with the proceeds against Stock Exchange securities.

The absence of Federal Reserve Bank control over the use of credit obtainable by Member Banks through discounting commercial paper is undoubtedly a weakness in the system. The many bank failures that occurred after the slump in America, and have occurred following the fall in real estate values and in commodity prices, points to a defect in the machinery.

Another criticism of the American system is that a vicious circle may result from the ability of the American banks to obtain credit freely on trade bills, as this increases purchasing power which in turn creates more bills.

There are some who contend that credit does not expand and contract automatically with the needs of industry under the American system and that it is not effective in maintaining price levels. This, however, is a highly controversial question, and one on which it is dangerous to express an opinion without close study and investigation.

Finally, the Federal Reserve System came into operation after the commencement of the Great War, which was instrumental in converting the United States from a debtor to a creditor country. Moreover, the vast accumulation of gold by America since 1914 has obscured the real situation, and made it difficult to determine whether the system is a good one.

The Federal Reserve System was created primarily to correct the currency and banking system, described as uncivilised, also to serve the domestic needs of the country. It cannot be claimed to have actively benefited international

trade, partly owing to the comparatively undeveloped discount market, but chiefly, perhaps, owing to political influences.

THE CANADIAN MONETARY SYSTEM.

DOMINION NOTE ISSUE.

The Government is authorised to issue notes up to and including \$50,000,000 against a reserve in gold equal to one quarter of that amount (Dominion Notes Act, 1914).

An Act passed in 1915 empowered the Government to issue notes up to \$26,000,000 without gold cover (\$16,000,000 to be against specified Canadian Railway Securities guaranteed by the Dominion Government, balance of \$10,000,000 uncovered).

Notes in excess of \$76,000,000 may be issued, but such excess must be covered by gold, except as provided under the "Finance Act" (explained hereafter).

BANKS—NOTE ISSUE.

Under the Canadian Bank Act, the Chartered Banks are authorised to issue notes to the aggregate of (a) the amount of the unimpaired paid-up capital of the bank, and (b) the amount of current gold coin and of Dominion Notes held for the Bank in the Central Gold Reserves.

To meet the heavy demand for currency during crop moving, each bank is authorised to issue from the first day of September to the last day of February additional notes to an amount not exceeding 15 per cent. of its combined unimpaired paid-up capital and rest or reserve fund. Interest at the rate of not exceeding 5 per cent. per annum is charged on this additional circulation.

Bank Notes are not legal tender.

All banks are required to maintain on deposit with the Government in a common fund an amount equivalent to 5 per cent. of their average note circulation, excluding the value of notes covered by their deposit in the central gold reserve. This fund is held for the sole purpose of paying the notes of any bank should it suspend payment.

Bank Note issues are a first charge on the assets of the banks, and are in addition secured by the shareholders' liability, equal to the par value of shares, *i.e.*, a double liability, as well as by the deposits of banks in the circulation fund referred to above.

Provision for the creation of additional credit facilities is furnished under the Finance Act of 1914 which permits the Minister of Finance to make advances to the Chartered Banks by the issue of Dominion Notes against approved security of a very wide range:—

(a) Treasury bills, bonds, debentures or stocks of the Dominion of Canada, Great Britain, any province of Canada, and of any British possession.

(b) Public securities of the Government of the United States.

(c) Canadian municipal securities.

(d) Promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax or other commodity.

(e) Promissory notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes and which have been used or are to be used for such purposes.

The rate charged for borrowing under the Finance Act is fixed from time to time by the Treasury Board—it has remained at $4\frac{1}{2}$ per cent. since September, 1928. Repayments must be made in Dominion Notes.

TOTAL NOTE ISSUE 31ST MAY, 1931.

Dominion Notes in Circulation—\$152,250,000, against which gold was held equal to 56.36 per cent.

Bank Notes in Circulation—\$143,750,000, against which deposits in Central Gold Reserve amounted to \$29,130,000 and deposits with Minister of Finance in circulation fund amounted to \$6,804,000.

N.B.—The total capital of the Chartered Banks on the same date was \$144,500,000.

REASONS WHY CANADIAN BANK NOTES ARE A BETTER FORM OF CURRENCY THAN DOMINION NOTES.

(Memorandum prepared by the late Sir Edmund Walker, one
of the greatest Banking Authorities in North America.)

The best paper money in the world, in my opinion, and the only paper money that should be permitted, except under stress of war, when everything is contrary to the usual, is such a note as that issued by a Canadian Bank, and I shall now try to make that clear. It was suggested at the beginning of the war that bank notes be made a legal tender, but this we had the good sense to refuse. The fundamental thing about the Canadian Bank Note is that it is issued always to perform some credit service; it generally goes out to do something definite. After it has done that one thing, and perhaps a second or third thing, it comes back and is redeemed and disappears. It is only a temporary instrument put out to perform a service and when it performs that service it comes back and is killed.

So far as its security is concerned, it is the first charge upon the bank, ahead even of the state, and every bank guarantees by a very simple system the notes of every other bank. We thus have a quality which we did not have "originally," although the National banking system of the United States did—that under no circumstances can any private individual lose on bank notes by the failure of the bank or through geographical reasons, because the note is a long way from home. Every Canadian bank is forced to have in every Province of Canada a centre of redemption. So we have a circulation which can only be inflated because prices are inflated and an undue amount of loans have been made by the bank. When prices fall and loans are restricted the bank note circulation at once lessens in volume in precise accordance therewith.

The notes issued by a state bank or any notes issued by a government, if they are legal tender do not come back regularly for redemption. They will, if the individual holding them needs gold, but as a matter of fact there is no such thing as the daily withdrawing of such notes after they have performed their particular service. If they are notes of the government, I ask you to remember that their mission each time they go out is to transfer a mere evidence

of debt from one man to another they are only an evidence that the government owes money to somebody, not that some commodity is being produced or moved to market. The money passes by virtue of a fiat, and is apt to stay out, because it is a legal tender. This is the difference between the two systems. You can have a country most seriously inflated by the issue of too much fiat money. You will find very few countries in the world where the privilege of note issues is left to the banks. In almost every country that privilege is sooner or later taken away from the banks and given to the government, or to a central bank, which is the government instrument. The reason for that is almost invariably the same; war has caused the country to resort to some form of expressing debt, one form of which has been an issue of legal tender money, and almost always the bank's circulation privileges have been taken away in order to put this into circulation.

CANADA—MONETARY SYSTEM.

OBSERVATIONS.

The Canadian monetary system has proved itself in point of elasticity entirely adequate to take care of the progressive needs of the country during its rapid development. On no occasion has the financial machinery failed to satisfy the demands made upon it.

A feature of the system has been the stability of interest rates over a long period of years, and this, it must be admitted, is an inestimable advantage to the trade and industry of the country. During the war years, and again during the stock markets boom when rates were prodigiously high in other monetary centres, the rate in Canada for good commercial loans remained at 6 per cent. per annum.

The Dominion Government and the Canadian banks have concentrated upon domestic needs, and with success. The currency is fully secured and productive capacity has never been impaired because of insufficient credit. Ample resources are available to enable the banks at all times to finance industry, particularly agriculture, for which special provision is made as indicated above.

The relationship of the Canadian Monetary System to international trade is remote. There is no Central Bank or money market in the Dominion such as exists in other countries. There has been no occasion for Canada to develop its monetary system internationally, and it is pertinent to mention that its comparative isolation in this respect has proved of distinct advantage during recent times when the great financial centres have been involved in serious difficulties. Had Canada possessed a short loan market it would have inevitably suffered the embarrassment of heavy withdrawals of funds, with the consequent evils—heavy exchange depreciation, loss of gold and loss of credit, more especially as the depression in commodity prices, particularly wheat, has made Canada's trade balance adverse during the last year or two.

As it is, although Canada has been off a gold basis for a period her credit has remained unimpaired during these times of crisis as is evidenced by the fact that Government Securities are on a $4\frac{3}{8}$ per cent. basis, while Provincial and good Municipal Securities are on a $4\frac{3}{8}$ per cent. to $4\frac{1}{2}$ per cent. basis—all approximate.

It may be that in good time when the greatly desired international financial co-operation is established, Canada will have to reorganise on international lines. Meantime, she is a young country faced with the problems incidental to rapid development, and it is scarcely surprising that she is disinclined to become involved in the monetary matters of an international nature. The several crises that have occurred recently, the criticisms levelled against monetary systems in the older countries, and the absence of co-operation financially between the great nations prove that it is good policy for Canada to bide her time.

(28th Sept., 1931.) Following the suspension of the gold standard by Great Britain the Canadian dollar has depreciated in terms of the U.S. dollar to the extent of $7\frac{1}{2}$ per cent., and is now at a discount of $9\frac{1}{2}$ per cent. This adverse movement may be regarded as to a great extent sympathetic with the fall in the value of the £ sterling, but a contributory factor has been the nervousness prevalent in the United States recently, due to the unsatisfactory conditions prevailing in that country which has resulted in sales of first-class Canadian securities and the transference of proceeds to the United States.

The value of the Canadian dollar is above gold export point in terms of sterling. The exchange rate is 4.25 to the £, which compares with about 4.95 on September 19th. This change is explained by the fall in the sterling-dollar rate to 3.80, and allowing for the higher discount on the Canadian dollar in terms of the U.S. dollar.

The Prime Minister of Canada has stated that Canada has no intention of departing from the gold standard.

The Problem of To-day.

2

**IN-FLATION
DE-FLATION
RE-FLATION**

THEIR EFFECT ON THE COMMODITY PRICE LEVEL

*An attempt to discuss them in
simple words*

BY

WALDRON SMITHERS, M.P.

Further copies may be obtained from the Manager, *Kentish Times*,
Sidcup, Kent.

"Errors are warnings, not signs of the bankruptcy of the intellect; we do not dispense with clocks because sometimes they tell the time wrongly."

Martin d'Arcy.

"Now, Gentlemen, let us do something to-day that the world may talk of hereafter."

Admiral Collingwood, October 21st, 1915.

We shall do so much in the years to come,
But what have we done to-day?
We shall give our gold in a princely sum,
But what did we give to-day?

N. Waterman.

If all the good people were clever,
And all clever people were good,
The world would be nicer than ever
We thought that it possibly could.
But alas it is seldom or never
The two hit it off as they should;
The good are so hard on the clever,
The clever so rude to the good!

Elizabeth Wordsworth.

"Though a man without money is poor, a man with nothing but money is poorer."

X9(J3):7608 X61:74 21
92

IN-FLATION DE-FLATION RE-FLATION

1.—DIFFICULTIES OF DEFINITION.

There is a great deal of talk, both in Parliament and the Press, of Inflation. It is not possible to define inflation (in the sense that it is used in relation to currency) in two or three words. The following is an attempt to explain what it means in simple language.

If you take a motor tyre and pump air into it, you inflate it, and if you inflate it too much it bursts. If the tyre is completely deflated, it is no good: if it is inflated to excess, it is still no good.

The problem is to put just the right amount of air into the tyre to insure the car's being run with the maximum efficiency: so that the car, of which the tyre is a vital part, may be properly supported and run with smoothness and stability and so that the bumps on the road shall be noticed as little as possible by the occupants. This simile gives an idea in broad outline, but, like all similes, must not be pushed too far.

THE FUNCTION OF MONEY IS TO PROVIDE A MEANS OF EXCHANGING GOODS AND SERVICES.

2.—INFLATION A BAD WORD.

This being its normal application, the word is really inadequate for the meaning it is intended to convey in regard to credit and, in any event, it is so loosely used that it requires careful qualification. To understand this, we must trace briefly the successive stages by which *money* has become the elaborate medium of exchange that it is to-day.

3.—ORIGIN OF MONEY.

The origin of money is to be found in the need for a medium by which goods and services can be exchanged. In the most primitive state of society each man (or family) provided his own primary necessities: Food, Clothing, Shelter. There was no need for any exchange, nor for any *money*.

4.—DIRECT BARTER.

As social conditions developed and became more stable human units began to co-operate; they did not *all* produce all their needs, but specialised to some extent and exchanged one commodity for another direct: for instance, the cultivator gave grain to the forester in exchange for wood. From such small beginnings the practice of Barter grew.

5.—PRECIOUS METALS RECOGNISED AS ALWAYS BARTERABLE

Gradually the metals gold and silver—partly owing to their comparative scarcity—came to be recognised as commodities which could be bartered for any other commodity at varying rate. (In our own country, the pound of Sterling Silver became the medium which was universally recognised as “*barterable*” for any kind of commodity).

6.—GOLD AND SILVER AS PURCHASING POWER.

Gold and silver, then, gradually came into general use as recognised means through which commodities could be exchanged, and, as such, *conferred on their owner the right to purchase.*

[The value and worth of the £1 or 10s. currency no to-day is that it gives to the owner the right to purchase certain quantity of goods. It is important whether that *right to purchase* is for many or for few goods, *i.e.*, whether the £1 or 10s. note's purchasing power is small or great.]

7.—BANKS—HOLDERS OF A RESERVE OF PURCHASING POWER

Those who stocked or hoarded these metals came to possess a reserve of *purchasing power* which they were able to lend to others, and, from these beginnings sprang the Bank which, as well as lending money, would receive, take care of, and give interest on it.

8.—“CREDIT-MONEY.”

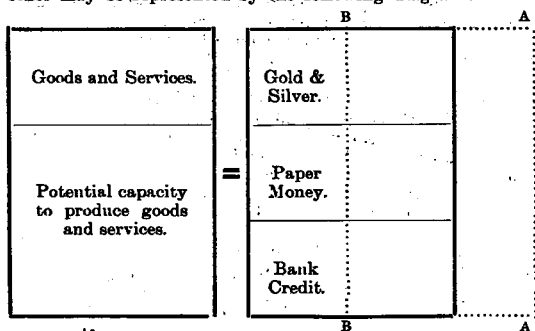
It then became possible, as Banks and merchants began to hold reserves and to be stable, to exchange goods by means of “*credit*,” *i.e.*, paper promises or orders to pay hence, cheques, bills of exchange, and notes.

Such credits had a gold and silver value as their basis and later (as silver came to be produced on a much larger scale) on the single basis of gold.

The available amount of money (*i.e.*, credit and currency) outgrew the actual amount of gold in stock as the power to produce goods and render services increased and demanded an increasing supply of “*EXCHANGE MEDIUM.*”

9.—INFLATION AND DEFLATION.

The equation thus produced between purchasing power on the one hand and available goods and services on the other may be represented by the following diagram:—



If, at any time, the equation shown above is altered by an *increase* of the money figure to line A—A, inflation takes place; if by a *decrease* to line B—B, deflation takes place. In the former case—that of *inflation*—prices of goods and services (“the commodity price level”) rise (unless a corresponding production and exchange of commodities and services accompanies the change). In the latter case—that of *deflation*—prices of goods and services (“the commodity price level”) fall, and business declines.

If deflation is pushed to an extreme degree (*i.e.*, if the right hand square is diminished or obliterated), the possibility of doing business is proportionately destroyed, because the medium for exchanging goods and services ceases to exist. No course is left open but a return to the “barter” of primitive man.

If inflation is pushed too fast or goes too far, prices rise too quickly and become unstable. Confidence is shaken, because credit is unduly strained (“the tyre is over-inflated”) and business is impaired.

Both inflation and deflation lead to a re-distribution of the national wealth as between one class and another, *e.g.*, between the debtor and the creditor.

10.—

The term *inflation* is technically used to mean the printing of notes—as an alternative to raising revenue—to

pay for Government expenditure.* The effect of this is to expand purchasing power, without any provision being made for a "balancing" supply of goods and services behind that purchasing power. The term inflation is also loosely used to describe *any* expansion of credit even when legitimately and naturally required to finance trade. This is unfortunate, since the association of spend-thrift finance with the technical uses of the word inflation tends to discredit all measures of credit expansion *however legitimate and desirable*.

So long as revenue is raised to cover expenditure—or, conversely, if expenditure is kept within income—a balancing supply of goods and services is achieved and equilibrium is maintained. An excessive burden (*i.e.*, of taxation) may be and, in fact, is laid on industry in this way, but technically "*inflation*" cannot take place.

[*This statement is subject to the qualification that if a Government has maturing debt to meet and is unable to re-borrow, it may be forced to print notes, that is to inflate, just in the same way as if it had a deficit which it could not cover. In fact, however, a Government which has a balanced Budget will almost always be able to re-borrow to meet maturing debt without inflation.]

11.—

The whole world has been going through a progressive period of deflation since 1924. The money supply has been curtailed by:—

- (a) The reduction of credit by the limitation of fiduciary note issues, on an arbitrary gold basis;
- (b) The removal of the bulk of the gold supply to and its sterilisation in the cellars of New York and Paris in satisfaction of war debts which could not be liquidated by any other means. This hoarded gold has ceased to be allowed to operate as a means of exchange, has ceased to be used as a means for settling *balances* of trade, has not been relent to other (debtor) countries.

Both France and America have demanded payment and have at the same time monopolised the means of payment by hoarding gold and have not been willing to take payment in goods and services; America in particular has made payment impossible by maintaining high tariff barriers. Gold has become a commodity and has been "cornered." It has ceased to be an "*exchange medium*," and so can no longer perform its functions as a basis of exchange.

12.—

As a result of these processes, the equation (see diagram, section 9) has been upset and prices have fallen to a point at which wages can no longer be paid (*i.e.*, unemployment occurs), and debts can no longer be met (*i.e.*, default takes place).

13.—REFLATION.

The policy of so-called *reflation* contemplates the increase of credit supplies (bank money, currency or coin) to a point which will make it possible for goods and services to be made and exchanged (*i.e.*, for wages and debts to be paid).

Thus reflation means the expansion of credit, with a view to restoring the equilibrium between productive capacity and money supplies, by raising commodity price levels and reversing some of the effects of deflation. The precise point at which equilibrium will be restored must necessarily vary with circumstances.

Inflation of the dangerous kind (referred to in section 10 and hereafter in section 21) can only occur when National expenditure out-runs in-comings, and has to be met by printing notes.

14.—GOOD AND BAD INFLATION.

Expansion of the money supply (loosely called *inflation*) to balance the power of production and exchange—THE NATIONAL BUDGET BEING BALANCED—is healthy and normal.

[*Note*: These introductory sections are intended to show that the word "inflation" is used in two senses. Whether the process is healthy or disastrous is partly a matter of degree, partly a matter of method, and partly a matter of the circumstances in which it is effected.]

ENGLISH MONEY SUPPLY:
BANK OF ENGLAND THE CONTROLLING FORCE.

15.—

If you look at the return of the Issue Department of the Bank of England for the 11th May, 1932, you will see on one side that the "Notes issued" total 395 million pounds; and on the other side, as security for these notes, there is a Government debt to the Bank of 11 million pounds, Government securities of 195½ million pounds, other securities of 64½ million pounds, and Silver Coin of £3,800,000, making a total of the *fiduciary* issue of 275 million pounds.

In addition, there is Gold Coin and Bullion of 120.8 million pounds, making a total of 395 million pounds, which is the same total as that of the notes issued.

Here is the actual table:—

BANK OF ENGLAND: ACCOUNTS, MAY 11TH, 1932.
ISSUE DEPARTMENT.

		£			£
Notes issued:			Government Debt	...	11,015,100
In Circulation	...	358,313,746	Other Government		
In Banking			Securities	...	195,509,394
Department	...	37,502,648	Other Securities	...	64,664,339
			Silver Coin	...	3,811,167
			Amount of Fiduciary		
			Issue	...	275,000,000
			Gold Coin and Bul-		
			lion	...	120,816,394
		£395,816,394			£395,816,394

16.—

It will be seen, therefore, that for every £1 note we have in our pockets, about one-third is represented by gold and two-thirds by Government and other securities, and a small bit of silver.

Now, *we are off the Gold Standard*. The Bank of England is no longer obliged to settle claims in gold or to buy any gold offered to it at a fixed price as heretofore. The metal is, therefore, accepted as a partial basis for our currency because a traditional and arbitrary value still attaches to it on account of its legal basis in some other countries.

17.—

The amount of the fiduciary issue is fixed by law (subject to increase with the approval of Parliament) and is at the moment 275 million pounds (see table in section 15). So the supply of currency notes is strictly limited.

In practice, business is conducted mainly (with cheques) by Bank credit given by the Bank to a client with or without security. The fact that you have a credit balance at a Bank gives you the power to draw against it to pay your debts, your wages, and, in fact, any claims upon you.

18.—SOLE SOURCE OF CREDIT SUPPLIES.

Only the Bank of England can increase the total credit available within the country. It can do this:—

- (a) By lowering the Bank Rate and thus attracting the inflow of foreign money; or

- (b) By purchasing Government securities, paying for them in "Bank" money, and thereby increasing the available credit supplies of the Joint Stock Banks, which the latter can, in turn, advance to industry in any form. If required, further notes can be issued against securities held by the Bank of England, should the Government and Parliament think it desirable to increase the limit of the *fiduciary* note issue.

The following extract from the Midland Bank Monthly Review (April—May, 1932), puts the point very clearly:—

"How, then, it may be asked, is the quantity of money determined? Here again the public is by no means generally enlightened; but for the present purpose we must content ourselves with plain statements of irrefutable propositions. The quantity of Bank deposits—and with it, as a subsidiary item, the amount of currency in circulation—is determined by the quantity of "Bank cash," for the Banks maintain a fairly constant ratio between their cash reserves and deposits. But they themselves have no control over the quantity of cash available as the basis of their deposits; *this is entirely and absolutely under the control of the Bank of England, as the ultimate custodian of cash reserves.* If cash reserves shrink, then the Banks must contract their deposits, by calling in loans or disposing of other assets. It follows that the fall in Bank deposits is solely traceable to a restriction in Bank cash, and the amount of Bank cash is solely the resultant of the *policy* adopted for the time being.

"As the cost of borrowing money is mainly determined by the Bank Rate, fixed by the central institution, the monetary policy of the Bank of England. . . . controls the quantity of and rate for money."

[*Note:* It is true that only the Bank of England can increase the basis of credit in the country, but a great deal depends on what use first the Banks and then people generally make of the credit available. In recent months the Joint Stock Banks have nullified some of the effects of easy money by not reducing their charges for overdrafts, and however easy money may be the desired *rise in commodity prices* will not come about unless there is sufficient enterprise to start new business. This depends largely on political confidence, not only at home but abroad. That is why so much depends on the outcome of the Lausanne and Ottawa Conferences.]

PURCHASING POWER AND NATIONAL SOLVENCY.

19.—

Credit (or currency), is, like any other commodity, subject to the law of supply and demand. If it is made dear, business is impeded; if it is made readily available and cheap enough, it will be used the more freely for purposes of trade.

But then comes the question: if you increase the supply of credit, how can sufficient *backing* be maintained for that increased supply, so that the value (purchasing power) of each note will not go down?

20.—CREDIT AND HONESTY.

For, after all, if you will look at the little table (see section 15) again, you will see that, except for the gold, the only backing for the currency notes is the honour and credit of England, as represented by Government and other securities. These are marketable and, in their turn, go up and down in value; and the value of the backing of the notes if our credit is impaired (as, for instance, it was in August, 1931, because of the fear of what a Socialist Government might do) may easily go down very quickly.

[The truth of this is seen in the marvellous return of confidence in England, her credit and her honour, which has lately come as the result of the expression of National character in the General Election of 1931 and the consequent return to power of a National Government. Foreign money has poured into England with a consequent spectacular rise in the price of Government Securities (the backing of our currency notes) and a bank rate down from 6 per cent. to 2½ per cent.]

21.—

This is what happened in Germany soon after the War. Revenue was not raised but money was borrowed and notes were printed to pay for expenditure by the Government. Goods and services were not produced to justify the notes. These notes, therefore, lost their purchasing power and the national credit of Germany was destroyed. (See table section 9).

The value (*i.e.*, the purchasing power) of German notes so deteriorated, *because they had no valid backing*, that you had to give several thousands of marks (which, before the War, were worth 20 to the £1) to get your boots cleaned.

22.—THE PROBLEM.

The problem really is, then, for us to try to arrive at a basis which will provide a sufficiency of Bank credit and

currency notes to enable our people, our contractors, and our industrialists, to secure adequate means for exchanging their goods and services, while at the same time making sure that, in so doing, the purchasing power of our money is not so seriously depreciated as to defeat the object we have in view.

In other words, to return to our simile, we have to find just the right amount of air to pump into the tyre to carry the car smoothly, efficiently, and keep it "stable." If the car is rocking about all over the road, the passengers are nervous, have to hold on their hats, and are on the look-out for collisions. They cannot sit back with quiet minds and discuss business and the means to carry it out successfully.

THE EFFECT OF CURRENCY POLICY ON INTERNATIONAL TRADE.

23.—INTERNATIONAL TRADE.

In all these considerations we must never forget that we are not self-contained, that there are other countries with currencies of their own, and that there are factors *beyond our control* which we must take into account. Any sudden or violent change in the value (purchasing power) of our £1 note will have immediately world-wide reactions. Since we, more than any other nation, live by international trade, other countries must buy our currency (sterling) to pay us for the goods we export, while we must buy their currencies (dollars, francs, marks, lira, escudos, etc.), to pay them for the goods we import from them.

This consideration is the more important—not only to us but to all the world—because with London as its centre and sterling as the currency by which most of the commerce of the world is moved, London is, and must continue to be, the world's centre of payments, and sterling is, and must continue to be, the leading currency for transacting the world's trade. Such a situation has great *advantages* but it also has great *responsibilities*.

Our position is so strong and our decisions so vital to other nations that, probably, whatever lead we give, the rest of the world must ultimately follow if only for their own benefit. (May this be realised at Lausanne and at Ottawa!)

24.—

When England went off the Gold Standard last August, the pound sterling ceased to rise in value, but gold continued to rise (i.e., prices of commodities declined in terms of gold). Our paper currency has proved itself stable since the (internal) purchasing power of the £ sterling is now about the same as it was last September, and for that reason it can truly be said that *gold went off the £ and not the £ off gold*. In

the coming international and empire conferences, these facts should be borne in mind and rubbed in, because they are fundamental.

" THE DILEMMA OF DEFLATION."

25.—DEFLATION OR REFLATION?

In considering the policy of inflation, the following factor is of first importance: the equilibrium of our trade has been so upset by the deflationary processes of the last seven years that we are faced with a dilemma.

Either we must increase the wholesale price level and so enable producers to sell their goods at a profit, which at the present moment they are unable to do (and this is the underlying and outstanding cause of the world depression), or we must drastically reduce both wages and the interest on fixed interest-bearing securities.

This would primarily affect the 7,000 million pounds of Government loans and the fixed charges of all industrial and commercial concerns. It is obvious that such reductions, especially in England, could not take place without untold misery and grave risk. The average holdings of these securities is small and represents the savings, not only of the so-called rich, but of the Trade Unions, Provident Societies, Post Office Savings, War Savings Certificates, in fact—the accumulated savings of our people as a whole.

Mr. Walter Runciman, in the House of Commons on September 11th, 1931, and in a letter to *The Times* of May 1st, 1929, estimated the number of small investors at 15 millions, and the sum total of the capital which these investors command at £2,256,800,000. The figures may be set out as follows:—

	£
Post Office Savings Bank	284,600,000
Trustee Savings Banks	81,400,000
Small Government Holdings	188,600,000
Railway Savings Banks	18,400,000
National Savings Certificates (Small Investors)	245,700,000
Share of Ordinary Life Assurance Funds	436,000,000
Industrial Life Insurance Funds ...	233,000,000
Building Societies (Share Capital) ...	268,000,000
Industrial and Provident Societies ...	221,000,000
Friendly Societies	106,000,000
National Health Insurance Approved Societies	58,000,000
Co-operative Societies	116,100,000
Total ...	<u>£2,256,800,000</u>

26.—

If prices continue to fall, all debtors—whether Governments or individuals—will be ruined, because the standard of price under which the debts were contracted has fallen and the debtor has to produce, under increasingly difficult circumstances, more wealth to pay his debt.

A good illustration of this is to be found in the following : During the War we must have bought from America millions of bushels of wheat at \$3.00 to \$3.50 per bushel. We are now being asked to repay that debt with wheat selling at 50 cents a bushel. So, *in terms of wheat*, we must pay six or seven bushels *now* for every one bushel we bought *then*.

27.—

Difficulties are increased when traders believe prices are going to fall and no one wants to buy except from hand to mouth.

People get nervous, producers have stocks left on their hands which are going down in value day by day, while wholesalers and retailers buy only their minimum requirements and keep their shelves comparatively empty. Confidence is destroyed; Banks fail (fortunately not in England)—we are not panicky people and our banking system is sound and well-managed). The dangers of the situation are further accentuated by the tendency of people to hoard all the money they can lay their hands on and put it under their beds.

28.—

All these factors, many beyond our immediate control, make it a difficult and anxious task for the Treasury and for the Bank of England to decide what is the best course to pursue. Few will disagree with the statement that prices must be raised if ruin is to be avoided, but the association of bankrupt finance with currency inflation has had the effect of scaring many people away from the policy of "credit expansion" *which our English record for soundness should enable us to initiate.*

If only the truth could be realised, and political influences—the power of which is often due to the ignorance of the electorate—could be overcome, with a real effort made for neighbourliness and goodwill, much could be accomplished at the Ottawa Conference and at the Debts and Reparations Conference at Lausanne.

At these Conferences and, indeed, in all considerations of these world problems, the united effort of us all must be towards a *monetary policy that will raise the commodity price level.*

The "Economist" says (May 28th, 1932, page 1167):—
"The very root of the problem as it exists to-day lies in the factor of time; the sands in the hour glass are running ominously low. It is imperative that the various aspects of the crisis should be tackled comprehensively and radically without delay."

If political disaster—financial chaos—economic ruin—the rapid development of Bolshevism—the breakdown of civilisation—all these—all over the world are to be averted, the Representatives of all nations at Lausanne and at Ottawa must have the courage, faith and vision to pursue an unselfish policy directed towards discovering how much they can put into the common pot; NOT how much they can take out. For let them be well assured there is mighty little left in the pot, and if the pot is emptied or broken we all perish together.

29.—THE EFFECT OF WAR DEBT PAYMENTS.

For this, it is agreed, the most vital preliminary step is to stop payments of Debts and Reparations by Germany and the other debtor nations. These vast payments, with no commercial basis underlying them, which hang over our heads have the effect of driving down prices and stopping trade. Unless they are wiped out they will continue to do this and will defeat any combined efforts that may be made to raise the price level, restore trade, and decrease unemployment the world over (now estimated at some 20,000,000). The motive and reason for non-payment of war debts—and we must have the courage to give a lead to the world by saying so—is NOT fear of bankruptcy or even inability to pay, but the good of mankind. It is more blessed to give than to receive. England can say this because she has done everything possible in this direction.

A BALANCED BUDGET AS A BASIS FOR CREDIT EXPANSION.

THE NEED FOR ACTION.

30.—THE ADVANTAGE OF A BALANCED BUDGET AS A BASIS.

In the meantime, we in this country have done a great deal towards putting our own house in order and, by so doing, have started not only to save ourselves by our efforts but other countries by our example.

We have balanced our Budget, we are taking steps to balance our trade; we have initiated an Exchange Equalisation Fund for the purpose of preventing violent day to day fluctuations of sterling in terms of other currencies. Sterling will, we hope, thus provide an anchor for other

ations to which they can attach themselves in the present economic and financial storm which is blowing round the world.

31.—

Enough has been said to show that the problem is not whether we should adopt a policy of Reflation: we are surely long past that. The vital questions are how soon, to what degree, and by what means can *money and credit supplies* be increased on a sound basis to meet the needs of producers both at home and abroad for the profitable exchange of their goods on which the peace of mind and the prosperity of the world and of posterity depends.

WALDRON SMITHERS.

HOUSE OF COMMONS.

May, 1932.

My grateful acknowledgments are tendered to two friends who have read the proof and made valuable suggestions.

[Note: The following will be useful to the reader of the pamphlet and will throw further light on it.—W.S.]

ADDENDUM.

THE FOLLOWING IS AN EXTRACT FROM THE REPORT FOR 1932 OF THE UNION CORPORATION LTD., OF SOUTH AFRICA.

		WORLD TOTAL OUTPUT OF GOLD.							
		(In millions of gold pounds).							
		1924	1925	1926	1927	1928	1929	1930	1931
World Total	...	80·8	80·8	82·3	82·6	83·7	82·8	85·7	80·0

During 1929 the rise in the price of gold and the great slump in wholesale commodity prices began and ushered in the period of extreme economic depression from which the world has since suffered. The change in monetary gold reserve since 1928 has been as follows:—

(In millions of gold pounds).

	End 1928	End 1929	End 1930	End 1931	Change in 3 years.
France	257	335	431	554	+297 = +115.6%
United States ...	769	802	868	833	+64 = +8.3%
Switzerland, Belgium and Holland ...	83	95	102	239	+156 = +187.9%
	1,109	1,232	1,401	1,826	+517 = +46.6%
Rest of World ...	930	876	819	641	-289 = -31.1%
Total monetary gold reserves (exclud- ing Russia) ...	2,039	2,108	2,220	2,267	+228 = +11.2%

If the increase in total monetary gold reserves had been allowed to be distributed among the Gold Standard countries of the world in proportions corresponding broadly to their existing stocks, it would have permitted an increase in production and trade at a rate of about 3½ per cent. per annum without causing a disturbance in the stability of the general level of commodity prices. But, as will be seen, five countries have increased their gold reserves entirely out of proportion to the rate of increase of the monetary gold stock of the world as a whole; indeed, the rest of the world has not only had to go without its rateable share in the new gold that became available for monetary purposes, but has found its existing gold reserves heavily depleted. The strongly deflationary effect thus exercised on the economy of the rest of the world inevitably brought about an unprecedented fall in the general level of commodity prices and increasingly grave economic and financial disturbances. The creditor position of the five countries gives them the power to draw on the resources of the rest of the world; but, if the Gold Standard had been allowed to function in those countries as it is meant to function (that is to say, to settle balances of trade), the excessive accumulations of gold could never have taken place. They took place because the creditor countries prevented the inflowing gold from exercising its influence on their currency and credit structure, and, therefore, on their level of commodity prices, and at the same time, forced the debtor countries to discharge their liabilities in gold by refusing to lend, and by interposing increasing tariffs and other barriers to international trade. This state of things led to a continual depletion of the monetary gold reserves of the debtor countries, to a progressive strangulation of international trade, and to a debasement of credit, which is forcing debtor countries more and more into default on their foreign obligations. Hence, the partly overt and partly disguised abandonment of the Gold Standard by all but a few countries. They have abandoned it not because of anything unsatisfactory inherent in that Standard, but because of its misuse and mismanagement. It worked well up to the time of the outbreak of the Great War, and from the time of the general return to that Standard after the War to the end of 1928.

The following figures have been sent me by Mr. Ernest Evan Spicer, F.C.A. They are interesting and instructive as giving some idea of the magnitude of the sums agreed upon by experts and the impossibility of meeting these claims.

REDRESS BY REPARATIONS.

In the year 1921, the Reparations Commission solemnly assessed Germany's debt to the other nations at 132,000 millions Gold Marks—say, £6,600 millions—a sum approximately £1 per mile of the diameter of the Solar System.

The actual amount of the Indemnity, however, was a matter of small moment for two very excellent reasons, as follows:—

- (a) In no circumstances could Germany pay such an amount;
- (b) In no circumstances could the other Nations afford to receive such an amount.

Why cannot Germany pay an Indemnity of £5,600 millions with interest at 5 per cent. per annum on the balance outstanding?

To answer this question it is necessary to consider how an Indemnity of reasonable dimensions could, in normal circumstances, be paid.

(1) BY CEDING TERRITORY.

In this connection it should be remembered that Germany has already lost Alsace-Lorraine and her Colonies.

(2) BY HANDING OVER MOVEABLE ASSETS.

Germany's Mercantile Marine was taken over by the Allies, and her railway locomotives and rolling stock were transferred to France.

It should be noted that the result of taking over Germany's Mercantile Marine was to empty our own Dockyards and ruin our Shipbuilding Industry.

(3) BY TRANSFER OF FOREIGN BALANCES AND INVESTMENTS.

The investments and balances of German Nationals outside Germany were, to a large extent, confiscated during the War.

(4) BY TRANSFER OF GOLD.

Germany's gold reserves at the end of the War were reduced to very small dimensions and at the present time approximate 50 million pounds.

During the past few years the average annual world gold output has amounted to about 83 million pounds, and it is estimated that the gold reserves of the whole world do not exceed 3,000 million pounds.

It may be safely stated, therefore, that the world's total gold output since the time of King Solomon has not equalled 6,600 million pounds.

The idea of paying an indemnity of any magnitude in gold is entirely Utopian.

(5) BY RENDERING SERVICES.

The direct rendering of services was a method suggested by Germany as a means of satisfying part of her liability to France. She proposed sending an army of masons, bricklayers, etc., to rebuild Rheims.

This suggestion, however, met with a point blank refusal from France, for the good reason that she had no intention of destroying her own building trade.

(6) BY HANDING OVER GOODS.

This represents the only practical method whereby a Nation can discharge an Indemnity without thereby incurring additional liabilities in the process.

It is obvious, however, that the Country's capacity to pay in goods is limited, each year, to the excess of her total Exports over her total Imports.

Germany's record pre-War year was 1913, and 40 million pounds is an outside estimate of her excess of total Exports over total Imports. Even in that year she had an adverse balance of visible Exports of approximately 30 million pounds, but this adverse trade balance was converted into a favourable one by the invisible Exports.

In pre-War years, therefore, 40 million pounds was the limit which she could pay annually by way of Indemnity.

It is clear, therefore, that she could not pay anything approaching the interest on 6,600 million pounds, let alone any portion of the capital sum.

Why cannot the other Nations afford to receive payment of any large Indemnity?

The answer to this question is that, as an Indemnity must be paid in goods, the receiving Nations could not absorb such vast quantities of goods without thereby ruining their own Industries.

It is clear that if Nations cannot afford to have foreign goods dumped upon them, much less can they afford to receive goods for nothing. The receipt of dumped goods is equivalent to the receipt of an Indemnity, and it is unnecessary to labour the fact that home Industries are jeopardised by foreign dumping when it is conducted on a grand scale.

It should be remembered that Germany is a developed country with a teeming population, and limited natural resources. It is impossible, therefore, for her to feed her own population, and at the same time show an excess of total Exports over total Imports which would enable her to meet a fantastic Indemnity.

If Germany had vast undeveloped natural resources, such as oil-fields, gold-bearing areas, etc., she might lease these to foreigners, thus obtaining large revenues without interfering with her normal business, but she does not possess the undeveloped areas, and therefore the possibility does not arise.

Germany has endeavoured to meet her obligations by borrowing money to pay the annual instalments of the Indemnity, but this has not in any way reduced her total indebtedness, and she has merely exhausted her credit. The result is that she has become hopelessly insolvent, and is unable to meet her ordinary trade debts as and when they become due.

"You cannot travel far by treading on other people's toes."

"Chinese Proverb."

Currency and Credit on a Metallic Basis³

THEIR EFFECT ON TRADE
AND ON
THE COMMODITY PRICE LEVEL OF THE WORLD

*An attempt to discuss them
in simple words*

BY

H. E. MOON

With a FOREWORD by
WALDRON SMITHERS, M.P.

Copies of this pamphlet may be obtained at cost price from
The Manager, *Kentish Times*, Sidcup, Kent.

PAMPHLETS IN THIS SERIES

Attempts are made in this series of pamphlets to deal with questions in simple words. A right decision in regard to them is of importance in the solution of world problems.

The pamphlets are published with a view to stimulating thought.

They have had their origin in discussions and lectures at the Finance Committee of the Conservative Party during the latter half of 1931 and the first half of 1932. They cover a wide ground, and it does not follow that the Committee endorse all or any of the suggestions advanced therein.

WALDRON SMITHERS,
Honorary Secretary.

HOUSE OF COMMONS,
July, 1932.

THE NATIONAL CRISIS	} By Waldron Smithers, M.P.
DEBTS AND REPARATIONS	
INFLATION, DEFLATION, REFLATION	
THE COMPETITION OF STARVATION	By Dr. F. Henry.
THE DESTRUCTION OF THE WORLD'S MONETARY SYSTEM	By Professor Gustav Cassel (the Swedish Economist)
CURRENCY AND CREDIT ON A METALLIC BASIS... ..	By H. E. Moon.

(They are all published by the *Kentish Times*, Sidcup, Kent).

Those who wish to keep up-to-date in these subjects will find them discussed, in the light of current events, in the Monthly Reviews of the Big Five Banks, which can be obtained from those Banks:—

Midland Bank,	Westminster Bank,
Barclays Bank,	National Provincial Bank,
Lloyds Bank,	

and, of course, in the well-written articles published weekly in *The Economist* and *The Statist*, and often in *The Times* and its periodical Financial and Economic special numbers.

CONTENTS.

	PAGE.
FOREWORD by Waldron Smithers, M.P. ...	3
Money Axioms	6
1. Introductory	7
2. The Present World Money Tangle	7
3. What is the matter with the World to-day?	8
4. The World's Money	8
5. Why the War cost the World as a whole no money	8
6. The Mal-distribtuion of Gold Money	9
7. What Money really is	9
8. Paper Money : Notes, Cheques and Bills	10
9. The Quantity Theory of Money	11
10. The Expansion of Cr�dit and the Raising of Prices	11
11. The World's Credit To-day	12
12. War Debts and Reparations must be cancelled	12
13. War Debts cannot be paid with Goods	13
14. Reparations in the same category as Debts	14
15. The Effect of Reparations in Germany	14
16. The Economic Policy of Soviet Russia	14
17. Machinery	15
18. Remedies for Over-Production	15
19. The Lesson of History—the parallel with the Roman Empire	16
20. Cheap Corn	17
21. The Recovery of the Sixteenth Century	17
22. The Nineteenth Century	18
23. The Present "Corner" in Gold	18
24. The need for a new medium	19
25. The chance of recovery through Silver	19
26. The Exchange Stabilisation Fund	19
27. The Enforced Repudiation of Debts	20
28. The Remedies	20
29. Silver in the East	21
30. The Parallel in the West	22
31. The danger of raising the monetary value of Gold	22
32. Bi-metallism	23
33. Silver in India	23
34. The effect of making Silver legal tender in India	24
35. Silver in China	24
36. How Silver would help Gold	25
37. How Silver could be operated	25
38. The Creation of Credit on Silver	26
39. The Silver stored in India and China	26
40. Governments can undo the Damage	27
41. Questions	27

X61;1
G2

FOREWORD

BY WALDRON SMITHERS, M.P.

THIS pamphlet is one of a series which has been published during the last few months with the object of educating public opinion and stimulating thought.

It is as a stimulus to thought on a vital subject that I recommend this one, which is extraordinarily interesting and which Mr. Moon has very kindly allowed us to reproduce. It is based on a speech delivered to the Finance Committee of the Conservative Party at the House of Commons on the 29th June, 1932, and that Committee must not be taken as necessarily endorsing all or any of the views herein expressed.

Mr. Moon has had a life experience of Banking and Currency in the Far East, where he dealt daily in thirty-two currencies.

Further to stimulate thought and promote discussion, may I be allowed to submit a few considerations.

I agree in the main with the first eight sections which deal with the Quantity Theory of Money. I agree with the argument that it is desirable to raise the commodity price level to a point at which, under present social conditions, manufacturers and producers can produce at a profit.

I agree that

- (1) the continuance of Debts and Reparations Payments; and
- (2) the Economic Policy of Soviet Russia

have—and must continue to have—a disastrously depressing effect on the Commodity Price Level.

But in order to throw further light on Mr. Moon's arguments I want to indicate some possible objections. I am not sure that his silver proposals would be the best way to raise the commodity price level. The Quantity Theory of Money leads me to emphasize the commodity price aspects of the function of money rather than to adopt the "silver short cut" however attractive the history of that metal may be.

Is it necessary to have a METALLIC Basis for a currency, especially for Sterling? To relate Sterling to one or to two metals would open the door to the same difficulties as those we are now experiencing and from which the world is now trying to escape.

Mr. Moon refers to "that unreliable rascal Gold." What is to prevent Silver from being an unreliable rascal? What is to prevent the Silver from following the Gold and from being hoarded and sterilised and rendered useless as a basis of credit? (See question 3 on page 30).

Excess of money can have the opposite—but equally disastrous—effect to the want of it.

What we should aim at, I venture to think, is a rise of commodity prices *in terms of sterling*.

Gold and silver may be useful handmaidens to sterling; they must never again be allowed to become its master.

If we can get the purchasing power of sterling down, commodity prices will rise and Silver, being a commodity, will rise with other commodities. Therefore the purchasing power of "the Silver Countries" will rise and our object—to raise the commodity price level—will be on the road to achievement without linking the £ sterling either to silver or to gold.

The silver hoards of India and China would acquire an enhanced purchasing power.

Further: the amount of silver, hoarded or otherwise available in the world, is unknown and if silver were related to sterling there would be an immediate incentive to fresh mining. What guarantee is there that we could maintain a fixed ratio between Gold and Silver, or alter and maintain the ratio at will?

We might find it impossible and in that event we should probably find our currency based on silver at such a price and value that control would be beyond our powers, and the value of the backing of our currency might then slip away.

Owing to the unique character and capabilities of the English race and the facilities afforded by the London market, sterling has been, is, and must remain the currency on which the commerce of the world moves. The services England can render are **INDISPENSABLE** to the world.

Why, then, link Sterling to Silver when it can achieve

its objects, continue to benefit the world, and be increased as fast as the demand for it, in goods and services, is made?

We are functioning very well—much better than the experts expected—with no metallic foundation for our currency.

We have escaped from a prison of gold. Why lock ourselves voluntarily in a silver prison, although it may be a more roomy one?

I would refer the reader to the answer to question 3 in section 41. This, I think, shows weakness in the argument of the pamphlet. See also the first line of section 7.

I offer these remarks, as I have already said, as a stimulus to further thought and reflection on this most important matter.

W.S.

P.S.—A business friend with whom I discussed this Foreword made two remarks which I think are worth adding:—

- (1) The Englishman thinks of business; the foreigner thinks of money.

There is a great difference between business and money, and "the love of money is the root of all evil."

- (2) There are many things which are economically advisable, but morally indefensible.

HOUSE OF COMMONS,
July, 1932.

MONEY AXIOMS

Total Wealth of World = Total World Credit (*i.e.*, the money valuation of that wealth).

Credit = Metallic Money (M)
multiplied by
Velocity of Turnover (V)

Price of the Average unit
of Goods (P) = Metallic Money (M)
multiplied by
Velocity of Turnover (V)
divided by
Quantity of Goods (Q)

$$\text{Thus } P = \frac{M \times V}{Q}$$

And therefore: If M is halved, P becomes half.

If prices are to be raised, the metallic money must be increased, because the velocity of turnover cannot be further increased, so far as we know.

CURRENCY AND CREDIT ON A METALLIC BASIS

DISCUSSED IN SIMPLE WORDS

by

H. E. MOON.

1.—Introductory.

I am not a professor of Economics or Political Economy, but I should know something about the subject of Foreign Exchanges because, for many years, I worked in them and financed foreign trade. I thus acquired a practical working knowledge of money matters generally. I am anxious to make some contribution to the solution of world problems from a practical point of view and from practical experience.

I shall assume that among my readers are some who do not know even the first thing about questions of economics, exchange, and the functions and the use of money; and I shall therefore use the *simplest possible words*.

2.—The present World Money Tangle.

We all know that the world is now in a *terrible money tangle*. We are all getting poorer and poorer, the prices of everything are falling continuously, trade is being strangled by exchange restrictions, quotas, and tariffs. We all realise instinctively that unless something is done—and done quickly—Civilization itself may collapse.

Now, in order to understand what has gone wrong with the world, I should like you—my financially-ignorant but otherwise learned readers—to imagine yourself off the earth and looking down at it from Mars. Seen from *there* the world would appear to be all right and prosperous. But we, who are living *here*, know that there is a terrible amount of hardship, poverty, hunger, and unemployment, as well as world-wide default, moratoria, stand-still arrangements, and bankruptcy both of Governments and of individuals.

3.—What is the matter with the world to-day?

Why should this be?

There is an abundance of food, such as meat, wheat, rice, sugar, tea, coffee: in fact, there is so much of these good things that they are being burned. Yet masses of people are half-starving.

There is plenty of cotton and wool for clothing, yet half Europe and Russia are short of clothes and the natives of India and China have to go about half naked.

There is plenty of wood, iron, and steel for buildings, ships, and machinery; there is plenty of coal and oil for power and fuel. There is, in fact, *apparently*, too much of everything.

There cannot possibly be any shortage of labour, for twenty million men are standing idle in the world to-day.

4.—The World's Money.

Someone says there is not enough money.

Well, *what is money?*

It is not wealth in itself.

It is only the measure for comparing the values of one class of goods against another class of goods and a medium for expanding those goods.

Anyhow, why is there not *enough* money?

Someone says it was spent in the Great War and the War has to be paid for.

Now, I will tell you something you may not have heard before, and you will probably not agree with me when I say that **THE WAR**—although it cost the world fearful loss of life and limb and was a tremendous waste of unproductive effort—**COST THE WORLD AS A WHOLE**—mark you, **AS A WHOLE**—**NOT ONE PENNY IN MONEY.**

5.—Why the War cost the World as a whole no Money.

When a shell bursts, the *labour* of making that shell has been lost, but the *cost* of that shell has not been spent. It is still in the pockets of the people who made it and sold it: its *money* cost has not been lost to the world.

There is as much—or more—real money in the world to-day as there was at the beginning of the War, and, if some nations are now poor, it is because the tragic book-keeping of the War has sent three-quarters of the money of the world into the pockets of four nations (America, France, Holland, and Switzerland). It is not so much the War that has upset the world as the Treaty of Versailles, which has been so well described as “A PEACE TREATY WITH A **vengeance.**”

The first and necessary step is to close for ever “The War Ledger.”

6.—The Mal-distribution of Gold Money.

As I said just now, the War cost the world as a whole nothing in money: but its tragic book-keeping has transferred vast sums in gold to America, France, Holland, and Switzerland. These countries now have so much gold that they cannot use it—and do not allow it to function—properly; **it is consequently lying idle and sterilised while the rest of the world is suffering from the want of it and prices have fallen chiefly on that account.**

There is a mal-distribution of money—gold money.

But let me explain why prices have fallen owing to the gold being spread unevenly over the world. To do this I must first say a few words about WHAT MONEY REALLY IS.

7.—What Money really is.

Anything may be used as money.

In the old days, cattle were one of the chief forms. In some of the South Sea Islands, cowrie shells and coral are used; and in the Southern Pacific Island of Yap, the inhabitants used, until comparatively recent years, large circular pieces of stone with a hole in the middle. These pieces could be carried balanced on a man's head or wheeled down the road with a stick through the centre. I have seen this money myself.

These forms of money are anything but handy, and therefore precious metals—gold and silver—came into use long ago. We need go no further back than the Bible to learn that certain weights of gold and silver

were then used at a fixed ratio of one to the other. To-day, lumps of silver are used in China: any evening in Shanghai you can see the daily Bank clearing being done by coolies pushing wheelbarrows full of bars of silver, shoes of sycee, and boxes of dollars, from bank to bank.

Any day, in any Chinese village, you can watch a man, who is about to purchase his tobacco or other article, produce from his pocket a lump of silver, cut off a chip, and weigh it in a small pair of scales. Then, after much argument with the shop-keeper, the purchase is made. But that is a long and tedious process.

So someone, long ago, got hold of the idea of making *coins of a known weight and fineness*. Coins are, of course, more quickly counted than metal is weighed, and so *the speed of the turnover of money (i.e., Velocity) was increased*.

8.—Paper Money: Notes, Cheques, and Bills.

Someone (probably a Banker) later on had a brain-wave and invented Notes, and he found that three Notes could be issued against each metal coin. This increased *the supply of money* and it also increased *the velocity of turnover*, because Notes are quicker and handier to count than coins. You need not ring them or bite them!

As banking grew, the volume and also the speed of turnover were again increased by *the use of Cheques*. They are still handier than Notes and have the additional advantage that they are drawn on credit accounts (for any odd amount to settle any single piece of business), which credit balances can be lent by the bankers to reliable borrowers.

So the borrowers have the use of the creditors' money, and in that way *credit is again enormously expanded*, and its velocity increased.

In the same way, Bills of Exchange increased the *volume and speed* of the turnover of money.

Last, but not least, the telegraph and telephone came to be used, and most large payments between one country and another are now settled and speeded up by bank telegraphic transfers.

9.—The Quantity Theory of Money.

In these ways, *the utility and speed of the turnover of money were increased* and a credit edifice built up, but ALWAYS ON A METALLIC FOUNDATION. We can lay it down as a *monetary axiom* that

CREDIT IS THE METALLIC MONEY
FOUNDATION MULTIPLIED BY THE
VELOCITY OF TURNOVER.

I may add as a corollary that

THE PRICE OF A UNIT OF GOODS IS
EQUAL TO THE METALLIC FOUNDATION
OF MONEY MULTIPLIED BY ITS
VELOCITY OF TURNOVER AND DIVIDED
BY THE TOTAL QUANTITY OF THE
GOODS.

It is vital to understand this clearly because it is the *Quantity Theory of Money*.

$$P = \frac{M \times V}{Q}$$

10.—The Expansion of Credit and the Raising of Prices.

Let me explain how Credit can be expanded and, in consequence, prices raised.

Now: the total Quantity of Goods (Q) in the world multiplied by the Average Price (AP) of a unit of goods is equal to the total Credit (C)—which is the total wealth—of the world. They must balance each other:

$$Q \times AP = C$$

BUT: Credit is built up on a metallic foundation and, if that foundation is reduced, the credit edifice has to be reduced also. Otherwise it will totter and fall. **As credit is reduced, prices fall and wealth is reduced. As credit is increased, prices rise, and wealth is thus increased.**

Thus: If the *quantity* of goods is the same but *credit* is reduced to half, then the *price* of goods must fall to half; otherwise the total credit would not be equal to the total value of the goods, and it is axiomatic that these must balance each other.

11.—The World's Credit To-day.

Now we know that three-fourths of the gold foundation of credit has been sterilized by France and America through War Debts and Reparations Payments. The world's available wealth—or credit—measured in money is only about one-fourth of what it was in, say, 1928, because three-fourths of the world's credit foundation has been buried or sterilized by France and America. Prices, therefore, are also only about one-fourth.

That is the chief cause of the trouble in the world to-day and, in order to remedy this state of affairs and raise prices, CREDIT MUST BE EXPANDED. *That can only be done by first expanding the metallic foundation of credit.*

I have endeavoured to show how credit is built up. Just as all credit is based on a metallic foundation, so is all wealth based on Mother Earth and all wealth is produced by the rays of the sun. It is reaped by human skill in harnessing Nature's bounty to mankind's needs.

If credit is to be expanded and by that means prices raised, then the metallic foundation of credit must first of all be expanded to provide something on which to build.

In the same way, if the margin of profit is to be increased so that trade may become profitable once more, then the prices of primary products must first be raised so that their producers may produce them at a profit. This profit will filter upwards through the distributors and middlemen to the consumers.

You cannot start to increase the margin of profit half-way up the ladder among the middlemen nor at the top of the ladder among the consumers: the start must be made among the producers of primary products and from there must climb upwards to the consumers. To try to do otherwise would be equivalent to telling a man to lift himself up in the air by pulling at his boot straps.

12.—War Debts and Reparations must be cancelled.

Before credit can be expanded and prices raised, however, WAR DEBTS AND REPARATIONS MUST BE CANCELLED, or, after scaling them down to manageable proportions, payment must be postponed for a period of

years to stop the flow of gold to Paris and New York. That would not by itself raise prices, but it is a first and necessary step. It should, in any event, prevent prices from falling any further.

Prices cannot be raised until the harm done by War Debts and Reparations payments has been undone.

At the end of the War, Lord Balfour wisely suggested that War Debts should be cancelled. Unfortunately his wise counsel was of no avail, and they were consolidated.

13.—War Debts cannot be paid with Goods.

Now War Debts cannot be paid with goods. America is developed, commercially, up to the ceiling and can supply not only all her own requirements of manufactured goods but also is in a position to export goods.

She has therefore imposed *prohibitive tariffs* which have made it impossible for her debtors to pay their debts in anything but gold. The total debt due to America is 12,000 million dollars (at par £2,400 millions, or at 3.60, £3,333 millions) and the total available gold in the world is only £2,200 millions.

These debts could not be paid in goods without great injury to America. If goods were shipped instead of gold, these goods would have to be sold in America in competition with similar American goods. The prices of such goods would fall with consequent loss to American manufacturers and vast increases in the numbers of the unemployed there. The nett result would inevitably be that the total payment of unemployment doles by the American Government would equal the value of the goods received by way of War Debts payments.

You might say that America, after receiving the goods, could ship them abroad for sale again; but the people abroad could not pay for them except with other goods. Masses of goods would, then, be passing backwards and forwards across the Atlantic and finding no buyers on either side, which of course is ridiculous.

Debts and Reparations payments have nothing behind them and can, therefore, only be paid in *gold*. In consequence, the only debtor country which can pay

debts to America is France, because she is the one and only debtor country with large stocks of gold.

And in this country, at any rate, it is now realised that, however difficult it may be for the debtor countries to pay, it is simply ruinous for America to receive.

14.—Reparations in the same Category as Debts.

Reparations are in the same category as Debts and the harmful effect of Reparations payments is *exactly similar to that caused by payments of War Debts.*

The process is as follows:—

Germany hands over to France immense quantities of coal, iron, etc., by way of reparations. France uses that *free* coal and iron *in competition* with other nations, especially Great Britain, making it impossible for British steel-makers to compete with French steel in the world's markets or, even, in our own home market. That unfair position will be changed now, for we have put a duty on imported pig iron and steel and, in addition, our currency is no longer anchored to gold.

Gold has, indeed, become a most unreliable rascal and is no use at all for selling goods. Imagine the howl which would have gone up from the Continent if English steel-makers had been provided with free coal and free iron by Germany from the day on which the Versailles Treaty was signed!

15.—The Effect of Reparations in Germany.

Reparations have forced the German workmen to work for starvation wages and their competition must eventually *reduce the standard of living of all workmen the world over to the level of the German workers.* Germany receives no payment for the goods she hands over to France; *she cannot, therefore, buy from us or from anyone else anything in exchange for what she hands over to France free of all payments.*

16.—The Economic Policy of Soviet Russia.

Another most powerful force which is working to destroy civilization is Bolshevik Russia. Here I need

only say that Russia has declared an economic war on the rest of the world and, unless the world takes up the challenge, it will be defeated.

Russian oilfields, mines, railways and other industries have been largely developed with British capital, and the Bolsheviks have repudiated £1,000,000,000 of that capital.

These industries are worked by gangs of slaves, just kept alive on scanty rations, and the whole organization is financed by stolen money, on which no interest is paid.

Imagine a factory which has cost its owner many millions of pounds, on which interest has to be paid, and where labour is paid good wages, trying to compete with such unfair conditions.

At whatever prices other countries may sell goods Russia will under sell them, until the margin of profit is so reduced that wages and conditions of labour abroad are reduced to the level of the poor Russian labourers.

As if that were not bad enough, our late Socialist Government threw good money belonging to British taxpayers after this bad money by giving Russia goods under credit, which they must have known perfectly well would not be paid if further credits were denied them or they were asked to pay back. No finance house or merchant will lend Russia a cent, yet our late Government advanced Russia millions of our money to enable her to compete with our industries and bring down prices the world over.

17.—Machinery.

There is still another reason for the low prices of manufactured goods, and that is *the excessive increase of machinery in the world*. With the help of machinery, the production of any article is almost unlimited; production can always overtake consumption, and, when this happens, prices fall.

18.—Remedies for Over-production.

Now that we have the tariff here, I think we shall see *tariffs against us gradually lowered* and, in consequence, many factories abroad which are kept going

entirely through tariffs may become unprofitable in operation, their machinery will become obsolete, and, in time, be scrapped.

The situation could, of course, be remedied by an international agreement to work shorter hours; but if there is one thing in the world that is unobtainable it is international agreement. Nations—or their representatives—seem to think it is their sacred right to disagree on everything.

19.—The Lesson of History—the Parallel with the Roman Empire.

These, then, I think, are the chief causes of the world trade depression:—

- (1) War Debts and Reparations payments;
- (2) The Economic policy of Bolshevik Russia;
- (3) Excess of Machinery.

To which may be added:—

- (4) Tariffs;
- (5) Quotas; and
- (6) Exchange Restrictions.

There is, however, one other factor which is almost as potent as all the others put together and that is:—

- (7) *The Low Price of Silver.*

But before dealing with this question and the necessary remedies, I want to look for a moment at the lessons of History, because civilizations have collapsed in the past and may do so again in the near future.

We need go no further back than the Roman Empire which fell, not because of slavery and laziness and love of luxury or laxity of morals, but simply *because the money of the Roman Empire was insufficient for its needs.*

At the time of Augustus (44 B.C. to 14 A.D.) the gold and silver coin in use as currency in the Empire was worth about £358,000,000. By the time of Justinian (527 to 565 A.D.) it had fallen to about £85,000,000—less than one-fourth.

This decrease was due to four causes:—

- (1) The wearing away of coins as they passed from hand to hand, because they contained too little alloy (but this is of rather minor importance).

- (2) The failure of the silver and gold mines in Greece and Spain to meet this wastage and the increasing need for coinage as a basis for the profitable exchange of goods and services as the Empire expanded.
- (3) The Romans were buying large quantities of silks, fabrics, spices, and other luxuries from the East which did not take much produce from Rome. The East therefore took gold and silver instead and this caused a drain of precious metals from Europe to the East which continued from that time until last year, when gold once more began to flow from East to West.
- (4) The drain of the precious metals to the East doubtless led to the hoarding of coin by the Romans. The money in circulation in the Roman Empire having fallen to one-fourth, the prices must also have fallen to about one-fourth. This increased the burden of debts and taxes until the Roman Budget could not be balanced; the soldiers abroad could not be paid and had to be recalled. Then the Roman Empire fell.

20.—Cheap Corn.

At the same time, cheap corn from Egypt—produced at a lower cost than it could be grown in the fields of Italy—reduced the Italian farmer to the verge of bankruptcy.

THESE CONDITIONS ARE PRECISELY THE CONDITIONS PREVAILING IN THE WORLD TO-DAY, AND HISTORY MAY REPEAT HERSELF UNLESS REMEDIES ARE APPLIED.

21.—The Recovery of the Sixteenth Century.

Civilization collapsed and did not recover until Columbus discovered America (1492/3) when *an exactly opposite set of forces were put in motion*. His discovery enabled the silver and gold from the mines of Mexico and Peru—or, more correctly, from the palaces, temples, and graves—to be brought to Europe.

That wealth first touched Spain and, consequently, Spain rose to be the first power in the world, a position she maintained until Drake and his contemporaries began

intercepting the treasure on its way and bringing it to England. The defeat of the Armada (1588) finally broke the power of Spain.

England immediately rose to power; there was a great rise in prices and the foundations of England's wealth and the British Empire were laid.

22.—The Nineteenth Century.

Later on, in 1836, the Spanish Civil War temporarily ruined mining and the world slipped back to the period of low prices and trade stagnation known as "The Hungry Forties."

Recovery did not take place until silver and gold were discovered in California and Nevada and gold in Australia in 1851. This brought fresh wealth to the world and therefore civilization and prosperity again made marvellous progress.

But, later on, trade again began to languish because the precious metals were once more becoming unequal to the task of financing the increasing trade and population of the world. Then another fillip was given to prices by the discovery of gold in the Rand, in South Africa.

A study of history should have taught the world for all time that the most powerful agent in human affairs is money; because it is only by that agent that goods can be exchanged and their values measured.

23.—The present "Corner" in Gold.

To-day the precious metals are again unequal to their task. Not only are the gold mines unable to produce the increasing amount of gold that the world annually requires, but the greatest tragedy of all is that three-fourths of the world's gold has been driven by War Debts and Reparations payments into Paris and New York, where it lies idle and sterilised.

It might just as well be in the rocks of the Rand for all the use it is to the world to-day or even to its owners.

WAR DEBTS AND REPARATIONS PAYMENTS HAVE
DESTROYED THE CHIEF MONEY MACHINE OF THE WORLD
—THE GOLD STANDARD.

24.—The need for a new medium.

The world's trade is so complicated that it cannot be carried on by direct barter, *and so some increase in the quantity of the medium for exchanging goods MUST be found to relieve the present impossible task that gold has to perform.* ONE-FOURTH OF THE WORLD'S AVAILABLE GOLD HAS TO DO THE WORK OF THE WHOLE: prices must necessarily be about one-fourth.

This fall in prices has reduced many debtors—individuals, firms, companies, and even governments—to a state of bankruptcy, exactly as happened in the days of the declining Roman Empire.

Some people maintain that the present low prices are due to the laws of supply and demand, to the fact that production has outstripped consumption. But is it reasonable to suppose that in 1929 everything in the world was simultaneously over-produced and under-consumed and for that reason prices have fallen?

Is it not more reasonable to suppose that the price of one thing—GOLD which was the measure of value of all goods—has gone up and that therefore the price of everything else has gone down? If a commodity is cornered, the price goes up; and who can say that Gold has not been cornered?

25.—The chance of recovery through Silver.

Before there can be any real recovery in prices, the corner in gold must be broken, and the only thing that can break it is the other precious metal, SILVER.

We cannot take away the gold from France and America. Let us, therefore, use the equally good substitute, SILVER, and let France and America keep their gold. *It will become of precious little value unless we take it back and relate it to our good sterling pounds.*

26.—The Exchange Stabilisation Fund.

If the Bank of England were not using the recently formed Exchange Stabilisation Fund (£150,000,000 of taxpayers' money) in buying at a heavy premium the newly-mined gold from South Africa and the ancient gold hoards of India, then France and America would

be compelled to buy that gold in order to preserve the value of their hoards. But it is not likely that they would be willing to do so for any length of time in view of their large adverse balances of trade and budget deficits. They do not mind "receiving" gold in payment of debts, but they are unlikely to "buy" gold with hard-earned money.

If they declined to buy gold, then we might read in the papers one morning: "Price of gold nominal—sellers but no buyers." And the price of gold might fall and, if it did, the price of goods would rise. The world would then begin to recover, trade would revive, the burden of debts would be lightened, and budgets (both private and national) would balance.

27.—The enforced repudiation of debts.

The burden of debts to-day is so great that countries are following the bad example of Russia and repudiating them. They are doing this unwillingly, but they are compelled to repudiate debts which have become impossible for them to pay with the prices of goods where they are at present.

Half Europe is in that predicament, and unless European statesmen realise their responsibilities and look facts in the face Europe will be forced over the edge of the precipice and will be followed by the rest of the world.

28.—The Remedies.

Something simply must be done, and the remedies are easy to understand though they may be difficult to put into operation.

They are:—

First: Cancel War Debts and Reparations and so stop the drain of gold to France and America.

Second: Bring in silver to the aid of gold as a foundation for credit and on that foundation build up credit and raise prices. But it is essential that War Debts and Reparations should first be cancelled; otherwise silver will follow gold into the apparently bottomless pits of the French and American bank vaults.

Third: Penalise, tax, or prohibit the importation of slave-made goods from Russia which are financed with stolen money.

Fourth: Lower—or, better still, abolish—tariffs the world over, and do away with all exchange restrictions, quotas, and other impediments to the free exchange of goods. But—

ABOVE ALL, bring in SILVER. To buy silver and re-establish it in its ancient and honoured place alongside gold as money, would be the easiest, quickest, and surest method of raising prices the world over, so that trade would be profitable once more. **The world trade depression would then be at an end, and an era of prosperity would be ushered in.**

THE ARGUMENTS FOR SILVER MONEY.

29.—Silver in the East.

To anyone who has lived and worked in India or China for many years, it is unintelligible that silver commands so little interest in the minds of people living in the West. I think the reason is that one-half of the world has not the slightest idea how the other half lives.

To give you some idea of what I mean I will recount a conversation I had in Shanghai some twenty years ago. I said to a Chinese banker one day: "Silver has fallen to-day." He replied: "No, silver not fall; gold make go up."

I did not at first understand his point of view, but I soon realised that I, having been brought up in a *Gold Standard* country, measured the price of everything in terms of gold. To me, the prices of most things were steady, except that of silver, which had fallen considerably.

To him, brought up and living in a *Silver Standard* country, the prices of everything were steady except that of gold, which had risen considerably that day.

His silver money bought as much rice, pork, and other of his necessities, as much silk, tea, hides, and soya beans for export; but, of course, imports from foreign countries were dearer because their currencies were gold currencies and the price of gold had gone up.

30.—The Parallel in the West.

Now that is what has happened in the world to-day. Real prices have not fallen, but GOLD HAS GONE UP.

An ounce of silver would buy to-day just as much wheat, cotton, coal, oil, steel, as it would have bought three years ago; and the prices of wheat compared with the prices of coal, or coal with iron, or iron with copper, and so forth, are all more or less what they were three years ago.

IT IS ONLY WHEN MEASURED WITH GOLD THAT COMMODITIES ARE LESS VALUABLE. This is because Gold has been cornered and its price has gone up.

31.—The danger of raising the monetary value of Gold.

Some economists suggest that, owing to the scarcity of gold which has caused the breakdown of the gold standard, the gold still available should be made to do more work; in other words, the available gold should carry a greater load on its back.

To bring this about, they suggest that the gold contents of all gold coins the world over should be lowered; this would mean that the monetary value of gold would be raised. But that would have the *exactly opposite effect* to that which all these economists advocate, namely, the raising of prices.

If the price of gold were raised—as it would be—then the prices of all goods measured in terms of gold would be lowered. This is just what they wish to avoid. These economists would grant cheaper credit; but they maintain that credit should be based on gold alone.

In other words: these economists and some western bankers, who take no account of the silver-using half of the world, and these European financiers and some politicians, whose lack of knowledge, foresight, and practical statesmanship in matters economic has landed them, their countries, and many millions of other people in the present appalling financial calamity, would now try to balance—as if they were expert conjurers!—a much larger inverted pyramid of credit to finance trade and industry on a far smaller gold foundation than has ever before been attempted since civilization began.

I believe that this is the most dangerous and ill-conceived plan yet put forward by any serious-minded man; and it would wreck civilization, both East and West.

32.—Bi-metallism.

The politicians close their minds to the virtues of silver, either because they do not understand the question or simply because silver once lost an election in America. (When I speak of politicians, I know there are politicians *and* politicians, and those in our present National Government are not like those I speak about). Silver is consequently damned for all time as far as these politicians are concerned.

Yet Silver has been recognised and honoured as money from the beginnings of recorded history right up to that fatal year, 1871, when Germany demanded that her indemnity from France should be paid in gold. That crime did far, far more harm to the world than the Franco-Prussian War, because it destroyed BI-METALLISM, the dual money system which had functioned smoothly for hundreds of years.

I think History will ultimately record that the VERSAILLES TREATY likewise did more harm than the Great War itself, because it destroyed the Gold Standard for many years to come.

33.—Silver in India.

Something like half the world lives and works by the aid of silver and is quite satisfied with it. Yet the Indian Government, who should have had the interests of its 320,000,000 subjects at heart, in its ignorance and without its people's knowledge or consent, forged artificial links to connect its people's good silver money with that unreliable rascal, Gold.

The poor, ignorant people of India know that something has gone wrong. What it is they cannot tell. Yet, *instinctively*, they rightly blame their Government and consequently become the dupes of the sworn enemies of that Government.

If justice is to be done to these millions of ignorant agriculturists, the Indian Government officials should sweep away the gold cobwebs, which are clogging their

brains. They should kill the gold bee that it still buzzing in their bonnets. Then they should restore SILVER to its time-honoured place in conjunction with gold as full legal tender money. It could be done by a stroke of the pen and it would not cost anyone a penny.

34.—The effect of making Silver legal tender in India.

As a matter of fact, if they were to make legal tender—as they should do—the 400,000,000 ounces of silver which are lying idle in their Treasury vaults, sterilised and earning no interest, they would make not only £90,000,000 of profit but they would have £120,000,000 of new metallic money on which ten or even twenty times that amount of credit could be built up. This would mean that the world's wealth would be increased by £1,200,000,000 or even £2,400,000,000—no small increase to the world's wealth as a first instalment towards recovery.

The Indian mints should be re-opened to the free coinage of silver and the Indian rupee—which bears the King's head—should be worth what it says it is worth.

The coinage of India has always been, is, and always will be in the minds of the people—a silver currency, and no act of Government can change that fact; but an act of Government could win back the confidence of the people in that Government and in its coinage. *Then no more would be heard of Mr. Gandhi and his Congress, and civil disobedience and discontent would be superseded by content and prosperity.*

If the Indian rupee exchange had been allowed to remain on silver instead of being anchored to gold or sterling, or if silver were restored to its ancient and honoured place as money, India to-day would be one of the most prosperous and contented countries in the whole world. **In addition, half the unemployed in England would be busy making goods for their brothers in India and China.**

35.—Silver in China.

China, although torn with civil strife and brigandage on a grand scale, and suffering from an awful flood, is still one of the most fortunate countries in the world,

simply because its currency is silver. Prices in China, therefore, have remained comparatively steady during the last three or four years, and they will remain steady because silver, being the only metal coinage in general use anywhere in the whole world to-day, is unlikely to be cornered.

36.—How Silver would help Gold.

I should like to explain in detail how silver could come to the aid of gold and raise prices. It depends, of course, on the Quantity Theory of Money which, roughly stated, is that the price of goods is always in relation to the quantity of goods and the quantity of money.

When the quantity of money is great, prices are high; when the quantity is small, then prices are low.

Money—whether in bank notes or credit—is built up on a metallic foundation; but if three-fourths of that foundation has been taken away and buried, then three-fourths of the credit edifice must be pulled down and prices must fall to the extent to which credit is reduced.

As I have already said, we cannot take away the gold from France and America, but we could use silver instead as a foundation on which to build up credit. This was advocated by "Peregrinus" in a recent letter to *The Times*.

37.—How Silver could be operated.

The Government of India at present holds 400,000,000 ounces of silver. This is all lying idle and sterilised and earning no interest. It is of no more use to the world than it was when it lay in the bowels of the earth.

The Bank of England or the Treasury could purchase that silver for about £30,000,000 and announce that each of our English pound notes was backed partly by silver at a certain ratio to gold; but what that ratio was, need not be announced until it suited the Bank to announce it.

The price of silver would then rise until it reached the neighbourhood of 51 pence sterling per ounce of pure silver, at which level the silver contents of the Indian rupee would approximate its face value of 1s. 6d. Silver

would not rise above 51 pence so long as the Indian exchange is anchored to sterling at 1s. 6d.

If it did, the natives would melt their rupees and sell the silver contents as they did in 1918, when I raised the Indian Exchange from 1s. 4d. to 2s. 10½d. Their sale would keep the price of silver steady at the level at which it remained steady for hundreds of years up to 1871.

THE STERLING VALUE OF THE £30,000,000 PURCHASE OF SILVER WOULD THEN HAVE BECOME ABOUT £120,000,000, LEAVING A PROFIT TO THE BANK OF ENGLAND OR THE TREASURY OF, SAY, £90,000,000.

38.—The creation of Credit on Silver.

Bank notes could be issued and other forms of credit created on this £120 millions of new money; in fact, ten or even twenty times that amount of credit could be built up. Instead of allowing prices in England to rise, the new money—which would have cost us only one-fourth its value—could be loaned to Central Europe and elsewhere on condition that the proceeds of the loans were spent in purchasing goods from England.

It would also create in this country a demand for goods from Central Europe and thus raise prices there. Sooner or later loans will have to be made to Central Europe if it is to be saved from disaster. Why not lend it money which would have cost us practically nothing?

When the value of silver rose, the immense stores of silver in India, China, Mexico, and elsewhere would be worth from three to four times their present value, and these countries would at once become buyers of goods.

39.—The Silver stored in India and China.

The bulk of the world's silver is in India and China and, if silver is allowed to become of no value as money, the savings of those vast populations will be completely destroyed. No sane man could wish to destroy wealth ruthlessly and for no reason whatever.

A writer in *Blackwood's Magazine* in November, 1928, estimated the value of silver in India at

£4,556,000,000. I have no means of verifying those figures, but I do know—from a study of the table issued by the bullion brokers (Messrs. Pixley & Abell)—that India has imported £631,000,000 of silver during the last 98 years, so you can guess what a vast quantity of the precious metals they must steadily have imported since the days of Ancient Rome or earlier.

You can imagine how pleased the 320,000,000 British subjects in India must be at having the value of their savings reduced by two-thirds or three-fourths, chiefly by the action of governments in general and the Indian Government in particular. I think there is no doubt that Mr. Gandhi's success at stirring up trouble in India was chiefly due to this fact.

40.—Governments can undo the damage.

What Governments have done, Governments can undo, and I think their first duty is to restore silver to its old legal standing as money in conjunction with gold, a standing which it maintained for hundreds, if not thousands, of years before 1871. There is practically no risk of loss in buying silver, and it ought to show a very handsome profit, but to buy gold at these inflated prices seems to me a horrible gamble.

When the British public sold their gold trinkets in the recent gold rush, I think they showed their business common sense to sell while the price was high; we might say that they showed their sporting horse sense to go while the going was good! That movement might be considered a manifesto from the people to the Government likewise to sell *its* gold.

H. E. MOON.

41.—QUESTIONS.

- (1) **Some economists and financial experts say that there is no necessity to have a metal foundation for credit, but that paper money will do just as well. Do you hold that view?**

I think the answer to that question is that some economists, seeing what a failure the Gold Standard has become, suggest that there is no need of a metallic foundation for credit. But I believe it is a fallacious theory.

We must take into consideration the psychology of nations. It would be quite impossible in our time to convince the 320,000,000 people in India and the 400,000,000 in China that paper notes were as good as gold or silver. Even if they could be convinced against their better judgment, they would still know—from bitter experience—that great risks are attached to holding bank notes.

Many millions of people cannot read what is printed on the notes, and in any event they cannot keep them in their "bank," which is the cottage roof or a hole in the ground.

If the notes were stored in the roof, they might be stolen, burnt, or eaten by rats or paper-eating insects like white ants, which swarm in those hot and damp countries. If they were buried in the ground they would rot or get destroyed by field mice and other vermin.

Further: the people cannot carry notes about on their persons because, when they bathe in the rivers or ponds, they cannot leave their money—or even their clothes—on the banks which swarm with beggars. If they took them into the water, they would be spoilt.

Again, we could hardly allow Russia to issue notes as legal tender which would be good the world over. They would, of course, like to do so.

Anyhow, why destroy the value of all the gold and all the silver in the world as well as ruin those mining industries, and so make all the past effort expended in winning these precious metals so much useless and unproductive labour?

(2) What is your opinion of the Exchange Equalisation Fund of £150,000,000?

I think the whole idea is wrong because it is based on a misconception. First and foremost, it is supposed to prevent sterling from rising: *but sterling did not fall when the Gold Standard left these shores!* Otherwise prices here would have risen. Sterling, like water, found its own level and, like water, it cannot be compressed. It will continue, like all exchanges and water, to find its own level, and if it is dammed up it will either overflow or burst the dam. These artificial dams or props must be removed some day and then will come the reckoning.

When we borrowed the £130,000,000 from France and America last August in our mistaken and hopeless task of keeping the Pound sterling on gold, or rather keeping the gold attached to our sterling Pound, those credits were insufficient and we left the Gold Standard—or, rather, Gold left us—mercifully for us!

We paid off £30,000,000 of that credit in gold; but for the remainder we had the option of paying £100,000,000 in gold or, say, frs. 12,400,000,000. We elected to keep the gold and pay in francs, which francs we purchased at the average price of, say, 90 francs to the £ sterling.

To purchase the 12,400,000,000 francs, therefore, it cost us £136,666,666 instead of £100,000,000, and we made an exchange loss of approximately £36,500,000 on the deal.

The Government evidently reckon that they can put against this exchange loss—which is an actual loss—the temporary sterling profit or premium on the gold they kept; but if sterling exchange rises or gold dollar and franc exchanges fall, that premium or profit on the gold will disappear into the air and *the Exchange loss will remain.*

The idea of the Exchange Equalisation Fund of £150,000,000 was, I think, conceived and is being utilized for the purpose of keeping sterling down; it is *really temporarily propping up dollars and francs.* Those props must, however, one day be removed; then the premium on the £100,000,000 of gold will disappear and *with it the premium on any gold or gold exchanges we may have purchased with the Fund.*

That loss might be avoided by lessening the gold content of the sovereign, but that would give a greater monetary value to gold and so would depress prices of goods still further and deepen the trade depression.

As I said before, it would be an attempt to balance a still greater pyramid of credit on a still smaller foundation, and the pyramid must collapse.

And in any event while we—who can use it—have so little gold and France and America—who have not learned how to use it—have so much, why raise the value of gold when silver is cheap and can reduce gold's power for evil?

The operations of the Exchange Equalisation Fund have kept sterling down or, as I prefer to put it, have kept dollars and francs propped up; they have therefore enabled India to sell large quantities of gold and have helped our own export trade, all of which is most excellent provided we sell our gold to France and America while they are prepared—as they are at present—to pay a premium for it.

(3) What immediate action would you suggest?

(See reference in Foreword.)

Sell our gold and buy several million ounces of silver or, at least, warn the Indian Government to keep its silver within the British Empire. *If France and America were to corner silver as they have cornered gold, then the only door of escape would be slammed in the world's face and Civilization would collapse.*

Therefore I say: ACT WHILE THERE IS YET TIME.

POSTSCRIPT.

Mr. Moon asked me to read the proofs of this paper, and, as it was going to Press, he sent me the following addition.—(W.S.)

In case that axiom $P = \frac{M \times V}{Q}$ is not understood,

I enclose this foolish story told in terms of beer.—
(H. E. Moon.)

The following story is written so that any veritable “yokel” may understand what has gone wrong with the world's money machine, causing a continuous fall in prices of everything, and how that wrong can be righted.

Labour blames capitalism, but the real trouble is that the smooth working of capitalism is being upset by the Treaty of Versailles through Reparation and War Debt payments, which must be done away with, and the evils they have already done be undone, if civilization is to be saved.

HOW CONTRACTION OF CREDIT LOWERS
PRICES OF GOODS
(expressed in simple equations).

$$\text{Price of a unit of goods} = \frac{\text{Money} \times \text{Speed of Turnover}}{\text{Quantity of goods}}$$

$$\text{Then } P = \frac{M \times T}{Q}$$

$$\text{And if Price} = \frac{\pounds 100 (M) \times 8 (T)}{800 (Q)} = \pounds 1$$

Then Price of a unit of goods is $\pounds 1$.

If volume of money is halved:

$$\text{Price} = \frac{\pounds 50 (M) \times 8 (T)}{800 (Q)} = \pounds \frac{1}{2}$$

And the Price of a unit of goods is 10/-

EXAMPLE.

Picture to your mind an old-fashioned "pub" in a country market town, with John Bull in his shirt-sleeves standing behind the bar, where the farmers brought in chickens, eggs, and vegetables to be exchanged for beer.

One chicken was worth two dozen pint pots of beer, and three eggs were worth one pint, and therefore one chicken was worth 72 eggs.

The publican was very proud of his pint pots, because they were made of gold, and he did a steady business in exchanging beer for chickens, eggs, etc., with which he was able to buy his requirements of clothes, etc., and even a motor car.

One day he noticed his pots were becoming fewer in number and discovered that an American farmer, a French peasant, and an Indian tiller of the soil were not only drinking the beer they received for their chickens, eggs, etc., but were also stealing the pots.

The publican could not stop them at their game and his gold pots became fewer and fewer, because he could only buy sufficient gold (owing to its scarcity) to make one new pot per week, whereas his pots were disappearing at the rate of three a week.

He could not get on with his trade fast enough and so he melted down his remaining gold pots and made the

requisite number, but they had to be of smaller size (*i.e.*, contraction of medium of exchange).

The price of one chicken was still 24 pots of beer, but the size of the pots being smaller the value of one chicken in terms of beer had fallen, because it bought less beer, *although one chicken was still worth 72 eggs.*

If that process had gone on he might have had to reduce the size of his pots to that of thimbles, because he had to give 24 pots of beer for one chicken according to law.

The price of chickens would have reached vanishing point and the farmers would have died of thirst owing to the low price of chickens in terms of beer, although *one chicken was still worth 72 eggs.*

Besides all this, the publican was selling only the same number of thimblesful of beer, where formerly he sold pints, and in consequence had to tell his friend, the brewer, to reduce the manufacture of beer, who in turn had to sack half his staff.

One day he decided to melt down his remaining gold pots and add enough silver to make sufficient full measure pint pots out of the alloy thus obtained.

He was then able to carry on a roaring trade in the exchange of beer for chickens, etc., to his great satisfaction and to the comfort of the farmers.

That is Bi-metallism, silver being necessary to supplement the shortage of gold, owing to three-fourths of the world's trade gold having gone into two dead ends in New York and Paris, which is fast killing the gold standard.

H.E.M.

(Further to stimulate thought, may I add to this story?—W.S.)

To continue the simile: Why should not the publican be up-to-date and sanitary, and serve his beer in paper cups, such are used extensively on the Continent? The cups could be thrown away after use, and each customer could have a clean one at negligible cost, and any quantity of cups of the required size could be made rapidly and cheaply to keep pace with the consumption of beer.



A
New
British
Financial Policy

INDUSTRY'S PLAN

being
a
REPORT
by

The Federation of British Industries
21 Tothill Street
London, S.W.1

Price 6d.

INTRODUCTION

The Following Report was prepared by a Special Committee set up by the Federation of British Industries to examine and report on British Monetary and Financial Policy in relation to industrial and commercial development.

The Report was unanimously adopted and approved by the Grand Council of the Federation of British Industries at a meeting held on April 27th, 1932.

X7.3.N3

April, 1932

92

REPORT
on
INDUSTRY AND MONETARY POLICY

THE failure to achieve stability under the post war gold standard, and the abandonment of that standard by Great Britain and many other countries has once again faced this country with the problem of formulating a National Monetary Policy. The Federation of British Industries accordingly feels that the moment is opportune for restating in the light of the experience of the past five years certain essentials of our National Monetary Policy in so far as they relate to the needs of industry.

The Basis of a National Monetary Policy.

I. The basis of industry's views on money is that financial policy cannot be divorced from industrial and commercial policy without grave detriment to the latter. The events which contributed to produce the present world crisis afford a striking confirmation of this view. Mention may be made of the following :—

(1). **War Debts and Reparations.** These have involved the adjustment of financial liabilities without regard to the trading relations of the countries concerned, more particularly from the point of view of the ability of debtor countries to liquidate their commitments in goods without doing harm to the industries of the creditor countries.

(2). **Maldistribution of the Gold Supply.** Gold, the traditional basis of the World's Currency Systems, has, since the war, been distributed without regard to the special services which the individual currency systems are called upon to render to world industry and commerce. Before the war new additions to the gold supply tended to flow in such directions as new commercial development dictated. Since the war its distribution has been determined largely by transactions of an extra-commercial character.

(3). **U.S.A. Investment Policy.** Over the past decade the U.S.A. has devoted a substantial part of her excess financial resources to pyramiding a gradually extending superstructure of "financial" credits on her domestic commercial and industrial organisation without due regard either to her own commercial possibilities in the future or to the probable course of evolution of the World's productive needs. In addition she has lent on a considerable scale to countries outside her borders where productive activities have been competitive rather than complementary to her own, and therefore not of a character to hold out much hope that those countries would be able in the near future to promote either a sufficiently large return flow of complementary goods and services to liquidate their loans at due date, or that they would be in a position to secure the necessary funds by sales of their competitive domestic commodities in a highly restricted world market.

(4). **Stock Market Speculation.** As is well known, during recent years Stock Exchange Speculation has diverted an important part of the World's available supply of liquid money and savings and raised their price, thereby inhibiting the continuing outflow of new investment of a productive type.

(5). **Forestalling Future Consumption.** In the U.S.A., in particular, during recent years production for consumption has been over-stimulated by an excessive development of instalment credit. As a result output was expanded at a rate which it was impossible to maintain for more than a temporary period, having regard to the actual rate of growth of the earning capacity of the general body of American consumers. These latter were in many directions encouraged to increase their current consumption to a level which inevitably entailed a corresponding contraction below normal at some future date, thus increasing the severity of the present slump.

(6). **Post War Reconstruction Loans.** Funds which, had there not been competitive demands, would have been available at low rates of interest for use in promoting something more nearly approaching the British pre-war system of International development, have been devoted to succouring "distressed" countries by providing them with loans through their Governments, Central Banks, Industries or Real Property Holders.

(7). Government Expenditure and Indebtedness.

It has become the fashion for Governments to embark on expenditure of various kinds, including extensive social services, without giving sufficient consideration to the effect of such expenditure on current commercial needs, or its relation to the future evolution of their country's industrial system, or to any conscious plan of development. Its motive has often been to implement political promises or provide temporary occupation for those whom industry has been unable to absorb at current rates of wages.

Account must also be taken of the growth of Governmental and Municipal debt since the war. British Governmental funded and unfunded debt, which represents a debenture charge on the country, has increased twelve fold since before the war, from £620 million in 1913-14 to £7,400 million in 1930, whilst the loan debt outstanding of Local Authorities has doubled from £650 million to £1,300 million. Though these loans may, in part, have been used for productive purposes, they must in considerable measure be regarded as a debenture charge on productive enterprise, since their expenditure has not formed part of a general plan of commercial development.

II. The disturbing effects of these "financial" operations on industry and commerce may be summarised by saying that they resulted in diverting on a large scale, and for a considerable period, "industrial" funds from their natural channels by encouraging investors to prefer "money lending" to "productive investment." Some measure of the extent of this diversion, so far as Great Britain is concerned, is given by certain investigations which have been made into the destination of British savings during the past decade. It has been estimated on the basis of the statistical data available, that even in an active year such as 1924, probably less than half the new British saving was available for the development of new enterprise, and of this 4/5ths was supplied from profits put back into business. To-day it is likely to be a much smaller proportion. At the same time, during this period profits were taxed at the maximum rate. That is to say, the savings available for productive investment were both deliberately restricted and diverted to extra-commercial channels.

III. The cumulative effect of this growth in the "financial" demand for funds was to force money rates higher and higher, far beyond anything which ordinary productive enterprise

could afford to pay. Industry's ability to pay interest on borrowed money is conditioned by the level of profitability of the ventures and transactions for which it borrows. And in a world disorganised by the War, overburdened by taxation and bereft of its normal quota of industrial savings, the rate of interest which industry could afford to pay was below rather than above that ruling before the war. Yet before the onset of the present slump the rate of interest was almost half as high again as in the period 1900 to 1914, and nearly double that in the middle nineties—a period when general conditions more nearly resembled those of the present day.

IV. But this damming up of the natural channels of commercial investment on which the world normally relied both to provide *future* markets for its current types of product and to prepare *new* products for trade exchange, was not the only damage done by these "financial" credits.

Many of these credits had been lent to countries and individuals who used them to place *current* orders which otherwise they never could have afforded to place.

This temporary inflation of demand in turn encouraged suppliers to make what proved to be very extravagant estimates of immediate and prospective requirements of *current* types of goods. Excessive expansion in productive capacity in many directions, and the prevention of certain downward adjustments of prices and money wages, necessary to the next phase of commercial evolution (*i.e.* the resumption of the orderly and continuing development of *future* markets), were inevitable sequels.

When the day of reckoning arrived, and no new credits were available to replace the old, the whole structure collapsed bringing down with it the pillars of the money and price super-structure.

V. In any event the post war decade was bound to be a period of serious difficulty. During the war the world may be said to have been engaged in mortgaging its resources many years ahead and spending them in directions which were non-reproductive from the marketing point of view (*i.e.* could neither create for its current goods new markets which could continue to expand beyond the duration of the

war, nor serve as generating points for developing still newer types of goods for sale in the existing market at a subsequent date). This expenditure accordingly was in opposition to the natural trend of commercial evolution.

Britain's Pre-War Plan.

VI. The phrase "natural trend of commercial evolution" calls for special comment.

It is customary in referring to matters relating to monetary policy to treat the industries of a country as if they consisted of a collection of separate and independent units. This has led to grave misunderstanding. The idea that, because before the war we had no open and consciously directed plan operating to control our national development, that development was unplanned is incorrect. Historically the industries of every country are inseparable parts of a single plan of "National" development. Every new industry involves an adjustment of the national plan not only through the diversion of labour or materials, or by alteration of the direction of consumption, but frequently also by the change in the direction of evolution of the plan as a whole to which it leads.

Like every other part of nature, the stability of an industrial system has depended on maintaining a balance between certain innate natural characteristics, such as geographical location, raw material supplies and skill of the people, and the general political, social and commercial environment in which these characteristics are given free play. Britain's plan was an "international" plan.

VII. How this plan worked can be seen by reviewing the broad changes during the hundred years before the war.

In 1820 England was almost a self-contained country. Her trade with other countries, though not unimportant, was not essential to the life of her people. By the outbreak of the world war in 1914, she had brought nearly the whole world into her orbit. She had carried the subdivision of the work of providing the world's needs so far that almost every country was dependent upon others for some of its comforts and necessities of life. Manufacturing and production processes, of which every stage from raw materials to

finished products was in 1820 carried out by a single individual or group of individuals, had by 1914 been subdivided into a chain of almost innumerable linked processes, each carried out by a different individual or group, often located in widely separated areas. The supplies of new gold were applied in the main to the furtherance of this development. An integral part of this evolutionary growth was the transfer, by a process which in the modern world would be termed "rationalization," of those occupations and industries from the older countries, where the gradual exhaustion of domestic resources or the limitation of area and growing density of population were making it increasingly difficult to cheapen prices still further by "intensive" methods, (*i.e.*, improving the efficiency of the individual) to the newer countries, where the larger areas and less dense populations made it practicable to increase output per person by "extensive" methods, (*i.e.*, by providing a larger area per man).

By 1914 only a small fraction of Great Britain's population could be fed from the produce within her shores, and the supplies of her essential industrial raw materials were drawn from the four quarters of the globe.

VIII. Up to 1850 her trade with new countries had been in the main with coastal towns, whose hinterlands were still undeveloped, and ocean transport development was in the ascendant. Later, the inland regions were brought into the channels of world trade by the building of railways to link them with the coast. Great Britain was the leader in these developments. The United States, South America, India, Canada, South Africa, Australia, New Zealand and other countries were added to world commerce largely through the instrumentality of the industrial and financial assistance afforded by Great Britain. Our coal and iron, combined with the skill of British labour, enabled us to supply ever-increasing quantities of steel and engineering products and other materials needed for the development of transport both on land and sea. Our cotton mills provided clothing for hot countries and our woollen mills for cold. London was the centre in which all countries kept their fluid balances and in which were cleared all their varying transactions. The various services rendered by Great Britain to international trade in connection with banking, insurance, shipping and communications formed part of this general plan of complementary evolution.

The Process of Industrial Evolution.

IX. The process by which the industrial organism grows is commonly referred to as the Division of Labour. It begins life as a simple community, and then, by gradually splitting up its primary occupations by the process of standardisation and specialisation, produces a gradually extending chain of linked sub-divisions, each link in time developing into an individual industry, though still of course joined to the others in the sense that it is compelled to maintain its position in the chain, and that its prosperity is still largely dependent on that of the other links in the chain. Money plays the part of a "blood stream" by acting both as the "carrier" for goods from one part of the system or chain to another, and as the medium for mobilising the surplus nourishment (*i.e.* savings) of the whole and distributing it to the "growing points," *i.e.* the new industries and developments, where it will be put to the most profitable use.

It is one of the laws of this process of growth by sub-division that funds, which orderly evolution requires should be devoted to lengthening a particular industrial chain or series of chains, cannot be diverted to other purposes without interrupting the continuity of the general evolution. Nor can a chain once lengthened be contracted again without risk of serious injury to the organism as a whole, since the industrial organism is in general incapable of retracing the steps of its earlier evolution.

X. Naturally in real life this process of growth is never wholly free from imperfections. There have been many occasions in the past when over-rapid development in some part of the trade organism, due generally to financial speculation, has brought a temporary dislocation of the orderly long-term progress of the whole. During the nineteenth century, moreover, serious complications were also introduced by fluctuations in the supplies of new gold and silver which caused an over-acceleration of progress of the whole organism at some periods, and an undue slowing down at others.

XI. The International plan of development outlined above—which may justly be termed the British plan—was not the only plan. Countries like France, Germany and Italy (and in the latter part, the U.S.A. also) were in addition

promoting more or less independent national plans of their own. These in the course of time began to impinge on, and intrude into the British plan. The adoption of gold by these countries as the basis of their currencies was probably in a large part dictated by a desire to attach themselves to the *British* plan in order to participate in the benefits of the markets which British enterprise had opened up.

These countries, nevertheless, in the main persisted in following their independent National systems. This was facilitated by the surplus of new gold which allowed them to maintain their national money systems while linked with the British International system ; it also permitted gold to be used as a means of storing savings which it was not deemed prudent or wise to invest immediately.

XII. The position at the outbreak of war may be broadly summarised as follows :—

France, with her relative scarcity of coal and iron, had produced a people living by agriculture, with an almost feudal attachment to the soil, self-contained, preferring old ways and investment in safe domestic securities. In short, France with her almost stationary population, was rapidly approaching the Economists' ideal of stability, with its ultimate goal an " age of leisure."

The German Empire, with her linking up of the strong city traditions of politically independent States at a time when the exploitation of her coal and iron resources was encouraging industrial ideals, had consciously fostered a system of planned national economy. The stability of this national plan was disturbed by the need for markets outside her frontier to provide outlets for industries rapidly expanding under the stimulus of new gold, and also for additional food supplies for her growing population.

The U.S.A., which developed by expanding along the lines originally laid down by the earlier British adventurers and investors had, by 1914, brought into being a vast homogeneous market, where differences in tastes, fashions and traditions had not yet had time to crystallise. Here, but for the war, might perhaps have been achieved another stable and self-contained system.

Other new countries opened up during the period, however,—such as Canada, Australasia and South America,—were still a long way from either maturity or stability, and continued to develop within the basic British plan.

The association, for a time, of these highly diversified systems in one common “international” monetary arrangement was probably one of the most misunderstood economic achievements of the nineteenth century.

XIII. The war shattered that association probably beyond recall. Perhaps a breakdown was in any event inevitable. The plethora of new gold which had encouraged that temporary association probably helped also to exacerbate the underlying disharmony, and may have been an indirect cause of the war itself.

XIV. If the above description of the situation is broadly accurate, then it seems that from the British point of view it is more proper to regard the pre-war “international” gold standard as having in effect been an international *sterling* standard, that is to say, sterling rather than gold was the world currency. On this view it is no mere accident that the abandonment of gold by sterling has almost automatically led to its being abandoned by a large number of countries with which Great Britain was linked in the past. It witnesses the extent to which the pre-war British plan of development has survived the economic blizzards of the war and post war years.

XV. The pre-war international arrangement, therefore, afforded no firm assurance that the world had reached a stage in its evolution when it was possible to make a *single* monetary policy suit all of a number of different countries, differing in stages of development and evolution, enjoying different standards of living, and most important of all, with real production advancing at different rates; nor that the time was ripe for the adoption of a *universal* standard of value for the adjustment of debts of all kinds. The pre-war surplus of gold alone made it possible to combine its use as the basis of currency in the British *complementary* system of international trade with its employment as a basis of national currency and a means of accumulating treasure in countries outside that system, without one use interfering with the others.

The Post-War Problem.

XVI. The fundamental problem of the post-war world was to remarry the flow of money and the flow of goods and to produce a new healthy offspring of orderly international development. The present world crisis is a measure of the failure to bring about that remarriage.

The basic influence behind the British pre-war plan of development was the concentration of Great Britain's financial resources in exploiting her position as pioneer in industrial invention as applied to transport, communications and power, to the constructive opening up of the agricultural resources and raw material supplies of the virgin areas of the globe. In the course of time each of these new areas in turn began to embark on a career of industrialisation also—that is to say, began to break away from the parent industrial system and start an independent system of its own. In the countries where this happened the natural growth of the population, together with emigration from Europe, gradually led to the increasing absorption of the local food and raw material supply by the local inhabitants, compelling the mother country either to turn elsewhere for new supplies, or to see the growth of her prosperity checked, and possibly converted into a decline, by a rise in her cost of living.

Indeed, from this point of view the history of Great Britain's investment policy may be not inaptly summarised as having been devoted to providing her steadily expanding population with *continuing* supplies of cheap food and raw materials in a world becoming progressively industrialised under her influence and financial guidance.

This task absorbed such a considerable part of her savings and monetary resources, that she in effect became mainly responsible for financing the greater part of the growth, collection, transportation and distribution of the world's food, textile and mineral raw material supplies.

XVII. In short Britain's monetary and productive activities were inseparable parts of a single commercial policy.

Failure to appreciate this close linkage between British pre-war monetary policy and British pre-war trading activities may well go far to explain the present confusion.

Since the war it has almost become an accepted practice to treat money and production as if they were two independent factors in commercial policy, each of which is capable of alteration and adjustment independently of and without necessarily harming the other. While during the nineteenth century it was in general probably true that money saved by individuals was, by the intermediary of the banking system, directly or indirectly transferred to "productive investment," that is to say directed to forwarding the general plan of commercial development and so adding to the capital resources; since the war it has not.

But our pre-war banking system was successful in this respect only, because its primary function was to make money act as a "bloodstream" in a single plan of industrial and commercial development, that is to say act as a "carrier" for the various materials and resources needed for growth from one part of a unified system where they either were not needed, or were in excess, and directing them to its "new growing shoots."

Naturally that arrangement was not perfect, but, if due allowance is made for political accidents, human error, the vagaries of nature, and the circumstances that *new additions* to the basic money supply were allowed to depend in the main on chance discovery of rare metals, it functioned tolerably well.

When we come to examine the relations of money, savings, and productive investment in the post war world it becomes immediately apparent that they are no longer linked together through the Banking System in the pursuit of a common commercial objective. In the earlier half of the last century, when the relations between trading countries were mainly complementary, it could be assumed that an increase in British foreign investment would lead to an increased outflow of British exports which would both stimulate the commercial development of borrower and lender, and forward the plan of continuing world progress; in the post war world, where the relations between lending and borrowing countries have frequently been competitive, this assumption has ceased to be correct.

The distinction between "money lending" and "investment," which was relatively unimportant so long as changes in lending and borrowing were closely and directly associated

with changes in productive enterprise and world development, and, above all, took place in a system definitely organised to promote a special long term plan of commercial evolution, has, we have seen, become a major issue of the day.

Those who hoped that the re-adoption of gold as the international standard would lead to a restoration of the earlier complementary system have been bitterly disappointed. The partnership between industry and finance, which had been laboriously constructed during the nineteenth century, had been strained past breaking point. Finance had ceased to act as the servant of industry and became its master.

Complementary versus Competitive Investment.

XVIII. An outstanding problem of the present depression is the liquidation of a whole series of international debts (consisting partly—but only partly—of war time indebtedness and reparations) created during the decade ending 1929, which were made without regard to either the *productive* needs of the world, the *trading relations* of debtors and creditors, or the need to maintain in the natural evolution an element of order.

These commitments were incurred at a time when the increase in the world demand for certain types of goods was being threatened by the approaching stagnation of the rate of population growth in the principal White communities, as well as by the circumstance that it was becoming increasingly difficult within these communities to mobilise for transfer to more favourable localities, or provide with new productive occupations in the existing areas, workers rendered obsolete or redundant by machinery.

Such debts, as everyone agrees, can in the main only be paid in goods, but, as everyone also agrees, this is in practice impossible, because the only goods in which the debtor is in a position to discharge his indebtedness are of a type which the creditor cannot accept without sacrificing his home industries, and employment. Not only have loans been made without regard to the necessity of maintaining order in the process of world industrial evolution, but debts have

been encouraged between countries whose trade is competitive instead of complementary. Loans to *complementary* trading countries can be made self-liquidating if, as was the case with much of British pre-war overseas investment, the loan can be used to stimulate the production of goods which the lender will need in the future. Besides, when a breakdown occurred under that system, due to over-lending, a re-adjustment was not difficult to effect, since it was to the long term mutual interest of the two countries that they should come to some arrangement.

Not so between *competitive* nations. The debt may remain a debt, and, as in the case of many post war loans, interest has to be met by further borrowing; and so on *ad infinitum*. Moreover, in so far as the loan has been used to create a capital asset to liquidate the debt, then since this asset is likely to be competitive with a corresponding asset in the lending country, it may mean that the borrowing country will succeed in repaying its debt only if it is able to cause a corresponding loss of income in the original lending country by defeating it in world competition.

While it is possible that this result can in part be evaded by what are known as triangular transactions, that is to say by the debtor and creditor countries adjusting their debts by means of their trade with a third country, this does not remove the fundamental disharmony. It remains true that loans between *complementary* trading countries can help to promote commercial progress and orderly evolution, while in general loans between *competitive* countries will tend to interrupt it and occasion disorder.

Under the former system of investment, Banking policy can be made to serve as an instrument for promoting stability of price and exchanges; under the latter it cannot.

It may be observed in passing that even in the immediate pre-war years there was a growing volume of complaints from British industry that insufficient care was being exercised by responsible financial authorities in distinguishing between these two types of lending.

The Way Out of the Present Confusion.

XIX. The abandonment of the gold standard by Great Britain in September 1931 was the final admission that the pre-war evolutionary structure could not be restored by a system of *universal* internationalism, and that we must start

afresh on a more modest scale. A new British system must be constructed on the ruins that remain of the old; a structure more suited to the changed environment.

As under the earlier system, the guiding principle of this new system must be the needs of trade. Our energies must be devoted to conserving our financial resources for productive uses, in the broad sense, to guiding the stream of investment into directions which will bring orders *directly* for British goods and, in general, to encourage continuous and orderly commercial development on complementary lines.

XX. If the above is to be our general objective, the question arises :—How are we to extricate ourselves from the present world confusion? This would appear to call for certain major changes in our existing financial policy.

First, the time has come when we must courageously face the fact that both our own salvation and the ultimate hope of world recovery depend on our refusing to continue any longer to support certain Nations, who, owing to faulty borrowing and misguided investment in the past, or other causes, are unable to meet their commitments.

Second, British Financial policy henceforward must be openly and deliberately directed to the task of reconstituting a system of British commercial development similar to that which operated before the war.

This will necessitate an element of conscious planning in our financial policy until such a time as a system of complementary inter-trading has been reconstituted.

Third, the problem of reconstructing a single universal international system must be approached by way of the intermediate process of building up for ourselves a potentially self-sufficing group of complementary inter-trading countries. Such a group, given mutual goodwill and confidence, should enable us to ensure stable exchanges over a wide area, while maintaining stability in the basic price and productive structure of the group as a whole. Within the limitations imposed by this arrangement, there should be room for active co-operation with other similar groups in promoting the common "international" welfare by means of international arrangements in regard to such

matters as the functioning of gold, industrial ententes and any other suitable links which experience and the natural course of evolution may provide.

Recommendations.

XXI. The fundamental problem of British Monetary Policy is accordingly to reconcile the needs of finance and industry in the promotion of a conscious plan of active progress which will be both orderly and balanced.

On this, the greatest problem of all, the Federation appreciates that only those in charge of our monetary affairs are in a position to translate into practice the suggestions for guidance put forward by the Federation on broad lines. It does, however, insist that monetary policy should be consciously directed to the furtherance of a definite and far-reaching plan framed in accordance with the requirements of industry and commerce.

XXII. A British monetary policy should have as its primary objectives :—

(a). The recovery of the level of prices to a figure at which production can be carried on with reasonable profit, and the excessive burden of debt charges mitigated from its present intolerable severity.

(b). The maintenance thereafter of stability in the structure of production and prices with a view to the avoidance of violent fluctuations in employment and the purchasing power of the national currency, such as have proved so disastrous to industry in the past and at the present time.

(c). In the matter of internal investment, the control of the direction of new investment in such a way as to secure the maximum of advantage to British industry in obtaining the necessary capital for desirable developments at home.

(d). In the realm of foreign, or external, investment the direction of the flow of new capital so as to guide it into British owned enterprise abroad, or into countries which are within what has been called the sterling area, and into enterprises in those countries which are of a complementary and not of a competitive character.

This policy, it will be observed, accords closely with the Federation's declared policy in other fields.

Taxation Policy. Its taxation policy has as its main objective the avoidance as far as possible of wasteful or unproductive national expenditure and the relief of industry from taxation which discourages enterprise and adventurous development, in particular from taxation such as that on company reserves which represent those portions of the national savings which are most readily available and most likely to be used for immediate profitable industrial purposes, and the promotion of development along British channels.

The Imperial Aspect. The Federation's Empire policy aims at re-linking as directly as is possible monetary and industrial policy in those parts of the world in which Britain's interests are most directly engaged and within which her powers of effective participation are greatest. Starting with Imperial Preference as a basis, it envisages long-term trading arrangements of a mutual character for complementary industrial and commercial development within the Empire economic family.

External Investment Policy. If monetary policy is to be fitted into the picture thus beginning to appear in outline, it is necessary to recognise the need for a more sober estimate of Britain's international responsibilities and capacities in the field of finance, corresponding rather to the practice of the later nineteenth century, when, consciously or not, the financial authorities limited the activities of British external investment mainly to the complementary trading countries, than to the period of busy concern with the problems of European reconstruction which overstrained our resources in the decade from 1920 to 1930. Without waiting for the day when it will once again become practicable to envisage the possibility of a universal international monetary understanding, we must set to work at once to consolidate as large a group as practicable of countries, both within and outside the Empire, which are willing and able to co-operate with us in a system of mutual interchange and harmonious evolution.

European Loans. It is indisputable that conditions of economic distress and disorder in Central and Eastern Europe react unfavourably on British trade and commerce and narrow the market, not only for British manufactures but also for the raw materials and primary products of the

British Dominions and the Indian and Colonial Empire. Nevertheless, the lesson of the last ten years should be sufficient warning of the unwisdom of so over-extending our resources by excursions into the field of European loans and financial help to trading competitors, as to paralyse our power of effective assistance both to our own industries and to the development of countries of complementary trade. It is pertinent to observe that in the last analysis it is from the profits of British industry that the savings are drawn which become the new capital available for new investment, and industry has surely a strong claim to an effective voice in determining the channels into which such capital should flow.

XXIII. The Price Level. Returning now to the four objectives of British monetary policy set out in paragraph XXII above, we proceed to consider, without attempting to be dogmatic or to enter into great detail, what practical action suggests itself for securing these objectives. As regards (a), the raising of the present price level, all that can be said is that such a rise in prices depends on a recovery of demand, not only at home but also abroad. British policy can by itself do little directly to influence the price level in such countries as the U.S.A., France or Germany. At the same time, the level of sterling prices is so important a factor in determining the level of gold prices, and the markets of the countries within the sterling area are so large a proportion of the world's markets, that a rise in sterling prices, based not on mere multiplication of the volume of sterling money but on a real increase in the volume of trade within the sterling area, would powerfully affect the level of world prices. It is submitted, therefore, that it is not necessary to sit still and fold our hands until world conditions improve, but that, on the contrary, there is much to be gained from a policy of rigid control of Government expenditure, maintenance of cheap money rates, bold conversion of the national debt on a lower interest basis, reduction of the floating debt, relief of industry from taxation where it is specially burdensome, and encouragement of new enterprises at home, and direction and stimulation of the flow of capital into new developments within the Empire or in foreign countries which are within the sterling area, subject to the proviso that such developments are calculated to foster British industry. If by means of such a policy the level of prices and the volume of interchanges of goods and services within Great Britain and between countries in the sterling area can be sensibly increased, and the present tendency to continual contraction

of activity can be definitely reversed, even if the initial recovery is confined mainly to parts of the sterling area, the monetary authorities of this country would have achieved a notable victory over the demon of trade depression, and would have served the interests not only of Britain and of the Empire but of the whole world.

Trade Fluctuations. The second objective, (b), the avoidance of excessive fluctuations in prices and production, is one with whose desirability no one quarrels, but its practicability is widely doubted. The Federation appreciates the dangers and difficulties of attempts to give practical expression to this objective, but it submits that industry and commerce are fully entitled to demand of finance that it should concentrate without delay on the task of making money perform what are patently its primary functions, viz. : to provide an equitable measure of value for debts and to prevent the world from being subjected, owing to the failure of its monetary system, to an unending series of booms and slumps. The basic aim should be to link up changes in the available supply of money as nearly as possible to changes in production. Orders for goods, rather than the financial resources and credit of the borrower, should form the basis of a title to banking facilities. Increases in the production of goods for which sound orders are forthcoming should automatically entitle the producer to secure the money needed to carry the goods.

Monetary Stability. The feasibility of securing stable money conditions will be greatly enhanced by a policy of monetary co-operation within the sterling area. The objection that a stable structure of internal prices is incompatible with stability of exchange rates is perhaps conclusive if our aim is confined to the narrow boundaries of a single country such as Great Britain. The dilemma ceases to be relevant once the sphere of operation is widened so as to embrace the whole or the greater part of the British Empire or the sterling area. The forthcoming Conference at Ottawa would seem to offer an ideal opportunity for a thorough exploration of the possibilities of concerted action to promote equilibrium in the basic price structure, balanced production and stability of exchange within the Empire, the door being kept wide open for the admission of countries such as Scandinavia and South America to the sterling group. It is not necessary to contemplate a rigid constitution of formal treaties and elaborate organs for regulating the membership of such a group and the practical mechanics of operation.

The first need is for mutual understanding as to the goal, and active collaboration in working the system. Here again, conscious direction of the flow of capital, whether for short term or for long term investment, will be found a necessary and potent instrument for securing the desired objective.

Organisation of Capital Market. The course of the argument has already led us to insist on the importance of the control of the flow of investment which is dealt with under objectives (c) and (d)—the conscious direction of new capital into both internal and external developments, of a kind calculated to foster British industry. The Report of the Macmillan Committee contains much that is very germane to this subject. (*See appendix page 21*).

The Federation desires to endorse generally these recommendations of the Macmillan Committee and to press strongly for early action along these lines. It recognises that the practical steps to be taken to implement these recommendations may involve greater control over the flow of investment than was traditional in pre-war days. It has not been deterred by this consideration from making the recommendations which the needs of British industry have seemed to it to dictate, and it is ready to co-operate with the monetary authorities in such action as is best calculated to promote its declared objectives.

Summary and Conclusions.

XXIV. We sum up our conclusions as follows:—

(1). In the pre-war period British monetary policy was directed, albeit largely unconsciously, along the lines of a consistent plan calculated to promote and foster British industry and commerce by active development of complementary trading countries.

(2). The uncontrolled association, through the Gold Standard, of other countries having independent national plans, such as France and Germany, with the British plan was an unstable and highly artificial economic phenomenon. The war shattered that association, probably beyond recall.

(3). The World Gold Standard as it operated in the pre-war period was in fact predominantly a sterling standard.

(4). The breakdown of the Gold Standard in Great Britain in September, 1931, marks the final failure of the attempt, probably foredoomed from the first, to recreate after the war the pre-war international monetary system.

(5). In her efforts to achieve this purpose Great Britain lost sight of the true meaning of her pre-war plan and over-restrained her resources in giving financial help to European reconstruction, which involved making, to competitive trading countries, loans which she could not afford to make (nor, indeed, could the recipients afford to accept).

(6). In so doing, Finance divorced itself from Industry and Commerce and became at times even antagonistic to them. The extent to which in this period Finance became the master instead of the servant of Industry (which is the ultimate source of all new capital) is the measure of the mis-direction of energy involved.

(7). Free from the shackles of a mismanaged Gold Standard, British monetary policy must now consciously adopt a new plan, duly subordinated to and co-ordinated with commercial and industrial policy, involving a reversion in large measure to the unconscious pre-war British plan.

(8). The primary objectives of the new British monetary policy should be :—

(a). To raise the level of sterling prices to a figure at which production can be carried on with reasonable profit.

(b). The promotion thereafter of stability in the price structure and balanced production within the sterling area.

(c). The conscious direction of the flow of savings into new investments calculated to secure the maximum of advantage for industry.

(d). The direction of that part of the National savings available for external investment to countries within the sterling area, which are countries of complementary trade.

(9). With a view to promoting all these objectives, the opportunity of the Ottawa Conference should be seized to explore the possibilities and bring about the maximum of mutual understanding (not, however, based on rigid agreements or ambitious machinery) for the adoption of a common Empire monetary and industrial policy, so designed as to facilitate the admission of other countries willing and able to co-operate with a sterling group, leaving the question of a possible universal monetary understanding to be settled at a later date, if and when monetary internationalism again becomes a practical proposition.

APPENDIX

THE MACMILLAN COMMITTEE'S PROPOSALS relating to THE CAPITAL MARKET FOR HOME INVESTMENT

THE Federation of British Industries, in the second part of the evidence submitted to the Macmillan Committee on Finance and Industry, drew attention to the need for a more liberal and constructive financial policy, to meet the needs of industry under present day world conditions. They pointed out that there existed in certain sections of industry a feeling that the British Banking system, which apparently worked in a reasonably satisfactory manner in the pre-war period, had not adapted itself to the changed conditions of the post war world. There had been a certain lack of flexibility in the financial facilities made available by the banks during the past decade, both in regard to length of term and in general conditions. Time and the war had brought new and more complex circumstances and it was open to question whether our banking system possessed the machinery requisite for enabling it to adjust the distribution of the aggregate national credit as between the several branches of our national activities in the manner best suited to the present industrial environment.

The Macmillan Committee, in associating itself with this view, observed that the future development of British Industry, particularly in the establishment of enterprise abroad, called for a closer integration of the financial and industrial worlds through their appropriate organisations, since a knowledge of foreign conditions, far sighted planning and large supplies of capital would be, or might be, all required. They added that "In the realm of foreign investment it is primarily toward British-owned enterprises abroad that we should wish to see our energies and capital turned rather than merely towards subscribing to foreign Government and municipal loans, which absorb our available foreign balance while doing little for our industry and commerce."

They questioned, however, whether our financial organisation was as fitted as it might be to supply industry (1) with intermediate credit and (2) with long dated capital.

Intermediate credit might be defined generally as credit advanced for periods ranging from one or two up to five years. It was necessary in their opinion to divide into at least three main classes the types of transactions for which intermediate credit is required, namely :—(i) hire purchase or instalment sales, (ii) advances against deferred payment, (iii) long-term contracts.

Class (i) would cover the sale of various classes of goods of which the legal ownership can be retained by the seller until payment is completed, *e.g.*, motor cars, motor lorries, pumps, electrical machinery and appliances, agricultural implements, and so forth. These classes comprised articles represented in general by small units which can be claimed and removed by the seller if payment is not ultimately completed.

Class (ii) would cover the sale of larger units such for instance as ships, also coke-ovens, or machinery which after erection is not removable and the ownership of which therefore passes in fact from the seller. The security therefore no longer resides in the goods themselves and the seller must rely to a greater extent on the soundness of the buyer and on such other security as he can obtain.

Class (iii) would cover large contracts for railways, harbours, roads, drainage, water-works and so forth.

In regard to these classes, they believed that adequate credit facilities for use internally in this country are available and being developed, but that in the case of classes 1 and 2 not so much use was made of them as was possible and desirable. They were not certain, however, that credit facilities to cover sales or contracts abroad were as adequate particularly in the case of Classes 1 and 2. With the immense growth in the mechanisation of industry throughout the world, the demand for longer credits for financing the production and sale of machinery of all kinds appears to be growing. The purchaser abroad requires very often from two to three years before he can complete his payments, and therefore contracts are likely to go to those sellers who can provide sufficiently long credit. " Since we must look in the future particularly to exports in which skill and experience largely enter, we believe that the facilities for financing exports of machinery of all kinds are of particular importance. At present, however, we do not believe that

the facilities available here in the case of foreign trade are so complete as those provided in some other countries, and we think that it would in fact often be necessary for British traders to obtain either directly or indirectly such facilities from foreign institutions."

Much the same view was expressed in regard to Class 3, namely, long term contracts abroad. They observed that the first essential to-day is that the new generation of contractors should have adequate financial resources of their own, and said that "foreign contractors undoubtedly obtain such facilities more easily than British contractors, and it would be a misfortune if the latter were, on account of their inability to obtain the financial assistance required, to have to withdraw from a field in which Great Britain has been so prominent in the past."

Dealing with the more general question of the relations of finance and industry, and in particular in regard to the provision of long-dated capital, they observed that "there is substance in the view that the British financial organisation concentrated in the City of London might with advantage be more closely co-ordinated with British industry, particularly large-scale industry, than is now the case; and that in some respects the City is more highly organised to provide capital to foreign countries than to British industry."

They recommended that Financial Institutions should be devised to perform the following functions:—"Acting as financial advisers to existing industrial companies; advising in particular as to the provision of permanent capital, its amounts and types; securing the underwriting of and issuing the company's securities to the public and, if necessary, assisting previously in arranging for the provision of temporary finance in anticipation of an issue; assisting in financing long contracts at home and abroad, or new developments of an existing company, or founding companies for entirely new enterprises; acting as intermediaries and financial advisers in the case of mergers or in the case of negotiations with corresponding international groups; and generally being free to carry out all types of financing business."

They considered the question whether these were functions which the big joint stock banks might themselves carry out; but, for various reasons, they were of opinion that

it was doubtful whether the Banks could with advantage depart from their traditional banking sphere. The best course might be if the leading private institutions and the big banks were to co-operate in creating one or more such concerns. They understood that the creation of the Bankers' Industrial Development Company was due originally to the belief that help in these directions might be given to industry by the City, which was not being given. They were informed, however, that the authorities of the Bank of England agreed with them that these are not proper permanent functions for a subsidiary of a Central Bank. In recommending that the Bankers' Industrial Development Company should at a convenient stage be definitely separated from the Bank of England, have an independent existence and rely upon its profit making capacity as a private institution, they added that there was no reason why the field should be limited to any one institution. In fact it was too wide for that to be desirable.

In dealing with the difficulty experienced by the smaller and medium-sized businesses in raising the long-dated capital in amounts not sufficiently large for a public issue, *i.e.*, amounts ranging from small sums up to say £200,000 or more, they recommended that consideration should be given to the possibility of forming companies to devote themselves principally to these smaller industrial and commercial issues.

Fin K. J. BACK'S
ancial System.

❖
The
Race Emancipation of the Human
from It's Financial Bondage

❖
An absolute overthrow of the Gold
Standard with all the Evils
that it represents.

❖
Without Inflation

X6.1-3.143

G1

11805

K. J. BACKS FINANCIAL SYSTEM.

**THE PASSING OF THE GOLD STANDARD AND THE COM-
MENCEMENT OF THE GOLDEN PERIOD OF MODERN
FINANCE.**

XG1;1
G1

THE AUTHORS REMARKS.

A Currency Reserve Fund will be essential to public safety and may be built up by imposing a Stamp Duty on the Mortgagors.

This book is written for all Nations, and some modifications will be necessary in all countries to make the System fit in with local conditions.

PREFACE.

The authors main object in writing this book is to secure employment for every man and woman in the whole world, to lift the nancial depression everywhere, and to abolish unemployment for all times in all countries.

It is the authors main ambition in life to restore prosperity to every Nation, to liberate all the Property Owners in all countries from all their debts and to procure financial independence for all the governments in the whole world.

This may at the present time appear as an undertaking confronted with unsurmountable obstacles. But they are all only man made problems and all the problems by man composed may by man's mind be solved also.

It has always been the authors firm believe that man is more than money, for man is the creation of God, and money is only the reation of man.

After thirty years of ceaseless thinking and calculating with he one grand object continuously in view, the author has at last succeeded in composing a scheme that will place man on a pedestal whence he can for all times look down on Capital with a philosophic indifference, and with a sublime consciousness of his own superiority over all the man made things on earth.

At the present time man goes begging for employment. From this on Capital will at times go begging for investment. In the authors opinion that is how things should be, for man is more than money.

It does not matter now who a person may be. It does not matter where that person may live. It does not even matter how degraded that person may be, in spite of all disadvantages, that person is still more than money. The whole world will realise that before long.

Whilst man is willing and able to labor there will be no shortage of capital. For labor is the creator of wealth and wealth is capital.

The working man and every industrious person will from this on be considered as the creator of capital; the thing that has held them in bondage for ten thousand years.

There may be times again and again when man will have to go hungry, but not from wont of employment.

From this on there will always be enough capital to carry on both primary and secondary industries in all countries, and whilst there is enough capital, there will also be enough employment for all.

The author may be criticised and condemned for this, but that does not matter. All that matters to him now is that he has spent all his life in pursuing one of the noblest objects that a mortal man could pick on for a life's programme and that he has succeeded.

This Book was copyrighted in Brisbane, Queensland, on the 23rd of June, 1931.

K. J. BACK'S PROCLAMATION TO THE WORLD.

Be it hereby known throughout the whole world that the Day of its Deliverance is now dawning.

In opening this book you are also opening up a new epoch in the History of Mankind.

For the Old System terminates here.

And here the New System commences.

The Period of Pettiness is passing out and a period of Sublimity and Magnanimity is at hand.

Man emerges into grander thoughts and larger undertakings.

Humanity has grown up and the New Financial System has come to put the World into Long Trousers.

The Gold Standard was invented by primitive man in primitive times and for primitive people. It will function to some extent in primitive places, but is too costly even there, and is absolutely impossible in well advanced industrial countries.

The Gold Standard is and has at all times been a Minority Rule.

For the Gold is a commodity that is almost non-existent, and has never existed in sufficient quantities to entitle it to a domineering influence in the affairs of man. For that reason it is only a usurper of a power that rightly belongs to all the wealth of the world. It is-ruling under false pretences and is not worthy of any Nation's loyalty. From this on the financial world will be under representative rule and everything that constitutes wealth will have a vote in the affairs of man. By that rule gold will be entitled to its proportionate share in the power, and to that only.

By that rule Gold is also one of the poorest things that a Nation can pick on for a currency, for it is a wealth that produces nothing, and as currency it is only dead money.

A railway should pay some dividends. A farm produces something, a city building is rent producing, and so is a town and suburban cottage. But Gold, that is dead, always dead.

As a backing for currency a life property is worth twice as much as dead wealth.

A thousand pound note backed by gold to that amount is only worth one thousand pounds to a Nation. But if that note is backed by a farm worth one thousand pounds, the farm and the note in their usefulness will be worth two thousand pounds, because the farm is in active service too as well as the note.

Under K. J. Back's Financial System the Government will be relieved of the expense and the responsibility of providing and maintaining a financial backing for the currency.

This will be done by the Property Owner who backs the currency with the Title Deeds of his property and a Mortgage over the same.

In return for this service he receives the money free of interest, and is responsible only for the maintenance of the property that constitutes the currency.

In reality the money he receives is his own, for his property constitutes that particular amount of the world's currency, and the notes are only issued for the sake of convenience.

For that reason he pays no interest.

The Treasurer becomes the trusted guardian of all the securities and these are held in the Treasury as backing for the notes instead of the gold.

Thus the wealth of the Nations becomes the currency itself, and national wealth is and has at all times been recognised as the most solid foundation for all genuine finance.

By this method all the property owners are liberated from the ancient shackles of the creditors as imposed by a bad system.

This releases the Industries and the Commerce from the undue handicap of the interest and emancipates the whole world from financial bondage.

Under this system there will be no fluctuation in the currency and no exchange rates.

The Trades Balance may be adjusted by Internal developments, which will be an enormous advantage both to the producing and to the consuming countries.

The borrowing and the lending of money will in the majority of cases be a thing of the past. For every profitable enterprise and industry will finance itself wholly or to some extent, all depending on the productiveness of its nature; so that it will only be unprofitable undertakings and doubtful adventures that will have to be financed by ancient methods.

A property owner in need of capital will be no longer a burden but a blessing to his country. Nor will the world be to him such a dispensable place as it has been in the past.

For every pounds worth of wealth that he is able to create is also creating a pounds worth of capital to his country; if it is Dead Wealth and two pounds worth if it is a Life Property.

The world will realise this and will grant him the recognition that he deserves.

A financial depression will be uncalled for at all times because the Government has it in its power to venture into some National enterprise that will release Capital for all classes if capital is urgently required.

Thus there will be no reduction in wages and no unemployment.

There will be no more famine or starvation in any country at any time, for a failure in the crops in one country will at its worst only amount to a financial loss to that particular community, with a corresponding gain to the rest of the world.

The world at large will never suffer, but every Nation will have to take its turn of loss and gain as Providence dictates it.

There will be a place for every person and every person will automatically slip into his proper place.

It will give undreamt of freedom to the private individual, and at the same time it will give the Government an almost unlimited power financially.

The power of a Nation will be centralised in constituted authority and no person will be able to approach the first representative of the people with any sense of equality nor will any one be able to dictate to the Government, for the Government will and must be above all.

In the name of the New Financial System and by the power invested in me by same, I, K. J. Back, the Composer and Originator of that System do hereby Most Solemnly Declare and Proclaim to all Mankind that henceforth all Nations, all Governments, and all persons are and shall for all times be financially free; so that all the world shall be liberated from the iniquitous burden of the interest.

In the same Name and by the same Power I hereby pronounce the Death Sentence Upon the Old Financial System with its Gold Standard and its Usury, with its Inefficiencies, its Pettiness, and all the evil practices by which that system has hampered civilisation and degraded Mankind for a hundred centuries.

This Edict to come into Legal force in every country simultaneously with the intellectual awakening of each and every Nation.

THE LIBERATOR OF ALL MANKIND,

K. J. BACK.

**K. J. BACKS FINANCIAL SYSTEM.
THE ONLY TRUE SOLUTION TO ALL THE WORLD'S
PROBLEMS.**

WHAT IS CAPITAL?

Under the New System of Finance everything that constitutes wealth is Capital, and may as such be utilised as money either with or without an Underwriter, all depending on the nature of same.

WHAT IS THE SOLE OBJECT OF MONEY?

The sole object of money is to enable all men and all nations to exchange services and commodities with one another in the most effective and the most beneficial way to one and all.

THE NEW SYSTEM.

All the evils and all the disadvantages of the Old System of Finance may be traced to two needless mediums: The Gold in the Treasury and the Moneylender.

Whilst the gold standard is in existence the Moneylender is a necessity and so is the Interest.

But if we abolish the gold standard and issue the money direct on the securities, the Moneylender as we now know him will automatically disappear and so will the Interest.

This simplifies and stabilises the Financial System to such an extent that it gives man an almost unlimited power in the financial world.

The advantages of this simple method are so extraordinary that no intelligent person could ever believe in it until it has been explained, yet the proofs are so convincing that no reasonable person could disbelieve after it has been explained. For the whole scheme is founded on undeniable financial facts and true common sense.

In all the history of mankind there has never been any other invention nor any scientific discovery that has had such far reaching influences on the lives of man, nor has there been anything that has conferred such rapid and such extraordinary financial benefits on all mankind as this will when it becomes universally adopted.

THE NEW SYSTEM OF FINANCE AND HOW IT WORKS.

The farmer applies to the Commonwealth Treasurer for an advance on his farm.

The Treasurer submits the matter to the Valuer-General, who values the farm and sends in his valuation to the Treasurer.

The farm is now mortgaged to the Treasurer for the amount of money that the Valuer-General has valued it at, and the Title Deeds are lodged with the Treasurer together with the Mortgage.

Then the Treasurer advances the farmer a Treasurer's Note of Credit for the amount stated in the Mortgage.

The farmer takes this Note of Credit to the Commonwealth Bank and deposits it in the Bank, to be drawn against when he so wishes. The notes received from the Bank will be something similar to what are now in circulation. But these notes have no Government backing of any kind.

These are the inscriptions on the notes. (The rest is left to the lithographer and the engraver) :

TWENTY SHILLINGS the same value as a sovereign.
Legal Tender throughout the whole of the Australian Commonwealth.

This note is backed by Freehold Property to the full amount of its face value and the Title Deeds of the property are now lying in the Treasury as security for the note.

THE TREASURER.

The farmer and his descendants will now have a free use of that money and of the farm too for all times, subject only to the same condition as the Bank would have imposed under the old conditions. But the money will be free of interest always. Nor will there be any rent to pay on the farm.

If the farmer improves the land, or if through any other cause whatsoever that land goes up in value, he is entitled to all that extra value and may either apply for an additional advance or sell it when ever he pleases, subject only to the amount of money for which it is mortgaged.

The reason why there is neither rent nor interest to pay on that advance is that the notes are backed by the Title Deeds of the farm and by that only. Such being the case it is the farmers own money. Being his own money he pays no interest, for no one can be expected to pay interest on his own money.

It is exactly the same thing as if the farmer had given the Bank a thousand sovereigns and received a thousand notes in exchange. He could have kept those notes as long as he would have liked and no one would have asked him for any interest, because they would have been his own money.

All the Banks, Moneylenders, and Financiers have at all times been prepared to lend money on landed securities. The Title Deeds and the Mortgage on the land was all that they asked for at any time. If it is good enough for those people to lend money on the Title Deeds of Freehold Properties is it not good enough for the public to accept Treasury Notes issued on property whilst the Title Deeds and the Mortgage of same are lying in the Treasury as backing for the notes.

HERE IS THE DIFFERENCE BETWEEN THE TWO SYSTEMS.

Mr. Smith has a dairy farm that has been valued by one of our best Insurance Companies to ten thousand pounds.

Against the Deeds of that farm and on the Mortgage of same the Company lent him five thousand pounds in our ordinary currency.

The face value of our Note Issue at the present time is fifty millions. That note issue is backed with ten millions in gold. This means that strictly speaking five thousand pounds of our money is only worth one thousand.

For the use of that one thousand or five thousand which ever you like to call it, Smith is paying in interest every year £350. In ten years he pays £3,500, and in twenty years £7,000. In fifty years he will have to pay £17,500. That is if he is able to pay on due date. If not there will be a penal interest as well.

After having paid the Company all that money in interest he will still owe the company £5,000.

Under the New System of Finance, Smith will pay no interest, but if he chooses to pay £250 a year his debt will all be paid in twenty years.

Mr. Brown has a city property valued by the Valuer-General to one million pounds. On the mortgage of that he receives the Treasurer's Note of Credit for one million. He can keep that money free of interest for all times on the usual Banking conditions. Under the Old System Brown would have had to pay, at seven per cent., seventy thousand pounds per year. Failing to do so he would have lost his property.

Flanigan is paying one pound a week rent for the cottage he lives in. So he buys the cottage for five hundred pounds, and pays one hundred pounds in deposit. The Treasurer pays the rest, so the rent ends there. He will now only have to pay the rates and Insurance and keep the cottage in repair.

Miss Jenkins buys a cottage for five hundred also. But she has only seven pounds and so she goes to an Underwriter and gives him the seven pounds. He backs her for the one hundred and takes a second mortgage over the cottage. She has now neither house rent nor interest to pay. But at the end of twelve months she will be asked to pay the one hundred pounds or another seven pounds to the Underwriter.

Mr. Clark has already bought a poorly improved farm for one thousand pounds on a two hundred pounds deposit, and received the eight hundred pounds from the Treasurer free of interest. Later on he sends in an application to the Minister for another six thousand pounds to drain a swamp and grub some stony country. These improvements are valued by the Valuer-General to five thousand, which leaves a difference of one thousand pounds.

He obtains that one thousand pounds from the Bank also on an Underwriter's guarantee for seventy pounds for one year. The whole six thousand pounds are free of interest. But each year he has to pay seventy pounds to the Underwriter for that one thousand, as this has to be renewed every year.

THE ALAND RAILWAY (And Automatic Finance).

The Aland Railway will serve as a suitable example of what the New System of Finance will mean to the world.

Under the New System of Finance a Railway may be built from Abo, on the coast of Finland, through the Aland Archipelago to Sweden. This will be a costly undertaking, and will necessitate an expenditure of many millions of pounds. Yet if the work is entrusted into the hands of the most capable engineers that our time can afford it may be financed entirely automatically so that it will never cost Finland one penny for its construction.

All that is necessary is to empower the Treasurer to issue notes for the total cost of the construction of the Railway, and then to mortgage the Railway to the Treasurer, to be utilised as a backing for the notes thus issued.

This will not only give Finland an expensive Railway for nothing, but it will also release an enormous amount of capital in the country; enough capital, in fact, to finance all the industries and all the commerce of Finland for many years to come. All this money will come just like a gift from heaven.

Under the New System of Finance you receive what you bargain for and you can keep your cash. There were never any such transactions in the past, nor can there be any system of finance more beneficial to humanity than that.

A person whose mind is hide-bound to old ideas will find it difficult to recognise this as being financially sound. But here is the

true fact, which no reasonable person can deny: If that railway, when completed, has a true financial value equal to the sum total of all the notes issued for its construction and the railway is mortgaged to the treasurer as backing for the notes, then the notes are as good as gold.

Nor is this all, but as all that money is free of interest, and as that railway will be almost the only connecting link between Scandinavia, on one side, and Europe and Asia, on the other, the railway will be an enormous success financially and will from the first be a veritable gold mine to Finland.

Sweden is already well advanced industrially, financially and commercially, and the Norwegians are a seafaring people.

Thus with half of Europe and most of Asia to draw on for orders and for raw material this railway will from the first become one of the main highways of the world's commerce.

It will also give Finland and Russia a direct outlet to the North Sea, which is an enormous advantage to countries that are apt to be frozen in in the winter.

A railway connection with Scandinavia from the South of Finland is also an absolute necessity to Finland, both for her internal and her external developments.

Add to this the enormous amount of employment that the railway will create both in its construction and in its maintenance; think of all the manufacturers, business people and farmers who will benefit by it directly and indirectly; think of all the thousands who will make their millions out of private speculations whilst the work is going on, and you will realise that it is almost incredible what a person and a nation may be able to obtain for nothing, or for next to nothing under the New System of Finance.

The railway from Gibraltar to the North of Africa is another one of similar importance, so is the railway tunnel between Dover and Calais, and so also to some extent is the railway from Denmark to Sweden.

All these and thousands of other undertakings all over the world may be financed with little or nothing under the New System of Finance.

NEWSPAPERS UNDER THE NEW SYSTEM OF FINANCE.

Under the New System of Finance a newspaper that has capital sunk in properties will be able to obtain money free of interest on those properties and by paying a fee to the Underwriter it will be able to obtain money free of interest on the machinery and on the newspaper itself as well.

When the Editor wants a twelve months supply of paper he does not pay out his hard earned cash to lie idle there for twelve months. Nor does he ask for terms to a higher price. He simply bargains for cash. Then he mortgages the paper to the Commonwealth Bank for the full amount of the purchase. And so he calls in an Underwriter to back the mortgage. The paper is left in his own store room, but the Underwriter may come and inspect it when he likes. The paper is now paid for as it is being used, which may be weekly or monthly as agreed between the Editor and the Underwriter. The only expense is a fee to the Underwriter.

See also ship building, motor lorries, and machinery.

SHIPBUILDING UNDER THE NEW SYSTEM.

If a Shipping Company wants to build a steamer it does not borrow the money and pay interest, nor does it lay out its own capital to heap up overhead expenses, which would make business impossible.

The Company simply goes to a Public Underwriter and insures the enterprise with him. Then the Insurance Policy is deposited in the Commonwealth Bank and the order is given to the shipbuilders. When the order is completed the steamer is mortgaged to the Commonwealth Bank, and the mortgage is backed by the Underwriter. Then the Bank pays the shipbuilders in full.

There is no interest on this money, but the Shipping Company has to pay a fee to the Underwriter. This fee is but little more than the Marine Insurance at the present time.

As the Bank is not secured by any landed property in this case the transaction will only stand good for twelve months. At the end of twelve months the transaction will have to be renewed or the notes must be redeemed from circulation. Otherwise the steamer will be sold by the Underwriter who is responsible to the Bank for the money.

Every time the Policy is renewed the Shipping Company has to reduce the capital a little. This reduction is only proportionate to the depreciation in the capital value of the steamer. Thus by the time the steamer becomes old and valueless there will be no more money owing on that steamer. But as the Shipping Company is having all that money free of interest all the time the Company will be in a position to earn some money too, and to pay some dividends. Under the Old System the Shipping Companies have no chance, because the interest and the overhead expenses kill every industry.

MOTOR LORRIES, MACHINERY, ETC.

The same thing applies to a motor lorry, motor cars and machinery of all description. In fact to everything for which money is required. There is no interest to pay, but if one has no "credit edged securities" to offer, one will be obliged to employ a public Underwriter and pay him his fee.

HOW CHINA MAY HAVE SAVED THE LIVES OF TWENTY MILLIONS OF PEOPLE AND PREVENTED A WORLD WIDE FINANCIAL DEPRESSION.

With a Valuer-General appointed by the League of Nations for China, China may have deposited Five Hundred Millions of Pounds worth of her Securities in a British Bank in China, and thus obtained Credit to that amount in the British Empire.

She could then have bought Food Products to the amount of Two Hundred Millions of Pounds, which would probably have been enough to keep them all alive.

With the balance of money she could have bought enough Railway Materials to build Ten Thousand Miles of Railways and a sufficient number of engines for same.

She would still have had enough over to buy ten thousand Aeroplanes and a number of Motor Lorries.

This would have enabled the Government of China to give a timely attention to all those who were in distress. Those who were strong enough to walk could have walked to the nearest Railway Stations, and those who were too weak and old to walk could have been supplied by the Aeroplanes. These Aeroplanes making their regular trips to the famine stricken areas could have carried passengers with them to the Railways on the return journeys.

All those who were able to work could have been given employment building railways, and making motor roads, as well as digging canals to feed the railways, whilst those who were unable to work could have been taken to some place where they may have been given food, shelter and medical attention.

Thus China would have saved all her starving masses, and would have also saved the rest of the world from a needless financial depression. In doing so China would also have obtained ten thousand

miles of new railways, and perhaps a hundred thousand miles of good motor roads, with many miles of new canals.

Every boat delivering goods to China would also have brought some Chinese goods back with it, so that by the time when the last of the order would have been delivered a fair amount would have been paid off in Chinese commodities.

This would have brought prosperity not only to the exporters, but to the importers also, and it may have saved a hundred Banks from closing their doors in different parts of the world.

There would have been no difficulty in making suitable arrangements between the various Governments and their respective Banks, so that the Primary and the Secondary producers of all countries would have been able to change the Chinese notes into their own currency.

So, for instance, if Australia's share of China's order would have amounted to one or two hundred millions of pounds, our Commonwealth Bank could have issued notes to that amount for the discount of the Chinese currency in Australia. These notes would not have needed any backing, seeing that the Chinese notes were already backed with Chinese securities, and the Chinese notes would have been lying in the Commonwealth Bank as backing for the Commonwealth Notes.

Thus as the Commonwealth Bank would not have had to provide any backing for those notes there would have been no need for any discount for the changing of the money from the Chinese currency to our own.

Later on when China would have redeemed her properties, the Commonwealth Bank could also have redeemed its notes in Australia with the money received from China, or it could have used that money as backing for its own notes and let them remain in circulation.

In the meantime the Federal Government of Australia could have borrowed those Commonwealth Notes from us to utilise for the payment of our interest in Great Britain. For that purpose those notes would have been of infinitely more use than our own inflated notes.

Our present financial depression was entirely uncalled for. There was no need for any unemployment, nor for any misery or starvation in any country. The world's markets were filled with sufficient commodities to supply all those who were in distress.

Those who had the commodities were in distress because they could not sell, and those who were in need of those commodities were in distress because they could not buy. China did not have the gold, and so she did not push herself. But she had her assets, that were just as good as gold. If our civilisation would have been equal to the occasion, we would have approached China for an order for our commodities on similar lines to what I have mentioned here. Thus we would have saved China and would have saved the world in so doing. **OUR FINANCIAL SYSTEM HAS FAILED TO FUNCTION AND OUR CIVILISATION HAS NOT PROVED EQUAL TO THE OCCASION.** That is the whole reason for all our troubles.

It is now too late to save those who have died in China. But it may not be too late to save those who are still in distress, and it is certainly not too late to save ourselves.

If we approach China now in the right way we may still receive a large enough order to bring prosperity to the whole world.

If we receive the order it will be quite good enough to accept China's notes in payment for the goods, provided that the notes are backed with China's securities, in the same way as I have mentioned here.

At any rate there is no need for any financial worry anywhere in the world. Give the world the New Financial System and the world will look after itself.

Under the New System of Finance the entire wealth of a nation is represented in the nations currency.

When the entire wealth of a nation is represented in a nations currency there will be enough capital to finance every legitimate enterprise, both in private and in public affairs.

When there is sufficient capital to finance every legitimate enterprise both in private and in public affairs there will be enough employment for every citizen at all times.

Whilst there is sufficient employment for every citizen there should be no misery and starvation in any civilised country.

A VALUELESS PROPERTY IS NO SECURITY.

If the Australian Government builds a railway to Never Never and the Valuer-General is of the opinion that the scheme is not going to be a paying proposition the Treasurer will not be authorised to issue any money against that railway.

Under such conditions the Government would have to borrow the money from the private individual and pay interest. Or she may mortgage some of the main lines. She would be able to obtain many millions on them free of interest.

The Government of Egypt would not be able to obtain any money on the Pyramids. But the Government of Holland could apply to the Treasurer for a loan on her scheme in the Zuider Zee, and she may be able to obtain seventy-five per cent. of all the money required, or even more; all depending on what the Valuer-General thinks of it. All that money would be free of interest for all times and there would be no need for any Underwriter. But all the land reclaimed from the sea would have to be mortgaged to the Treasurer.

There are many things both in Egypt and in Australia that they would be able to have money issued against free of interest. The Irrigation Schemes and the Post Offices for instance.

Our Irrigation Schemes are worth a lot, yet very little compared with our Postal Service.

The Australian Postal Service with all it contains, viz., the Telephone, the Telegraph, and the Broadcasting Stations, with all its landed securities, is worth four hundred millions of pounds as a business proposition.

The Postmaster-General could obtain four hundred millions of pounds against this. He could then lend that money to the Treasurer to two per cent. interest. As he would have to pay no interest on all that money he would have a clear income of eight millions a year there, which would put him in a very easy position.

To those who know something about finance this needs no explanation, but those who don't may find it hard to grasp why the Treasurer would give all that money to the Postmaster-General for nothing and then turn round and pay him eight millions a year for that money. Why not take that for himself and save the eight millions? The Treasurer's notes cannot be issued except on approved securities. In this case the Postmaster-General supplies the securities, and therefore the money is his, to be used as he sees fit.

But this is only one-fifth of the Government assets in Australia. All the Governments in Australia combined hold properties to the value of two thousand millions of pounds. This is without valuing our gold fields and other metals and minerals. No one can value them, for no one knows what they are worth. Nor does this include any of the unsettled parts of the Continent. All the properties included in the two thousand million estimate are those only that are rent producing and properties that may be sold without difficulties.

In spite of all this our Federal Government and all our State Governments are now at their wits end to know how to raise a few million pounds for immediate use. There are talks of a double dissolution over these few millions. The old Financial System is very inadequate, which ever way you look at it.

The author's valuation of Australian Government Securities are based on Statistical evidence, and should, therefore, be fairly correct. No private properties of any kind are included in these estimates.

The private properties under mortgage in Australia, and the money advanced on same, amount to three hundred and forty millions of pounds. These are only the assets belonging to those who are carrying the needless yoke of the Money-lender as imposed by a bad System of Finance, and do not include those properties that are not under mortgage.

THE PUBLIC UNDERWRITER.

The Money-lenders, viz., the Banks and Financiers, of the present time, all the world over, will lend the money on approved securities, and on that only.

In other words they will assist those who are in need of their assistance. But those who are in need of their assistance they will do nothing for them.

The man who is financially strong enough to go on his own is compelled by the existing system to accept the yoke of the money-lender, and to submit himself and his children to a life of slavery under an annual interest, which is entirely uncalled for. Whilst the one who is in need of help will receive no help for neither love nor money... That is how the world is under the Old System of Finance. But that System should have been abolished five thousand years ago, and it is high time that we give it serious consideration now.

Those who have the securities are strong enough to manage their own affairs financially, and if we give them due consideration they will not only manage their own affairs but will create enough capital to finance the whole world.

If we issue the money direct on private securities we will liberate the property owners from the needless yoke of the Moneylender. We will also liberate our industries and our commerce from the uncalled for handicap of interest. We will have more money and better money than we ever had before, and for the first time in the history of mankind the civilised world will know what it is to be free.

It is no longer necessary to finance the property owner, and to enslave him for a service that is uncalled for.

But those who have no freehold properties to offer are still in need of assistance, and if our financial system is so arranged that it will pay the capitalist to turn his thoughts and attentions to those people we will find that the Capitalist will be of more use to the world in the future than he has ever been in the past.

The Insurance Companies of to-day are constantly taking great risks. They all meet with heavy losses every year. But their business is run in such a way that their income will make up for their losses, and they all heap up fortunes. But in so doing they do a lot of good to the community.

It will be the same way with the Capitalist under the New System. He will have to take many risks. But he will heap up fortunes all the same, and in doing so he will have to assist those who are in need of assistance. For he will no longer be able to sponge on the property owner. The interest on Guilt Edge Securities will be a thing of the past.

In saying this the author is not blaming the Capitalist. It is not his fault. It is the fault of the System under which we live.

Many a would-be reformer has done his utmost to injure the

Capitalist. But it is neither politic nor right to do so, for the Capitalist is as necessary to the community as any other person.

The author realises this and with this object in view he has thought out a scheme whereby the Moneylender will be able to make more money than ever he did before. But in order to do this he will have to assist others to make something also. He will have to assist those who are actually in need of assistance.

In all countries, and particularly so in Australia, there are many persons who have great prospects in life, but have no Guilt Edged Security upon which any money may be issued.

These people may also have money free of interest. But the Valuer-General can not instruct the Treasurer to issue notes to them direct. Yet this may be done on other peoples guarantee.

Thus the Banks, the Insurance Companies, and private Capitalists may register themselves as Public Underwriters, and in that capacity they may undertake insurance or guarantees in almost anything imaginable. They may guarantee a wheat field against frost, drought, fire or flood, or against anything that may cause a failure in the crop. They may insure the crop against bad prices. In short, they may insure the harvest for a certain sum and the farmer may draw that sum from the Commonwealth Bank free of interest. But out of that money he has to pay a fee to the Underwriter. This fee is in proportion to the risk that he takes and has to be agreed upon by the two parties. The conditions vary to such an extent that there can be no stipulated fees.

Less we forget. The reason why there will be no interest to pay on these notes is that we will then be living under the New System of Finance, when the Commonwealth Bank will no longer be a Moneylender.

Then its notes will no longer be backed neither by the Bank nor by the Government. It will be the borrower himself who will give the notes their value by the securities that he gives in exchange for same. Until he comes along with his securities those notes will be of no value. But when he backs them with his securities then they will become money. In short it will be his own money and so he will pay no interest.

In this case it is the Farmers crop backed by the Underwriter that gives the notes their value. For the underwriter is an approved Capitalist whose name is good in the Bank up to a certain amount.

But as there is no Guilt Edge Security by which to back these notes the transaction will only stand good for twelve months or until the wheat is sold. The Farmer will then be called upon to redeem the notes. If he fails to do so the Underwriter will be compelled to make it good.

A wool grower may obtain a loan against next years wool clip on the same conditions. A man running a drapery shop may obtain a twelve months loan against his stock and his business. A printer may obtain a twelve months loan on his printing press and his newspaper, if he runs one, and so on through every occupation in life. In all cases the money is free of interest. But those who have no freehold property to offer will be compelled to go to an underwriter for his backing, and will have to pay him his fee. The amount of the fee will to a great extent depend on one's own personality. But in all cases the fee will be in proportion to the risk that the Underwriter is asked to take.

THE TRADES BALANCE UNDER THE NEW SYSTEM OF FINANCE.

Under the Old System of Finance it is absolutely essential for every Nation to export as much as she imports. No Nation can

afford to ignore that rule. If any one does there will be trouble both at home and abroad in a year or two. Some have tried to overcome this by external borrowing, but that is only doubling up the evils for the future. Whilst every nation is compelled to export as much as she imports there is too much restriction on every one, and no real opportunity anywhere. But when every one will be able to throw down his anchor in his own country, and even in the very village where he is born, then life will be full of possibilities for every country and for every person.

Under the New System when the International Board of Currency Inspectors have been appointed by the League of Nations, and every Nation has its Valuer-General appointed by that Board, the Trades Balance can be adjusted by internal developments.

This will come as a God-send to all countries, not only to the consuming countries, but to the producing countries even more so, for it will bring an almost unlimited opportunity to them both.

The whole world is clamouring for a reduction in the cost of living. Most of them even ask for a reduction in the standard of living. This is a mistaken idea. The world cannot afford to reduce the standard of living. But nevertheless a reduction in the cost of living is absolutely necessary. Man does not receive too much in life, but he pays too dearly for what little he does receive.

To achieve this there must be mass production. Mass production in all things. Not only in secondary products, but in primary products also. But if all nations were to go in for mass production in all things and depend on the present markets, there would soon be an over production in everything and starvation for us all.

It will therefore be to everyone's benefit if the Nations whose countries are not so well developed will for the time being content themselves to internal developments and let those who are more advanced supply the world's markets until all Nations are brought to a closer standard to one another as regards National developments.

If every Nation's internal developments are recognised as International Currency and proclaimed as legal tender in all countries it will be an immense advantage to all Nations and no sacrifice to any.

All the problems of to-day, including the Eastern question, and even Militarism, has its solution in this.

When all Nations are placed on an equitable footing with one another no one will have any cause for complaint. Under such conditions even Militarism will automatically fizzle out.

The author is now developing a scheme whereby fifty millions of people may be permanently employed in the Yellow Sea and the East Sea of China, to wrest a home for themselves and as many more from the sea.

In the authors opinion this may be worked in such a way that all the Nations in the world will benefit by it, and no Nation, not even China and Japan, will have to pay one penny towards it.

Yet it will give each of the two Nations a territorial expansion much larger than the whole of the present Empire of Japan. The territories are rich, and with the great rivers running into them, would form the greatest irrigation area in the world.

When the undertaking is completed the territories will be loaded with heavy mortgages, but with country of that nature they would soon be able to reduce them. In the meantime it would be no burden to anyone since the mortgage carries no interest. Thus no one would complain.

The world would then have an extra community with one hundred millions of people, who would all be producers and consumers. Those would be drawn from the over populated areas where they are now merely existing, and are neither producers nor consumers as far

as the world is concerned. It would make a wonderful difference to the world's markets and the difference would be felt from the commencement of the work.

With this scheme and under the New System of Finance it will be comparatively easy to drain the Baltic, the Black Sea and the Mediterranean. This last mentioned would treble the territorial area of Italy and make Greece almost a World Power, but the undertaking is confronted with enormous obstacles, mainly political, and will have to be postponed until all Militarism has passed away. When that time comes the Zuits Canal will commence at Gibraltar, and then every country in the Mediterranean will have a canal to its own door. For under the New System no Nation can afford to be isolated from the "Seven Seas."

So for the time being the best we can offer Mussolini as a spare time job is the draining of the Adriatic. This is an opportunity that Italy cannot afford to ignore. It is absolutely safe to predict that before very long the Adriatic will be drained and utilised as an Italian, Yugo Slavian and Albanian settlement area. The climate is good, and there are some rivers there to water part of it. Some of the land is good also.

Thus the Old Financial System and the Gondolier of Venice will pass into the history arm in arm. They have both served their time. The modern craze for speed will be their ruin.

THE INTERNATIONAL BOARD OF CURRENCY INSPECTORS.

The main object of that Council is to promote international business relations by creating and maintaining an international currency of the highest possible standard.

Thus having a Valuer-General appointed by this Council a nations currency will become an international currency, so that any capital released in any country presided over by an International Valuer-General will be legal tender in all countries.

Any of the smaller undertakings such as the valuing of a farm, a suburban cottage, or a city building may be done by the Valuer-General's trusted officers who are entirely under the influence of the Valuer-General himself. The work of these men or women may again be checked by others who are also appointed by the Valuer-General.

But when anyone applies for an advance up to half a million or a million pounds then the Valuer-General himself will have to go out and value it.

His valuation will then be submitted to the International Board and may be granted without a further enquiry, or it may be checked by some of the members of the Board. In either case it will be looked into again when their travellers come round on their regular tours of inspection.

In a case like that of the Aland Railway if the Valuer-General was to value that undertaking to five hundred millions of pounds, his valuation would be submitted to the International Board of Currency Inspectors, and a dozen persons, perhaps men and women, would be appointed to go carefully into the matter. Each one would now give an independent valuation, and the whole matter would have to be discussed by the Council. Whatever this Council decides on then that will be the amount of money the Treasurer of Finland will be authorised to issue against the railway. This valuation has nothing to do with the cost of construction. These people are only valuing it from a business point of view. All that they are concerned about is what the railway will be worth to the world when it is completed. How much it would realise if it was put up for public auction as a business proposition.

The cost of construction is a matter to be considered by the Engineers who may afterwards be employed by the Commissioners of Railways. If they can build it for half the price so much the better, if it cost twice as much so much the worse for Finland. The Commissioners may now call tenders for the construction of the railway, and if it can be built for half the money the Commissioners of Railways will be at liberty to use the balance as they see fit. If it costs twice as much they will have to find the balance somehow or the undertaking will have to be abandoned.

An undertaking of that nature would also have to be secured by guarantors up to the full amount of the money that is to be drawn against it, so that if for some reason or other the work would not be completed, the Guarantors would be called upon to redeem all the notes that have been issued against its construction. When the railway is completed such a guarantee is at an end.

Any notes issued against that railway will be international currency and will be legal tender in all countries. It will be equal to any money that any nation can produce. It will be subject to no fluctuation and will be of the same value at all times and in all countries so that there will never be any exchange rates to pay on it anywhere. Furthermore the International trades balance may also be adjusted with this money, so that whilst Finland has this money to spend she can please herself whether she exports anything or not.

The same is the case with every nation and with every private individual in all countries that have a Valuer-General appointed by the International Board of Currency Inspectors.

Thus a man can borrow money on his farm or on his house free of interest, and he can spend that money in foreign countries if he so desires.

The author does not believe that it would cost anything like five hundred millions of pounds to build the Aland railway, but nevertheless he is of the opinion that as a business proposition that railway would be worth five hundred millions of pounds now, and that in twenty years hence it would be worth twice as much.

THE INTERNATIONAL POUND (EQUAL TO A SOVEREIGN).

This note is backed by freehold property to the full amount of its face value and the title deeds of the property are now lying in the Treasury as security for the note. It has been passed by the International Board of Currency Inspectors, and proclaimed as legal tender in all countries.

The International Note is not likely to be the pound because the pound does not fit in with the Metric System, and we cannot ask those who are further advanced than we are to bring their civilisation back to meet us. Nor is it likely that the sovereign will be mentioned on it. But the author has put this in to make it more natural to the English reader.

THE CITY PAWNSHOP UNDER THE NEW SYSTEM OF FINANCE.

The City Pawnshop, which is an eye-sore to all under the old system, will be a place that every City will be proud of under the new. In this place everything from a collar stud to an aeroplane may be purchased. There will be many bargains there, but no gifts.

It will be built with a large flat roof, where the aeroplanes can land, and then be taken down into their proper apartments with special lifts. Same will be the case with motor cars, lorries, and all sorts of machinery from the ground floor.

There will be a place for everything and everything will be in its proper place.

There will be no other second-hand shop in the whole City, and anyone requiring an advance on what ever he possesses will take it here. Same also with anyone who wants to buy anything second-hand. His first and only thought will be the City Pawnshop. (It will, of course, have a better name).

This place will be presided over by an officer of the Commonwealth Bank who issues money against all sorts of goods on Isaacs Guarantee. This stands good for twelve months, and will then have to be renewed or sold.

There is no interest, but there will be a fee to Isaac, as well as a nominal booking charge and a storage fee. The storage fee will be in proportion to the space that the article takes up, and Isaac's fee will be in proportion to the risk that he is asked to take.

It may be arranged between Isaac and the owner so that Isaac may sell it at any time to a stipulated price. There will be many Underwriters there, and the competition will be keen, so that Isaac will not have it all his own way. Still there will be a good opportunity for a capable Underwriter. But everything will have to be done honestly.

AUSTRALIA'S PRESENT FINANCIAL POSITION.

As regards the Australian finance, it does not matter what Party is in power. There is an immediate need of two hundred and twenty five millions of pounds to take us round the corner of bankruptcy.

If one hundred and twenty five millions could be raised abroad the balance may easily be borrowed internally. But under the Old System that one hundred and twenty-five millions would have to be in gold. This is not absolutely impossible, but it is no easy matter.

There is a common cry now, "Restore confidence and we can borrow abroad." There may be something in that. We often read in the papers about some confidence men who have been able to relieve their fellow men of their lives earnings. But the history does not know of one single instance when a confidence man has been able to do any good as a National financier. The author knows of a better way. Namely this: Restore prosperity at home and there will be no need for any external borrowing. It is the external borrowing that has been our ruination. There was never any need for it, and it should never have been. For external debts are the ruination of trade, and the curse of every country. It does not only hurt the Debtor Nation but the Creditor Nation also, and even more so. For to her it is tantamount to an undertaking to buy more than what she sells in the future. This is an undertaking that no Nation can afford.

If some one were to lend us that amount there would be so much more interest for abroad, and that would necessitate a still higher Tariff, which would make it all the more difficult to trade with other Nations.

A lot of people are complaining about the Tariff already, and strange to say, those very persons who complain about the Tariff are also agitating for more loans abroad. Could anything be more inconsistent than that? For it is our external debts that necessitate a high Tariff.

Even if the Government was able to borrow two hundred and twenty-five millions we would still have the interest and the house rent to pay, and with such slugs on our industries we would not be

able to compete in foreign markets, unless we were to cut the wages. If we are going to cut the wages sufficiently to enable us to trade abroad advantageously to ourselves, we will have to make the Basic Wage one shilling and sixpence a day, or two shillings a day at the most.

I do not believe that the working classes will consent to that. But assuming that they would, such a measure would ruin all our industries at home, both in primary and in secondary products.

**THERE IS NO NEED FOR ANY REDUCTION IN THE WAGES
NOR IN THE SALARIES.**

Australia can afford to pay the wages and the salaries, but neither Australia nor any other country can afford to hang on to the Old Financial System.

**THERE IS AN IMMEDIATE NEED FOR A NEW SYSTEM
OF FINANCE.**

Under the New System Australia will need twice as much money as under the old; but here is the difference: We will be able to raise most of the money without borrowing, and all of it without borrowing abroad and without having to pay any interest.

Our external debts will for some time be a problem, until an International Currency is arranged. This must come and is now not very far off. When that comes it will not be a gold standard. For gold is out of the question for such a huge undertaking. It will have to be a Property Standard, and if such is the case it will not be very difficult for Australia to pay, for Australia has the Properties.

In the meantime our only chance is to bring about prosperity at home. For prosperity at home will inspire confidence abroad. There is no greater confidence trick than internal prosperity.

PAYMENT BY RESULT.

Under the New System a person or a Nation is not paid by the amount of labor done, but by the amount of wealth that the same labor has produced.

In the majority of cases the capital essential to produce a certain amount of wealth will be more than the amount of capital that one will be able to draw against it free of interest.

But there will be individual cases in all countries where a Nation or a person will be able to draw much more money on a certain amount of wealth than what it actually took to create that wealth.

There are also attendant circumstances that may be depended on to a great extent to reduce the cost of labor and increase the value of that wealth. So, for instance, there may be some natural forces that may be depended on to do man's work. Thus man may be paid for the work that he has not actually done himself, but that has been done by nature.

As regards the Aland railway it is the geographical position and the natural forces that give Finland her opportunity.

She is in a position to give Sweden a railway just where the railway is wanted. Then she has a number of waterfalls that will do most of the manual labor. These waterfalls will work the stone drills and load the railway trucks with stones. They will drive the engines. They will unload the trucks. These waterfalls will even make the explosives for them if it pays to do so.

The consequence of this is that if the people of Finland go the right way about it they will be able to draw twice as much on the wealth produced as what it will actually take to produce that wealth.

WHAT IS THE DIFFERENCE BETWEEN THE NEW FINANCIAL SYSTEM AND INFLATION, SUCH AS IT WAS IN RUSSIA AND IN GERMANY DURING THE INFLATION PERIOD.

During the inflated period in Germany and Russia the notes had no backing and were of no value. So that if a person would have bought in all the notes in the country he would have had nothing.

Under the New System the Note Issue is backed with all the wealth in the country, so that if one was to buy in all the Note Issue he would be the virtual owner of all the wealth in that country.

IF ONE NATION WAS TO ADOPT THE NEW SYSTEM OF FINANCE AND ALL OTHER NATIONS WOULD HANG ON TO THE OLD SYSTEM WHAT WOULD THE RESULT BE?

The one adopting the New System would have an undue advantage over all other Nations, and if she had a large enough population she would eventually ruin all other Nations in whatever she went in for, because she would be able to undersell them all owing to the low cost of production.

ALL THE MORTGAGES SHOULD BE LIFTED IN THE OLD CURRENCY.

The old currency should not be destroyed until all the private mortgages have been lifted and all Government debts have been paid or converted into the new currency. Omitting this some Constitutional difficulties may crop up that may delay matters considerably.

THE MAIN OBJECT OF THE NEW SYSTEM OF FINANCE.

The main object with the New System of Finance is to abolish the interest. In order to achieve that it is necessary to issue money on private property; omitting this the main object is lost. The Governments of some countries have still much property and could issue much money on that. But if that right is reserved for the Government only then the New System has missed its main object.

CHILDREN'S ESTATES AND CHARITABLE INSTITUTIONS.

Under the New System the interest will sink to about two per cent. But there will always be an opportunity of investing money on shares in good companies where the dividends will be better than the interest paid by the Banks under the old system.

Every year brings out some thousands of new inventions, and every invention represents a factory or part thereof. Some inventions represent a hundred factories. All these as well as many other things have to be financed and it is this continual call on capital that has been bringing up the rates of interest, until it brought about the present financial deadlock.

No one who has any money need to worry, but those who are now leaning on the property owner will have to change their practice.

THE BANKS THAT HAVE CLOSED THEIR DOORS.

When the New System of Finance is put into force the Government Savings Bank of New South Wales will again be able to open its doors on its own assets and without any assistance from the Commonwealth Bank.

Same will be the case with every Bank anywhere in the world, provided that it has not already gone into liquidation.

Every Bank has a fair amount of property that is only so much dead money under the Old System, but under the new they can all have money issued against that free of interest.

No Bank will be able to lean on the property owner under the lame excuse of being his savour, but there will be much demand for capital by those who have no landed securities and Banking business will be brisk, particularly so amongst the Underwriters.

Thus the Banks will be paying as good, or even better dividends, than previously. But socially speaking a Banker will sink to the standard of an insurance agent, and no Banker anywhere in the world will be able to approach a precedent or a Prime Minister on the same terms of equality as he does to-day.

THE PETTINESS OF THE OLD SYSTEM OF FINANCE.

Whilst the wealth of Empires are hanging in the balance, and whilst the unemployed are eating out the world's assets, the trusted representatives of great nations are wasting their time juggling with the coins and playing hide and seek with moneyed Jews and Syrian hawkers, who are shifting their coins from country to country in mortal dread of losing their hoards.

They all play about like so many children, and they call it High Finance. It is a great pity that all the great men should be so small. But still we can only pity them for the pettiness is imposed by the system under which we live, and there is no escape for those who are in authority, except by cutting the "Gordian Knot" and overthrowing the old system entirely.

It is the petty man's pranks to juggle with the coins, but it is a Statesman's business to handle the assets of his country.

All the gold in the world is but little compared with the world's wealth. For it is the world's assets that count in the large issues of life.

"Let the children play with their rattles" and let the Jews take their gold where they like. But let the Statesmen of the world utilise the world's assets in a Statesman like manner, and make the most of the opportunities that Providence has thrown in their way.

For Providence has dealt out some real trump cards to every Nation and the future of them all depends on how they play their hands. IT IS ONLY OUR OWN PETTINESS THAT KEEPS US POOR.

DRAINING THE ADRIATIC

The draining of the Adriatic is another one of those undertakings whereby much more may be obtained on a certain amount of wealth than what it will cost to produce that wealth.

The first essential in the draining of the Adriatic is a canal all round it. The cost of this will amount to many hundreds of millions of pounds. It will have to be large enough to carry away all the water that drains into the Adriatic at ordinary times. In flood times some water would run over the dam. This cannot be helped. It would have to be pumped out after. This canal would also be large enough for ocean going steamers, so that all who depend on the Adriatic for shipping would still have their harbours and would be served as usual. From this canal all the towns and the cities in the Adriatic would receive their water by gravitation.

Thus although Venice loses her gondolier she will still have her harbour and her ocean going steamers.

The dike would be comparatively cheap. It would be cheap compared with the area of land that is to be reclaimed. Yet it would be dear compared with something of less importance. . .

The cost of the whole scheme will be immense. That is when compared with something of less importance. But when compared with the achievement it is only a trifling thing. Under the Old System it would be impossible. But under the New System of Finance when man is liberated from the shackles of interest it is a different matter entirely. There is no other way whereby Italy, Yugo Slavia and Albania will be able to obtain so much for nothing.

For under the New System of Finance you receive what you bargain for and you can keep your cash.

When the whole area is divided up into small lots and the whole cost is divided up on every acre of land and on every town and city block, it will prove to be a very cheap settlement. As there is no interest to pay on that money, it will be a wonderful opportunity for millions of people who are now living under conditions of misery and starvation. It will also be a great release to the rest of the people in the over populated areas. In a comparatively short time those who are now a burden to the taxpayers will themselves be taxpayers also.

With an opportunity for expansion like the Adriatic, a climate like that of Italy, and a Statesman like Mussolini, there is no need for any misery and starvation. Give Italy a better system of finance and she will be one of the most prosperous countries in the world.

There is a "job" in the Adriatic for five millions of men digging the Canals and building the Dykes. If the wages was only five shillings a day per man, it would amount to one million and a quarter per day, seven millions and a half a week, thirty millions a month, and so on. This will soon lift the depression in those countries.

This is not borrowed money with interest heaping up against the taxpayer. It is new money created by the worker himself. For the land that is being reclaimed constitutes the capital. Every stroke that those workmen make will be adding to the wealth of those countries and will be relieving the taxpayer all the time.

It is now only for the Statesmen to decide; then for the Surveyors to mark out to the Engineers where to go, and whilst that is being done the Engineers can be harnessing up the Po for an electrical supply to work the stone drills and so the work will be ready to start at.

When this is completed, the workmen of Italy can set to work and create another million a day in the Instep, whilst they are conquering another Kingdom for their King and country. Then there is a whole Dukedom even in the hollow of her foot.

So it will go on all over the world. Instead of fighting one another the Nations will be united in one ceaseless battle against the elements, and there will be one glorious conquest after the other. Not without difficulties, for the Engineers of to-day and of the future will have many problems to solve. Yet the day is not far off when all the mighty achievements in the past will fade away into insignificance.

By the time the Yellow Sea and the East Sea of China are conquered the Great Wall of China will begin to look very small, and those Seas are only small jobs compared with what is to come.

Thousands of pages may be written on similar subjects, but this is enough to prove to the world that there is no need for any unemployment for centuries to come.

There is wealth in abundance for all Nations, and millions by the million may be won by the world. But there are two conditions to it: All mankind must be liberated from Militarism, and from the Moneylenders yoke. The interest must be abolished. There must be a New System of Finance, and there must be peace and unity between all Nations.

There is expansion for Asia also right out to Australia, and it will all be conquered from the sea some day. Then the Australians will be able to travel to Asia and Europe by rail. The author can see all this, but he will not be able to enjoy it. For although the New System of Finance will put many things within man's reach, man will still remain a mortal, and all those things will only come when the time is due for it.

There are so many things to take into count that it would be practically impossible to say with any certainty what the reclamation cost of the Adriatic would actually be. But in order to illustrate an idea we have to derive at some figures, so we will call it ten thousand millions of pounds.

When the work is completed the settlement will have to be valued. Now every farm, every town and every city block will have to be valued separately, and the water supply and all the conveniences will have to be valued also.

If the sum total of these valuations come to ten thousand millions of pounds then the Adriatic Note issue is as good as gold.

But assuming that the land values would only amount to seven thousand five hundred millions of pounds, then there is an inflation of twenty-five per cent. in the Adriatic Note issue. This should not be allowed to go on, for inflation is as dangerous under the New System as it ever was under the old, and there is less need for it under the New System.

The Governments of those countries should then raise internal loans to the aggregate sum of two thousand five hundred millions of pounds for the rescue of the Note Issue. With that amount of money they should buy in Adriatic notes to that amount and burn them publicly in the three countries.

There will now be seven thousand five hundred millions of pounds worth of Adriatic notes left, all as good as gold. In addition to that there will be also a new territory worth seven thousand five hundred millions of pounds, making it fifteen thousand millions of a gain.

The bedrock gain however is seven thousand five hundred millions of pounds, for the Adriatic is the capital and the notes are only issued for the sake of convenience. But nevertheless there is an extra advantage of seven thousand five hundred millions also, and that advantage is provided by the opportunity of being able to utilise the backing of the notes as well as the notes themselves for National benefits. If those notes would have been backed by gold the gold would have been lying dead in the Treasury, and so the National advantage would only have been seven thousand five hundred millions, whilst now it is in its usefulness equal to fifteen thousand millions of pounds.

Against this there is an increase in the National Debt amounting to two thousand five hundred millions, which brings the national advantages down to twelve thousand five hundred millions, and reduces the actual nett gains to five thousand millions of pounds. Out of the twelve thousand five hundred millions, the interest on the National indebtedness will also have to be deducted.

The land in the Adriatic will be a bit sour from the start, and for a few years the settlers in the new Settlements would not be able to pay any taxes. But a number of Experimental Farms and Agricultural Colleges would have to be provided by the Governments, and so by making a careful study of the condition of the soil and by a systematic study of all classes of fertilisers the land would soon be brought up to its highest possible standard of fertility.

If the settlers homes are all built by the Reclamation Committee so that the settlers could walk in without a deposit and without having to pay any interest it should not take many years before they would be able to pay some taxes also.

Thus it is safe to predict that before our generation passes away the revenue that would be derived from the Adriatic in the taxes alone would be enormous.

When you think of all the direct and indirect benefits derived from such an enterprise and from all the capital released by same, and when you remember that whilst this is being done there are also thousands of other things of less importance being done all over the country, and when you realise that all the gains from the huge scheme and most of the gains from the little ones are obtained for nothing, you will realise what the New System of Finance means to the world.

For under the New System of Finance you receive what you bargain for and you can keep your cash.

THE PERSIAN GULF.

This is one of the easiest of all seas to conquer, and will some day be one of the greatest of all the irrigation areas, but the climate is very oppressive.

THE COSTLINESS OF IGNORANCE.

The old Romans built costly Archways (Aqueducts) for carrying water across valleys and lowlands to distant hills. This was a needless expense, but it was unavoidable to them, because they were ignorant of the fact that water rises to its own level, and so did not think of using a water pipe.

Our property owners go on paying the interest, as did the Romans in the days of old, and the Greeks, Egyptians and Assyrians before them. This is an enormous waste of money, but it is necessary to them because they are ignorant of the fact that it is the securities that does the financing part and that the gold in the Treasury and the Moneylender are only needless mediums in the matter of finance.

The primitive man chops the tree down in order to obtain the fruit. We cannot blame him, there is a precedent for it. His forefathers have done so for a hundred generations, and all the tribes do the same thing. Besides he is hungry and he must eat. He admits that in chopping the tree down some of the fruit will go to waste before he will be able to eat it all; but then some of it is not ripe either, so what does it matter.

We cannot deny the fact that the savage is hungry, and we do not even begrudge him that fruit, but we feel fully convinced that there is some more economical way of obtaining that fruit than by destroying the whole tree.

For all that it is not wise to suggest any alterations in their methods. Any advice would be belittled and so one would be ridiculed and laughed at for a hundred years by all the tribes.

At the present time all the Governments in Australia are levying taxes upon the people in a number of different ways. So do most of the Governments of the world. There is a good precedent for it. Nebuchadnezzar did the same thing, copying all the Kings who went before him, and being in turn copied by all who came after. There is no use arguing against such a long line of Royal Decent.

Besides that all the Governments are in need of money. They could not possibly do without it. They all find it hard to manage such as it is.

It cannot be denied that all the Governments in the world are in need of money, and the longer they follow in the footsteps of Nebuchadnezzar the greater their needs will be. It is the same way as with the unfortunate savage. The longer he goes on chopping down those trees the more desperate his position becomes. Some remedy must be found and a person need not be a very great financier

to find some better methods than that of spending pounds to collect shillings, and keeping a whole Nation enslaved for the sake of those shillings.

If all the Governments of Australia were to liberate every man and woman in Australia by declaring a general amnesty from all taxes and then finance on Government Securities and on Government incomes only we would all be better off.

The various Governments could then abolish the Taxation Departments and everything in connection with same. This alone would be a great saving and would liberate the Governments from many worries and difficulties.

The people would now be in a better position to improve their own properties, and as the private properties would become more improved the public properties would also rise in value simultaneously.

Thus with reasonable economy the various Governments of Australia would be able to finance on their own assets for a hundred years and would, at the end of that time be as well off as they are now.

Some countries like Russia, Canada, and the various States of South America, are in a better position than Australia financially. But many countries are in a worse position too than Australia.

Those Governments who have no assets to finance on may have to resort to internal borrowing for some time. That cannot go on indefinitely. But it would lift the Governments out of the rot and give them a chance to liberate the people. Later on they would have to look for something better. In the majority of cases this would not be hard to find, for no Nation has been entirely overlooked by Providence.

A general prosperity should be the Governments first aim. Government finance is only a second consideration.

As the country becomes prosperous all the financial worries of the Government will disappear as does the morning dew with the advance of a beautiful day.

THE NEW SYSTEM SUITS ALL CONDITIONS OF LIFE AND IS EQUAL TO ALL OCCASIONS IN ALL COUNTRIES.

The New System of Finance is not only for the sea. It suits all conditions on earth.

Under the New System tunnels will be dug through the mountains in various parts of the world to lead river waters to distant fields for irrigation and so where there are now only drifting sand there will soon be beautiful farms and orchards.

In the Sahara and the various parts of the world where there is underground water artesian bores will be sunk, and so thousands of cities with palm groves will flourish where there is now only death and desolation.

The New System will come as a God-send to Persia and Arabia. Same also to all other countries where they have a shortage of water.

There is an immediate need for five thousand canals large enough to carry ocean going steamers.

All the various river systems of the world must be connected up with one another with the seas and with all the most important business centres. When you have the money you must see that the business can be done. The money is no good if it is not used.

The money will be used too in various parts of the world.

When the South American States are all liberated from the shackles of the foreign capitalist there will be something doing in that part of the world. They have all reached that state of civilization when they will be able to do something.

The Amazon Valley with its excellent river system will soon be the talk of the whole world. There is a territory here as large and as rich as the whole of Europe. Some day ocean going liners will

be able to pass through right to the Pacific. That may seem impossible but many things are possible when you have the capital, and when it pays to spend it. Under the New System, South America will have the capital and it will pay to spend it. So time will prove that it is possible to take an ocean going liner along the Amazon and right through to the Pacific. Not only will they be able to land on the Pacific, but they will be able to land on any one of the three sides of South America.

Same is the case in the United States. A traveller may start off by an ocean going steamer from the Gulf of Mexico and end up almost on the Pacific Coast of Canada. If he thinks that too cold he may change his mind and land in the Gulf of California, or any of a dozen other parts of the coast.

In Africa the steamers will be able to run through the whole of the Continent in different directions and in different places. There are many places there where one may go from the Indian Ocean to the Atlantic or from either by the Nile to the Mediterranean.

If the Emperor of Ethiopia has inherited any of the qualities of his great ancestor, the New System of Finance will furnish him with an opportunity that would have made Solomons mouth water.

IS THE NEW SYSTEM OF FINANCE A SOCIALISTIC OR A CAPITALISTIC SCHEME?

It has been the authors ambition to help all Nations and all persons independent of their political ideas. Consequently the New System covers the whole range from the most extreme of Capitalism to the most extreme of Socialism.

Mr. Brown receives a million pounds free of interest. That is Capitalism.

In the Adriatic the poor people may walk into ready made homes without a deposit and without having to pay neither rent nor interest.—just enter and enjoy. That is Socialism. There can be nothing more socialistic than that.

These are two extremes, and every stage there between are in the same System and every Nation may use it as she likes.

Under the Old System, whether you adopt a socialistic or a capitalistic regime, it all comes to this: One section of the community is thriving at the expense of the other. Under the New System such need not be the case.

If the working man in the Adriatic walks in without a deposit he is not robbing anyone. It was he who conquered that territory, and so he has a moral right to do it. True, he was drawing his pay all the time, but by the time when he enters the New Home all those millions will be in the hands of the rich. For Capital will always divine its way into the pockets of the rich.

Thus the Rich have all the money and the Poor have all the land by which that money is backed. There can be no more equal distribution of wealth than that.

The Poor is paid twice for all the work that he did. That is Socialism. The rich is paid once in millions for all the work that he never did. That is Capitalism pure and simple. The whole Nation is benefiting by it both directly and indirectly, and no one has to lose anything. Under the New System of Finance you receive what you bargain for, and you can keep your cash. If the worker is no longer in possession of the notes he has the security by which the notes are backed and that is the real cash.

The New System of Finance will work as well in Soviet Russia as anywhere in the Capitalistic or the Socialistic World. For it is all founded on the wealth of the Nations and wealth is wealth wherever you find it. That is an absolute fact that no political opinion can alter.

HOW TO LIQUIDATE GREAT BRITAIN'S NATIONAL DEBTS.

This is a problem that has given the author many a sleepless night for the last eighteen years. Not from financial worries, but from the mere anxiety of solving a difficult problem. In the same way as a Chess player may lie awake all night trying to solve a difficult problem in Chess.

The author has given himself many suggestions, but in his opinion the following is the only way by which a debt amounting to such huge sums may be honestly liquidated without any outlay.

It is considered as a recognised fact that the whole of the North Sea is a coal field. If such is the case the North Sea is well worth draining.

But you cannot drain the North Sea without draining the Baltic also, seeing that the Baltic drains into the North Sea. This however should not make matters any more difficult. On the other hand it should only be so much easier seeing that there would be so many more Nations concerned in the enterprise. For every one would have a great deal to gain by it.

This would necessitate a ships canal round the North Sea and the Baltic by Scandinavia, to Torneo, and back by Leningrad to the Atlantic Coast of France. It would also necessitate another Canal from the most northerly point of Scotland to the South of Britain, and thence to the most westerly point of Great Britain.

All these Canals would have to be a great size, and particularly so all through Germany and France.

Every Capital City in the Baltic and all the more important cities on the coast all along would be provided with a harbour equal to the best in the world.

This would afford the various Nations of the Baltic and the North Sea a wonderful opportunity of catering for the world's tourists, and they should all try to make the most of it. For there will never be another opportunity like this again.

The scheme should be worked on co-operative and competitive lines. They should all work together to endeavour to draw as many tourists to the North Sea and the Baltic as possible, yet each one should endeavour to draw as many as possible of them for herself.

The main ambition of the Reclamation Committee should be to see to it that a trip through that Canal should not be a monotonous one to the traveller. For that reason the Nations should not copy one another, but every one should strive to bring forth something original to entertain and excite the traveller.

Where the cities are too far apart some new cities should be built to break the monotony. This would necessitate a dozen more cities round the upper reaches of the Gulf of Bothania, about half a dozen on each side. These to be built by the Reclamation Committee.

Tornea should be modernised to such an extent that it would be able to accommodate all classes. Then with the co-operation of the various Nations most concerned a railway should be built to North Cape, where another city should be built. This city to consist mainly of hotels and boarding houses catering for tourists who have come to see the Midnight Sun. This would really be the main draw in the whole scheme, but from Tornea right down to the Atlantic Coast of France everything possible should be done to make the trip a pleasant one.

If the whole scheme is worked for all it is worth it is possible that before our generation passes away there would be about twenty-five millions of tourists passing through those Canals every year. This would mean so much to all those countries that some of the Nations would make more out of the Tourist than they do now out of all their industries combined. Millions of travellers would even stay over the Winter to take part in the Winter sports. It is

one of the best opportunities of its kind in the whole world, and none of the Baltic or North Sea States can afford to ignore it. As it can all be had for nothing they should all work together and make the most of it.

The cost of the whole scheme would be enormous, but if that coal is in the North Sea the whole undertaking can be financed on its own merits so that it would not cost any Nation anything. Whilst the work is going on it would provide an enormous income for them all, particularly so the industrial countries. Germany would make most out of it industrially, and her share alone would be more than enough to pay all her Reparation money.

When the work is completed the territory should be divided up, in fact that should be done before they start, to prevent any argument. Then every Nations share of the land and the improvements made in each country by the Reclamation Committee should be valued and the Mortgage divided up accordingly, so that every ones share of the gains would be mortgaged in proportion to its value.

If there is a universal currency by this time all that money would be universal currency, but if not it would be universal only as far as the North Sea and Baltic States are concerned.

As far as Great Britain is concerned she could now sell part of her new territory in small lots, subject to the first mortgage, and subject to all other encumbrances to which British securities are subjected, such as future taxation, etc. This would enable her to pay off all her national debts and there would be enough over to finance the Imperial Government in all its departments, and all the Municipalities in Great Britain for a hundred years.

The Government would now be able to issue a Proclamation whereby an amnesty from all rates and taxes would be granted to all persons in Great Britain for a hundred years. This would give the people in Great Britain the spell that they are so badly in need of, for the people in Great Britain are the most heavily taxed people in the world, and have been so for centuries.

But assuming that there would be no coal in the North Sea, then great financial readjustments would be necessary and instead of Great Britain being able to pay off her debts she would have to borrow more. So would all the other States. Many thousands of millions would now have to be withdrawn from circulation, and they would all have to borrow money for that purpose.

Then Germany receiving the smallest territory in proportion to what she now holds, and being the greatest industrial Nation amongst them, would naturally hold the most of the notes, so all the others would become indebted to Germany and it would take them many years to pay it off. All the other Nations would have one good chance, but Germany would have two chances. She would have her money on the two horses and would be a sure winner whichever way it goes.

Whether there is any coal in the North Sea or not the scheme could not be considered a loss, for they would all have the land and the improvements, and there would be much good land both in the North Sea and in the Baltic. Still they would all be landed in some financial difficulties, except Germany.

It is a scheme that will have to be put into practice some day, and now is as good as later on.

There are long chapters on this in the book, but space does not permit it here.

THE DYKES OF THE NORTH SEA.

These should be steel and concrete structures, built to float on water, and large enough to cover the whole depth and the whole distance.

Commencing in the channel at the most westerly point in France,

the first dyke may be made to cover the whole distance to the most westerly point in Britain.

This dyke when complete would stand six hundred feet high on top of the sea and would cover all the deepest water in the channel, leaving the shallow water to be dyked separately.

Before the dyke is built and put into position a detailed submarine survey should be taken of the bed of the sea so that the most suitable place may be chosen.

The submarines would be the most useful for this, but careful measurements would help a lot in regards to the level of the bottom of the sea.

Whatever stones or rocks there may be should be removed by explosives, and the whole distance would have to be levelled off as much as it is possible to do it.

Then two breakwaters would have to be built of soil and stones straight across the channel to protect the dyke from the waves. The outside of these would have to be all stones, but the centre may consist of both earth and stone.

The dyke to be built with five keels; the central keel to consist of a steel blade forty feet wide and eight feet at the base, tapering off to a point. The other keels to be built in the same way but considerably smaller.

In the building of the dyke the engineers should be careful in their measurements so as to make the bottom of the dyke fit the bottom of the sea all over. If there is a rocky bottom in any place the keels of the dyke would have to be made very narrow in that particular place, but where there is no rocks the keels should run the full width.

When the dyke is completed and all the necessary details have been attended to it should be sunk into the sea where the keels will sink into the bottom, thereby blocking the water completely.

It is doubtful whether a dyke like this would in itself be sufficient to stand such an amount of water pressure, but a careful submarine survey shou'd now be made all around it to make sure that the dyke is settling down on to the bottom of the sea properly. If not it will be necessary to cover the whole dyke with soil and stones. This means that a hill six hundred feet high will then have to be built straight across the channel from France to Great Britain. There will be no art needed about this, but a great deal of labor. Scores of double rails will now have to be run on punts and the soil and stones carted by rail from both France and Great Britain until the earthen wall reaches the top of the concrete dyke on both sides, which makes the whole dyke an artificial hill with a central core of steel and concrete. After this has settled down it will stand the water pressure so that it will be possible to pump out the sea.

The next dyke should be from the North of Scotland to the Orkney Islands, and from there to the Shetland Islands. Then for Scandinavia.

The last stretch would be the only one to present any real difficulty. If there is a good bottom on the Deep Sea it may be done with very little difficulty, but if the bottom is stony and rough it will be somewhat difficult to clear it. Still it would have to be overcome somehow. There would be no shortage of stones in Norway, but some of them would have to be taken by rail rather far.

The launching of the dykes may seem a rather difficult job, but it is as easy as it is to abolish the interest, and when man is liberated from the interest he becomes a mighty being. It is the interest that makes man so small.

This is all explained in the book but space does not permit it being explained here.

THE FINANCIAL AND INDUSTRIAL PROSPECTS OF THE UNITED STATES.

The United States of America have outgrown the Old System of Finance entirely, and all the primitive methods by which that system has hampered civilisation for a hundred centuries will be a misfit in that country from this on.

You may as well ask a boy of twenty to wear the suit his mother made him when he was five as to expect the industries of the United States to prosper on the Gold Standard, the Interest, a Three Months Bill and Compulsory Taxation.

If there were gold fields in all countries the same as there are in South Africa and Australia, or if some methods could be invented by which gold could be manufactured in all countries, then a financial and industrial prosperity may again be restored to the United States under the old system of finance. But as the former is not a fact, and as the latter is not a probability the position is this: Under the Old System of Finance the future outlook of the United States is industrially and financially the most hopeless in the whole world. In all other countries there are some slight prospects even under the Old System, but in the United States there is none.

There is no Statesman in the whole world at the present time who would be capable of restoring a true and lasting prosperity to the United States under the Old System of Finance. Nor has there been any Statesman in the whole history of mankind who would have been capable of accomplishing that if he had been placed in the same position as the Statesmen of the United States are in to-day.

It is for the United States to decide whether they are going to pull down half of their factories and reduce their export, which means a reconstruction in every line of industry, with a reduction in the wages and the standard of living, or if they are going to adopt a new System of Finance. Sooner or later they will be compelled to choose between the two.

The present financial depression was entirely uncalculated for, yet under the Old System it was absolutely unavoidable. Even now the only hope lies in cutting the "Gordian Knot" and giving an absolute financial freedom to the property owners and the industrial classes.

By adopting the New System of Finance even as a local measure America's unemployed may all be put to work in a month or so, and a real prosperity seemingly restored. But this, however, would not be a true and lasting prosperity. To accomplish that the New System must be adopted in its broadest measure.

There must be an International Currency based on the true wealth of Nations. This will release a surplus amount of capital in all countries. That capital will enable all Nations to buy more than what they sell. **THEREIN LIES THE ONLY TRUE SOLUTION TO AMERICA'S INDUSTRIAL AND FINANCIAL PROBLEMS.**

This will be a comparatively easy matter for the United States to bring about. If it is done as pointed out in this book so that all Nations will gain by it and no one will have to make a sacrifice, they will all fall in line. This will bring a true prosperity to the United States—a prosperity that may last for centuries:

What is true to the United States is true also to Great Britain, Germany, Japan and several other Nations in a lesser degree.

If the Americans wish to follow up their advantages and make the most of their opportunities they could back the League of Nations with an army of sixty thousand men and reduce their own armaments to one-fifth of what it is now. Then they could invite other Nations to follow suit. This would gladly be followed by all Nations with the result that millions of men who are now wasting their time in the barracks all over the world would set to work to create some capital

for the American millionaires. This would mean much to America and it would be an enormous gain to the whole world.

An industrial Nation cannot afford to allow any man anywhere in the world to remain a non producer.

The first step to be taken by the Government of the United States is to lift all the private mortgages, to liberate all the property owners, and all the industries from the burden of the interest, and to make every overdraft a permanent thing.

It is the continual renewals of the overdrafts and the endless payments of the interest that kills every industry.

HOLLAND.

Holland is entitled to much respect for all her exertions in the Zuider Zee. But nevertheless the time has now come when a great deal more may be achieved with far less exertion.

If the Government of Holland was to send out a few good diplomats to lecture in Great Britain, France and the Baltic States. They may easily obtain a new territory as large as the whole of Holland, and six or seven hundred millions of pounds thrown in for good luck; all for a little talk.

Then with that money in hand Holland could turn her thoughts to the Java Sea and the South China Sea, where for a little more talking in Great Britain, France and America she may easily obtain a whole Empire, more than half the size of India. All this right under the Equator, where there is an everlasting Summer, where almost everything will grow and where she already has fifty millions of faithful and industrious subjects.

It is no mistake, the Horoscope of some Nations looks beautiful.

This is of much more importance to the world in general than the Baltic and the North Sea scheme. For this would provide an immediate employment for twenty-five to fifty millions of people in Asia, which would raise the standard of living in those countries to such an extent that it would influence all the world's markets in all industries and bring prosperity to all Nations.

ARGENTINA UNDER THE OLD SYSTEM.

According to the Australian press the Argentina Republic had an English economist out some time ago to give her Statesmen some lessons in finance, and the result of it all was that she managed to borrow a few millions from Great Britain.

This would be very humorous if it was not so pathetic, and it would be very pathetic if it was not so humorous.

Under the New System of Finance the Government of Argentina can issue a thousand millions of pounds on her own securities any day she likes. This is without touching any private securities at all. Admittedly if she issues too much money the money will lose its value to some extent. Same is the case with gold also. When gold is plentiful the commodities go up in price, not because the gold has gone down in value, but because with the increase in capital there will also be a corresponding increase in the purchasing power—simply because every one is in a position to buy.

The purchasing power of everything, money included, depends on the supply and the demand of the markets. But this is the absolute fact and cannot be denied: If the Argentina Republic issues a thousand millions of pounds worth of notes and those notes are backed by a thousand millions of pounds worth of good Argentina securities then those notes are worth a thousand millions of pounds, and those notes will be as good as gold.

PUBLIC HOSPITALS AND CHARITABLE INSTITUTIONS UNDER THE NEW SYSTEM OF FINANCE.

Under the New System you just form a Hospital Committee and that body calls tenders for the construction of the hospital. Then it lets the contract to the lowest tender. When the work is completed they apply to the Minister for an advance on the property and the Valuer is sent out. Then the property is mortgaged to the Treasurer, and he issues his note of credit for the amount that the property is worth. The difference, if any will have to be obtained on an Underwriters guarantee. Then the public has to subscribe enough money to pay the Underwriter his fee. This however will not be much, but it has to be paid every year, unless the overdraft is paid off.

If the work is done by voluntary labor the cost of construction will be reduced so much that the Treasurer may be able to advance the full amount and then no Underwriter will be needed.

The same is the case with Public Schools, Colleges, Universities, and all public buildings, only in that case the Minister for Public Works attends to it all and he has to find the difference in the money, if any.

PUBLIC BRIDGES UNDER THE NEW SYSTEM OF FINANCE.

A bridge that is of so much importance that it would pay interest and maintain itself by levying a public toll on it may be built automatically under the New System. Thus the Harbor Bridge of Sydney, that has been such a strain on the resources of New South Wales, could have been built for nothing under the New System of Finance. Same is the case with all those costly bridges in America, London, Paris, and in other parts of the world. All those could have been built for nothing under the New System of Finance.

If the Harbor Bridge would have been built under the New System of Finance much depression and misery would have been prevented. It would then have been laying "Golden Eggs" all the time of its construction. The way that Bridge is being financed now it is eating capital and enslaving the taxpayer all the time.

THE CONVERSION LOANS OF AUSTRALIA AND GREAT BRITAIN.

The Conversion Loan is only a Tread Mill; an endless tramp that tires you out and takes you nowhere.

It reduces the assets, the income, and the outlay proportionately, and this is only an imaginary gain even at the best of times.

It is the same thing as reducing the workmans wages: You make a wild slash at one section of the people, and you cripple the whole community in so doing. Whether it is voluntary or compulsorily it all comes to the same thing.

The capitalist and the working man are both members of the same community, and in prosperous times they are both one and the same person, for the working man as a rule has something put by in the Savings Bank or in the Government Bonds also. But whether or no you cannot impose on one without hurting the other.

It is dangerous to lose sight of the fact that the assets are the main thing in all sound finance.

It is this little oversight of one single solid fact that has placed the whole world in the miserable position that she is in to-day.

THE COSTLINESS OF THE LOIN CLOTH.

It is the author's desire that every man in the world should be able to buy a new suit and every woman in the world should be able to buy a new dress once a year, and that every family should have a decent home to live in, and that the happiness of that home should

never be marred by neither the house rent nor the interest. Furthermore it is the author's fond hope that before long every man, woman and child in the whole world will have all the necessities of life at all times.

The world can well afford this, but the world cannot afford to allow any Nation or person to remain on a low standard of living.

The Loin Cloth is the costliest garment that has ever been invented by the ingenuity of man. No Nation can afford that. It is the costliness of the Loin Cloth that is the main cause of the industrial depression in all countries at the present time.

It is to the interest of all mankind that all Nations should make a united effort to raise the standard of living in all those countries where the standard of living is low. This will be easily accomplished by adopting a universal currency that will enable all Nations to adjust their Trades Balances by internal developments.

WHO ARE GOING TO BE THE RULERS OF AUSTRALIA?

The power that a Bank manager exercises is invested in him by the wealth of the Bank. In the financial world his legitimate prestige is proportionate to the wealth that is under the direct influence of his Bank.

The total amount of wealth that is under the direct control of all the Banks in Australia combined does not amount to one-fifth of all the wealth that is under the direct control of the Federal Government.

In addition to this the Federal Government has a legal right to tax all the private properties and every person in Australia, including all the wealth of all the Banks. This in itself is equal to a first mortgage over everything in Australia, the Banks included, and all the Bank Managers as well.

The total amount of wealth that is under the direct control of all the Governments in Australia amounts to thirty times that of the aggregated wealth of all the Banks in Australia. That is leaving the rights of taxation out of it altogether.

In spite of all that some of the leading Bankers have assumed the guardianship over the Federal Government and over all the Governments of Australia, thereby making themselves the virtual Dictators over the whole Commonwealth.

All that in the name of Gold, a commodity that is of so little importance in the world's markets, that all the gold in the whole world is not worth as much as the smallest State in the Commonwealth of Australia, and all the gold in the Commonwealth Bank is only ten millions—equal to a fair size private fortune. How small we will look in the eyes of futurity? What will posterity think of us and our Statesman?

If that authority was assumed in the name of any other commodity, there would be more justification for it.

It is a most lamentable state of affairs to think that a Bank Manager should be able to stand up and dictate to the elected Government of a Nation.

This is an absolute insult to the Sovereignty of the people and should never be tolerated by any person that has any self respect left within him.

There is nothing personal about this, however, and it must not be forgotten that all our Bankers have been true to the doctrine that they have learned.

Australia is deeply indebted to her leading Bankers in general, and to Sir Robert Gibson in particular, for saving our Currency. Had it not been for those men we would no doubt have had inflation or fiduciary notes (which is the same thing under another name). This would have been very disastrous to Australian Finance. For nothing good can come from valueless paper.

Even if the Government has the Securities if the notes are not backed by those securities or by gold then those notes are no good. The world had ample proof of that in Germany and in Russia.

It is the existing System that the author is condemning and not the Bankers themselves, for the Bankers are all doing their best and are straining their resources to the utmost to help us. But the Governments of Australia have no right to be sitting on the doorsteps of the Banks collecting Alms for a Nation that is thirty times more financial than all the Banks in Australia put together.

It is now a matter of life and death to Australia.

All the mortgages must be lifted and every property owner, both in the city and in the country, must be liberated from the Money-lenders yoke. This can only be done by the Federal Government.

But before the Government can accomplish that the Government must itself be liberated.

If the Government is not strong enough to liberate itself, it is the first duty of every citizen to take an active part in the liberation of the Government for the welfare of the country.

This is not a matter of party politics. It is a matter of Australia as a whole, before everything else in Australia.

The whole Nation is in distress. It is nothing but poverty and misery where ever you look.

It is in our power to end the misery and to lift the depression, and it is our duty to do so.

The only way that can be done is by liberating all the property owners from the burden of the interest and by restoring the power of the Nation into the hands of Constituted Authorities.

When that is accomplished there will be capital in abundance and employment for everybody, without any reduction in the wages nor in the salaries either, and without any addition to the taxes.

Then your families will have enough to eat and every man, woman and child will have all the necessities of life.

There is no shortage of anything in Australia, nor in any part of the world. It is our own ignorance and the ignorance of all mankind that is at the bottom of all this misery and starvation.

THE LIBERATION OF MANKIND FROM MILITARISM.

When man abandons the Gold Standard his primitive instincts will leave him, and that will make him look down on his own littleness. God help militarism when that time comes.

A Nation that has no hostile designs and no aggressive intents is foolish to maintain a large army, for she may with safety disarm herself to a minimum in the following way: She may throw herself entirely into the arms of the League of Nations and then in return for the League's protection back the League with an army consisting of one man for every two thousand of her population.

This Army to be entirely under the control of the League and prepared to fight for the League anywhere in the world when necessity demands, but to be maintained at all times by the Nation by which it was recruited.

In addition to this she may surrender to the League of Nations a strip of territory ten miles wide running around all the borders of her territory.

This ten miles of territory by which she will be isolated from all other Nations to be the legal possession of the League for all times, but it may be continuously occupied by the same Nation as a leasehold granted by the League of Nations for peaceful occupation only. For this purpose the said Nation may obtain a legally drawn up lease of it for ten thousand years at an annual rental of one shilling per annum for every ten thousand square miles.

If all Nations were to adopt that measure it would be impossible

for any Nation to invade a territory belonging to another Nation without first invading the territory of the League. It would also make the League of Nations strong enough to defend her own territory. Under such conditions no invasions would be attempted and no armies would be required in any countries, except the small one supplied to the League of Nations.

If one of the small Nations would lead off in this way others would no doubt follow suit, and so the League of Nations would soon become a mighty power that would have to be considered even by the great Nations.

At the present time the League of Nations that should have an Army has none, and all the Nations that should have no Armies they are strongly armed. Everything is upside down. The whole world wants turning over.

Any Nation adopting this measure would be quite safe from the attack of a small Nation. So that she could disarm herself entirely at home.

It is doubtful, however, if the League of Nations would be able to defend a small Nation against a great Nation. One thing, however, is certain: In a prolonged struggle a small Nation would not be able to defend herself against a great Nation by depending on her own forces. Such being the case what is the sense in leaning on the rotten stick of militarism and bleding out your own country in so doing, when there is nothing but loss and dangers to be derived from it?

If there were no Armies there would be no wars. But whilst there are Armies there will be wars and defeats also.

For by the Armies the wars are made and by the Armies the wars are lost. If a Nation that has no army loses a war, that war will be lost on the battlefield, but the Nation that has a good standing Army will always lose its wars in the barracks, for the Standing Army eats out the resources of a Nation before the war begins, and makes defeat inevitable.

For that very reason the greatest Armies in the world have been defeated by inferior forces.

No Army is strong enough to defend an empty Treasury.

EVEN UNDER THE OLD SYSTEM OF FINANCE THE FEDERAL GOVERNMENT OF AUSTRALIA HAS IT IN ITS POWER TO LIBERATE EVERY MAN AND WOMAN IN AUSTRALIA FROM ALL RATES AND TAXES FOR ALL TIMES.

This may be done in the following way:

The Government may add up all the gross income from all Government Taxation in the whole of Australia, including the State Governments, the Shire Councils and all the Municipalities. (This is not to include such things as water, sewerage and electricity). It may now add a few millions to this for urgent needs.

The next step is to apply to the people for an internal Loan of that amount. This Loan to bear two per cent. interest, and to mature in twenty years. The Loan is to close when fully subscribed.

The conditions are that if the Loan is fully subscribed within twelve months there will be an absolute amnesty from all Rates and Taxes throughout the whole of Australia. Furthermore there will be no Government interference in the Banking Rates of interest, nor in any reasonable private interest rates.

The author feels convinced that this Loan would be fully subscribed within twelve months, and if the Government can be fully convinced to that effect, it could from the very first abolish the Taxation Department and everything in connection with Taxation throughout the whole of Australia, including the Shires and the Municipalities also.

Now the Government has to ascertain how much it has cost Australia every year to keep those "White Elephants." That amount of money is to be deducted from the new Loan and placed in the Commonwealth Bank on Fixed Deposit for twenty years, bearing five per cent. interest per annum.

This money so deposited in the Bank is to act as a Government Reserve and as a Bank reserve also.

Out of the rest of the money the Federal Government is to finance all the State Governments, all the Municipalities, and all the Shire Councils for twelve months.

The same process is to be repeated the following year, and so on year after year until the Reserve Fund is strong enough to maintain all the Governments in Australia, all the Municipalities, and all the Shires as well, without taxation and without borrowing, and strong enough to meet the old Loans as they fall due.

This would make the Federal Government the Mother of all Governments in Australia, and the Commonwealth Bank the Bank of all Banks in the Commonwealth. In the authors opinion that is how things should be. The public would still be carrying the same burden, but instead of being loaded up with the dead weight of the "White Elephant" that gives it nothing but endless worries and annoyance there would be Government Bonds for the full amount bearing two per cent. interest and maturing in twenty years. Besides that we would be creating a Reserve Fund which would be a healthy assurance of freedom for posterity.

A Reserve Fund of that nature would stabilise the Australian finance wonderfully. It would enable the Commonwealth Bank to grant overdrafts for long periods on good securities. Thus both the public and the Bankers would be able to face the future with a sort of philosophic unconcern, and so would the Governments.

Under the old conditions public debts are a danger to a Nation. Under such conditions the more a Nation would borrow the safer she would be, needless extremes excepted.

When the twenty years were up it may be necessary to make some renewals. This would not be very difficult once the people would have become accustomed to the new conditions, particularly so if there was a general prosperity in the country.

Compulsory taxation of all kind cultivates all the lower instincts in man and makes a man a grafter, a sneek, a rogue, and even a thief. It should therefore be abolished.

A public Loan in the name of Freedom and Liberty has a direct appeal to all the nobler instincts in human nature. It makes man feel that it is a pleasure to fulfil a duty and that is the kind of spirit that every Nation should try to cultivate in the private individual.

But looking at it from a purely economical and financial point of view we find that compulsory taxation is the costliest way that money can be procured. So costly in fact that no Nation can afford it. It is not a matter of whether a Nation can afford to abolish the taxes, but it is a matter of whether a Nation can afford to go on taxing the people. The author maintains that no Nation can afford to go on levying compulsory taxes on the people. Therefore taxation of all kind should be abolished in all countries.

If those Bonds were never paid we could point to that Reserve Fund. If that was lost also we could console ourselves with the idea that what we have received in interest we hold. If no interest was paid even then we would have lost nothing. For the "White Elephants" would have eaten it all in any case, and freedom is worth a lot at all times to a Nation. For any system of Government finance is cheaper and better than taxation.

This would liberate all the people from all Rates and Taxes.

It would also liberate all the Banks and Governments as well. It would in the authors opinion do away with all unemployment.

But Australia would still have to pay the interest and the house rents, and that is more than we can afford. Those too must be abolished also.

This can only be accomplished by adopting the New System of Finance.

A Nation that is patriotic enough to respond to the appeals of a generous Government and is intelligent enough to realise what it is worth to be free may be safely and advantageously liberated from all the Rates and Taxes. But even so it is absolutely impossible to release the gold that does not exist. Such being the case, under the Old System of Finance there is no future for those Nations who have over-reached themselves industrially. Their only hope is an International Currency that is backed by all the wealth of the whole world.

HOW TO REDUCE THE COST OF LIVING IN AUSTRALIA BY FIFTY PER CENT.

If we do away with all the Commercial Travellers and all the Custom Houses and place all our imports and exports in the hands of real business men, we will be able to reduce the cost of living by fifty per cent. This can be done without interfering with the Standard of Living, without interfering with the Public Revenue and without robbing any person or persons.

All our export and import would have to be placed in the hands of capable business men who by long experience have proved themselves to be worthy of such a trust.

These Commissioners would buy all our import in large or small quantities, which ever pays best. They would buy it in one place, or in a thousand places, all depending on which would be the most beneficial to Australia. This in turn would be determined by the sale of the Export. **FOR IT IS THE POOR SALE OF OUR EXPORT THAT IS MAINLY RESPONSIBLE FOR THE HIGH COST OF LIVING.**

With the up-to-date methods of transport and communications importation is so easy that any one can do the importing part. Consequently the goods we import is bought by any body. It is ordered from anywhere, anyhow, and at any time. Always with absolute disregard of the export. No one cares whether our export goods are sold or not.

Consequently there are thousands of cases on record when all our markets have been conquered by foreign goods and our own goods have been thrown into the sea, simply because there was no sale for them.

This very year thirty thousand tons of good Tasmanian fruit had to be destroyed because there was no sale for it. The same thing is going on in every State of Australia. It is safe to say that no less than one hundred and fifty thousand tons of Australian fruit has been going to waste this year because there has been no sale for it. Whilst this is going on every grocer shop in Australia is stocked up with dried imported fruit and the author does not know one instance when any imported fruit of any kind has had to be destroyed. Same is the case with our secondary products also. Consequently all our primary and secondary producers are in distress and our working men and women are going idle.

We must not work against importation. On the other hand we should try and do business with all countries, and as much business as possible with all of them.

At the same time we have no right to buy what we have no need of and things for which we have no use. For in so doing we are

not only hurting ourselves and our working men, but we are hurting all other Nations as well.

If we buy what we are in need of and that only, all our farmers, factories and working men and women will be busy all the time earning more money for us, and so we will all be able to buy much more than what we buy now. Thus the whole world will be gaining by it. For unemployment in one country is a loss to the whole world.

Unemployment in any country is also a direct or indirect result of misrule. For unemployment is absolutely uncalled for in all countries.

The Commissioners for each product should be elected by those who are most directly concerned and who are therefore in the best position to judge.

Thus the Commissioners for the wool industry should be nominated and elected by the wool growers and by the wool growers only. Those for the wheat industry by wheat growers. Those for the dairy industry by dairymen, and so on for everything that we produce.

Same also with everything that we import. The Commissioners for the tea industry should be nominated by the tea merchants, and by all who trade in tea. The Commissioners who are to be entrusted with the absolute control of imported herbs and medicines should be nominated by doctors and chemists and elected by them, and so on with everything that we import.

All these Commissioners should act jointly and for the welfare of the whole of Australia. No one should be allowed to forget that it is always easier to buy than what it is to sell, and that everything depends on the sale of exports. Thus there should be no absolutely unconditional purchases in any country.

The Commissioners should issue a weekly Bulletin where the wholesale prices of all commodities are quoted and this should be posted free to all the retailers. This Bulletin could also be utilised for advertising purposes. Thus the Commercial Traveller would no longer be needed and that would reduce our cost of living by twenty per cent. There would no longer be any need of any Custom Houses because the Commissioners would be able to fix the prices as the Government desires in regards to the Revenue.

That relieves us of two "white elephants." It is those "white elephants" that are responsible for the high cost of living.

The Commissioners would be no extra burden to the people, because as it is we have our importers and our exporters, and they would now be done away with. The country would actually save by it even as far as the staff goes owing to better methods, for it would be done on more up-to-date principles.

The export should be absolutely free save a reasonable commission for the selling of it.

The Commissioners would be obliged to pay the Government every year what ever amount of money the Government may decide on as a public Revenue, and this amount would have to be charged up against the retailers of imported goods. But apart from this the Commissioners should be absolutely independent of all political control, and as such should be treated by the Government as if they were only foreign ambassadors.

This is a long chapter but space does not permit any more being inserted here.

AMERICA IS EUCHRED.

America is euchred by the Gold Standard and the inefficiency of the Old System of Finance has left her in the lurch.

Industrially America lives in the twentieth century, and finan-

cially she lives in the time of Nebuchadnezzar. That is the main cause of the trouble. The industries have advanced and the financiers have not. In civilised life everything is built on finance. Finance is the foundation of everything and before there can be any harmony, finance must be modernised in proportion to the rest of the structure.

America is as far advanced financially as any other Nation, but being further advanced industrially than the rest of them things are more out of proportion in that country, and for that reason the financial and the industrial position is more hopeless in the United States than elsewhere.

The world cannot point to any reserves that could offer any noteworthy relief. The annual output of gold is so small that all the gold that is being dug out of the earth annually in all countries is only like a berry to the bear when compared with the industries of America. Her surplus capital will take her nowhere, for a continuous draw on the reserves can only lead to ruin.

**THERE CAN BE NO TRUE AND LASTING PROSPERITY
IN THE UNITED STATES UNLESS HER EXPORT EXCEEDS
HER IMPORT BY FIVE MILLIONS OF POUNDS PER WEEK
CONTINUOUSLY.**

Under the New System of Finance with an International Currency based on all the wealth of the world such a thing is quite easy, but under the Old System of Finance it is absolutely impossible.

When America ceases to advance there will be a dangerous decline. There can be no industrial standstill in that country, nor is there any need for it for a century or more.

The idea of overtaxing the rich is a poor method of finance. There should be a general amnesty from all rates and taxes, and that law should be for rich and poor alike.

If the rich is becoming a burdensome person to the community there are a thousand other ways by which he may be straightened up besides making a slave of him and crippling all the industries in so doing.

A law that enables the Government to take the money wherever the money is to be found is following so close to the primitive instincts in man as to make the very Government a danger and a drawback to progress and civilisation. This is a fact that no Nation can afford to ignore.

The author is well aware of the fact that the one who is going to finance all the Governments and all the Municipalities in the United States without any compulsory taxation will be confronted by some fair size financial problems, but there are men in America who can do it, and it is only a matter of bringing the right men to the front. When those men come forth the wheels of Government will be lifted out of the old rut and so when Nebuchadnezzar dies the Government finances will run smoothly ever after.

But even so the fact remains that under the Old System of Finance America is euchred.

The United States cannot prosper on the Gold Standard after the world's gold has vanished.

ONE CANNOT BUY BREAD WITH THE GOLD THAT IS GONE.

When all the gold has gone to America there is no more to come. The lending and relending of the same old gold will only build up a protective barrier against American goods in all countries in the way of interest.

The author has nothing but love and respect for America and it hurts him to know that her people are in distress. But it is only what may have been expected, and what the author has predicted this last ten years. It is cheerful, however, to know that America is

enchred by the gold standard, for therein lies the main hope of a speedy recovery from a world wide financial distress.

Amongst all the great Nations America is the least affected by ancient prejudice. She is intelligent enough to realise that THERE IS NO LONGER ANY LUCRE IN THE GAME THAT IS LOST.

She is energetic and enterprising enough to start a world wide movement for an International Currency based on the wealth of the world, which is her only chance. Her Statesmen will be capable enough to make a success of that.

When that is accomplished the Treasurer of Australia can sit down and draw out a cheque in full for Australia's external debts, for Australia has the properties. The Treasurer of Great Britain can follow suit, and so can the Treasurer of Germany, and the Treasurers of all other countries, for they all have the securities.

Then when all the external debts of all Nations have been paid, and when all Nations have ample backing for their Currency they will all be able to do business.

Thus with no time limit to the Overdrafts and no interest on same, and with no Rates and Taxes and no House Rents to pay it is quite safe to predict that no man amongst us will live to see the day when America will be euchred the second time.

All Nations, America included, will now enter upon a period of prosperity, such as the greatest optimists have never even dreamt of.

SO THANK GOD THAT AMERICA IS EUCHRED.

THE COSTLINESS OF UNEMPLOYMENT AND THE OLD SYSTEM OF FINANCE.

According to recent statements supposed to have been made by prominent British Statesmen, it is predicted that there will be no less than thirty millions of unemployed in Europe and the United States this coming Winter.

Under the New System of Finance those thirty millions of people properly organised would be able to reclaim from a watery waste the whole of the North Sea and the Baltic, and the Mediterranean as well. Furthermore, they could build a hundred towns and cities in the new Settlements, all within a reasonable time.

This is an undertaking that would necessitate five hundred miles of steel and concrete dykes six hundred feet high on an average. It would necessitate six or eight thousand miles of ships canals several times as wide as that of the Panama.

In doing this those people would release enough of new capital to finance all the industries of Europe and the United States for ten years. If their wages was only ten shillings a day the direct financial gain to those countries would be fifteen millions of pounds daily. That would soon lift the depression in all those countries.

This all goes to prove what a costly thing unemployment is, and what a loss the Old System of Finance is to the world. When the most capable Statesmen are not even able to find constant employment for civilised men and women in a time like this when thousands of things are waiting to be done where ever you look.

THE COSTLINESS OF BAD FINANCE.

If Australia was to abolish the Old System of Finance with its gold standard and issue money direct on the Assets, we would have a currency that would be five times as good as the one we have now, and we would have five times as much money also. Besides that we would save over eighty millions of pounds in Interest every year.

If Australia was to borrow from the people all the money that

is now being taxed out of the people and pay two per cent. per annum on that money in interest, we would save so much by that method that if all the money thus saved was to be placed in the Commonwealth Bank every year on fixed deposit for twenty-five years at five per cent. per annum we would in twenty-five years build up a Reserve Fund that would for the future finance all the Governments, all the Municipalities, and all the Shires in Australia, and would also pay off all the old Loans as they mature.

Furthermore, we would build up a Bank Reserve and a Government Reserve that would stabilise all Australian finance for all times.

Under better Finance every family in Australia would be able to have a home worth five hundred pounds and the poorest person amongst us would not have to pay more than ten pounds per annum for such enjoyments.

If we abolish the Interest we cannot build up a Reserve Fund on interest, for nothing can be built on that which does not exist. But this goes to prove that even under the Old System of Finance the Compulsory Taxation is, and has at all times been, a loss to a Nation. It is therefore evident that whatever System of Finance we live under all kinds of Compulsory Taxation must be abolished. There must not be any Rates and Taxes in Australia.

But after all what we need is a New System of Finance. For all the Governments in Australia hold enough securities between them to finance all the Governments, all the Municipalities, and all the Shires in Australia for fifty or a hundred years without taxing the people and without borrowing the money.

Thus by just working our brains a little we can all be liberated from financial bondage, and our freedom will commence when our intelligence is good enough to warrant it.

This all goes to prove what a costly thing bad finance is.

THE DYKES OF THE ADRIATIC.

If it is too difficult to build the dykes at the entrance to the Adriatic there will be no difficulty whatsoever in building them above the deep water. The settlement would then be less than two thirds the area, but it would include most of the good land. Mt. Gargano would then supply much of the material needed for the dykes.

The Reclamation of the Adriatic is the only chance of revival that Venice has, and it is a good one. A new Settlement with millions of settlers, commencing right at the gates of the City—Agriculture, Horticulture and Grazing—all trump cards industrially speaking. Venice could not wish for anything better.

This would give Venice a sure chance of gaining industrially what she has long since lost commercially, and so before long the "Queen of the Adriatic" would be a larger and more prosperous City than it has been at any time during its long and glorious history.

IS MAN A NATIVE OF THIS EARTH?

It is reasonable to believe that man is but a degenerate descendant of some superior ancestors, who landed here in the dim past from a smaller planet than our own. It is optional to all to believe or to disbelieve this theory, for there is not enough evidence neither for nor against. But in the authors opinion the earth is not old enough to be man's mother.

AMERICA'S "BIG" JOB.

What the U.S.A. needs at the present time is an industrial outlet for its energy and enterprise. The author has found this in a huge undertaking that will cost about twenty thousand millions of pounds to complete. This will have a direct bearing on every industry in the United States, and will alter the future outlook of the world entirely.

This is not in the sea. There are many of those chances in America too. But there is no need for them just yet. Not whilst the Amazon Valley is lying undeveloped.

The author is now working out the details of this work, but it will not be finished for some time.

The main thing about this is that although the U.S.A. is gaining all the benefits from it industrially she will not have to pay anything towards it. Half of it works under automatic finance, and the other half is obtained by taking an opportune advantage of a peculiar circumstance.

A PERMANENT CONQUEST OF MOUNT EVEREST.

This will be easily accomplished by digging a tunnel inside the mountain to the top. It will be well worth while because the mountain is of great importance to the sciences; particularly so to Geology and Astronomy. There should be a Conservatory on top of the mountain for Astronomical observations. It is of international importance and the cost will be comparatively small. After a while the enterprise would practically maintain itself by a moderate charge imposed on the Tourists who would be able to go up in the highest lift in the world to the highest mountain top without having to risk their lives.

For the benefit of Geology there should be a shaft sunk right down in the centre of the mountain as far as man can go for the internal heat.

There is much to be said on this subject, but space does not allow it here.

THE FUNDAMENTAL PRINCIPLES OF K. J. BACK'S FINANCIAL SYSTEM.

- (1) There should be an International Currency and all the wealth of the world should be contained in that Currency.
- (2) No overdraft covered by Securities of any kind should be subjected to interest, but all overdrafts covered by securities that are of a perishable nature, or things that are subject to the fluctuations of the markets, should be covered by the guarantee of approved Underwriters also, and these should be for limited periods only.
 - (a) There should be no time limit to an overdraft covered by a security that may reasonably be expected to last for an indefinite period, but the person obtaining the advance should be responsible for the maintenance of the security.
 - (b) No person shall be called upon to pay off an overdraft whilst the security is intact, but if a security decreases in value from any cause whatsoever, then a person should be called upon to either improve the security proportionately or to make a proportionate decrease in the amount of the overdraft; failing that the security should be sold.
 - (c) If the security goes up in value from any cause whatsoever then the owner of that security shall be entitled to an additional advance proportionate to the increase in the value of the security.

The sum total of a Nations Note Issue should be in proportion to all the wealth that that Nation possesses, so that all the wealth of a Nation should at all times be contained in that Nations Note Issue.

No Government that is in possession of National Assets of any kind should be expected nor allowed to borrow money and pay interest nor to raise money by taxation whilst those assets are unencumbered. for such an act is a deliberate waste of a Nations capital; nor should

any Government be allowed to issue inflated notes or fiduciary notes of any kind, for such an act is a deliberate inflation of the Nations Currency and is injurious to the financial welfare of the whole Nation.

As a backing for Currency a Life Property should at all times be preferable to dead wealth, but wealth of all kinds should be utilised for that purpose.

There should be no compulsory taxation of any kind, but all Government and Municipal finance should be done by more modern and less expensive methods.

Every workers family should own its own home, and there should be neither Interest nor House Rent to mar the happiness of same. There can be no true and lasting prosperity in any country until that is achieved.

Automatic finance should always be applied when ever an opportunity presents itself and borrowed money subject to interest should never be utilised in private enterprise, except as a last resource.

All the wealth utilised as Currency should be subject to inspection at all times, and there should be periodical inspections of all properties to see that they are not deteriorating in value.

The value of a property for Currency purposes shall be determined by the income from same, as well as by the market value of that property, and in the case of unimproved or partly improved properties the true values shall be derived at by what may reasonably be expected from such property with a reasonable amount of improvements, minus the cost of such improvements.

Unreasonable Tariff Regulations should be avoided, but every Nation should be allowed to use its own discretions in regards to her own protection against Nations who are on a higher or a lower level of advancement than what she is herself.

Unprofitable enterprises and undertakings that are of a doubtful or an experimental nature should be financed by public subscription or by borrowed capital, subject to interest, and it should be made clear to everybody that whoever subscribes to it either by free gifts or by lending his capital for same is taking a risk; no person should be allowed to misrepresent a doubtful adventure or to enlarge upon the possibilities of same.

Every Nation should strive to maintain the average Standard of Living in its own country, and should at all times endeavour to raise all those Nations who are below that Standard to the same standard also.

In the Artic Regions, the Tropical Jungles, the various Deserts of the earth, as well as on the Continental Tablelands where Valuer-Generals and Banks are out of question, the power of both may be invested in trustworthy native chiefs, honorable traders, or missionaries, who may be authorised to act as Valuers and Bankers as well, and thus be able to issue notes to hunters, trappers and native tribes to enable them all to obtain the necessities of life on their commodities without having to sacrifice same to unscrupulous traders in unseasonable times.

All the export and the import shall be entrusted to qualified Commissioners who should handle all the wholesale internal trade of local product, also both in primary and in secondary products. Thus all the Custom officers may be done away with.

These Commissioners will issue weekly Bulletins to all the Retailers and so the Commercial Traveller will be no longer needed.

No country on earth will be a safe abode for mankind until militarism is abolished in all countries.

THE WORKERS BANK OF AUSTRALASIA LTD.

The Bank is the Holy Tabernacle of the Cult that it stands for.

For in the Bank is centralised all the financial strength of that particular section of the community.

The class that has no Bank by which it may be financially represented is no class at all. The people are only like so many lost sheep. They follow any leader that comes along, generally the wrong one. Think of how many times the working people in Australia have been misled by long tongued agitators who have precipitated them into foolish strikes from which nothing but misery and starvation could be expected. Think of all the unscrupulous leaders who have risen to high position on the shoulders of the workers and then thrown the workers over after they have gained their own ends.

A politician is not a true anchor to Labor at any time. If he is a good Statesman there are too many temptations for him to walk over to the other side; and the one who is not a good Statesman is not a great help to them.

A good Banker would be much more of a stand by as a central figure in the Labor movement. The man who is capable of managing a Bank of that magnitude would also be capable of giving some sound financial advice. His advice could also be depended on, for his own position would always be at stake.

He could not throw the Bank over and walk into something better, for there would be nothing better in his line in Australia. Unless there was a vacancy for a headman in the Commonwealth Bank, and there is no certainty whether such a move would be a loss or a gain for Labor.

There is nothing that the working classes in Australia are so badly in need of as a workman's Bank; nor is there anything worth while that is so easily obtained by the working people as a Bank of their own. The workers of Australia will only have to say the word and they will have the second strongest Bank in Australia all their own. For the Workers Bank would almost from the first be the strongest Bank in Australia, next to the Commonwealth Bank.

There is an opportune time for all things and now is the time for Labor to build its Holy Tabernacle, when a hundred Bank Managers are out of employment and when all the Capitalistic Banks in Australia are so weak that there is hardly a kick in them.

This is the first time in thirty-five years when a Bank could have been started anywhere in Australia without any opposition from the old established Banks.

This would also come as a godsend to all those Bank Managers who have been thrown out of employment lately.

Even at the present time the working classes of Australia have a lot of money on Fixed Deposits in the various Banks in Australia, and this could all be shifted to the Workers Bank as it falls due, and that would give the Bank a wonderful start.

In the years gone by the worker had to fight every election against the Capitalist, who was backed by the workers own money. With his own Bank the worker will be backed by his own money in the future and by some of the money belonging to the Capitalist also.

There is over £100,000,000 paid out in wages annually in Australia. The Unions have it in their power to order all that money to be circulated through their Bank.

No Bank in Australia has ever started on such favourable conditions as that, the Commonwealth Bank only excepted.

With a Workers Bank and the New System of Finance every workman's family in Australia would have its own home inside of twelve months, and so there would be neither house rent, nor interest to pay.

This would give the workers thousands of opportunities in the way of small business (and large businesses also), as well as thous-

ands of opportunities in the way of different kinds of professions.
This is certainly one of the points on which Labor has slipped badly.

With their own Bank truly patronised by all the workers of Australia the A.L.P. of Australia will be the predominating power in Australia for the future.

FOR AN INSTANT RELIEF.

As a matter of urgency the Federal Government should pass an act authorising the Treasurer to issue Notes of Credit free of interest on all commodities backed by Underwriters. This should be for twelve months, or until the commodities are sold, which ever shall be first, and as an extra precaution it may be stipulated that he is not to exceed seventy-five per cent. of the present market values.

This should be extended to Crown Leases and live stock, also the Wool Brokers and the various Banks could act as Underwriters for the Squatters and the Banks could guarantee the wheat growers on their wheat.

This would have so far reaching effects that every man and woman in Australia would be relieved. Even those Banks that have closed their doors would be able to open them again, provided that they have not gone into liquidation.

With this act all the difficulties in the Banking business and in Government finance would instantly disappear.

This would bring instant prosperity to all the Primary and Secondary producers and to every town and city in Australia.

The Commonwealth Bank in all its Branches could be authorised to act on behalf of the Treasurer.

Thus in less than a fortnight every willing worker would be back at his old job again, or at something better.

The information that this little booklet contains will be enough to solve all the financial problems of the world, and most of the political and the domestic problems as well.

The amount of money that it will save the world in interest and house rent alone will exceed two thousand millions of pounds per annum.

In consideration of his services to mankind the author is respectfully requesting that each nation may make him a monetary compensation of a sum equal to two English Sovereigns per head of its population—to be paid in the currency that the New System provides.

It is painful to have to approach the world for such a huge draw. But the author is in need of that amount of money for experimental purposes and for putting into practice certain schemes, which in his opinion will be of enormous benefits to humanity.

Most of this money would, no doubt, be wasted in the fruitless endeavours of solving impossible problems. Things that would appear to the average man as hopeless and as foolish as the attempt to abolish the interest. But many of our problems in life are impossibilities only because we think they are. Failures are costly, but where there are no endeavours there will be no achievements.

In the meantime the author is respectfully soliciting the moral and the financial support of every man and woman who has the welfare of humanity at heart.

Financially any sum will be gladly accepted if it is ever so small. Those who are able to help financially are comparatively few, but morally every person is in a position to do something. For every one has some influence over somebody. If that influence is used in the right direction it will be no difficulty to abolish the interest, the House Rents and all the Rates and Taxes in all countries.

K. J. BACKS FINANCIAL SYSTEM.

This little booklet is Copyrighted in all countries except Russia and the United States of America. The Copyright of U.S.A. has also been applied for.

Any criticism or comments that may reveal the secret of this System or anything that this book contains, is prohibited by the author. No reprint is allowed except on the following conditions: Any newspaper wishing to copy this or part thereof may do so for a monetary compensation of one shilling per one hundred copies of the circulation of the paper in which it is inserted.

Subject to the following discounts:

If the Editor inserts the whole contents of these 2 pages unaltered in his paper as an advertisement he will be entitled to a discount of twenty-five per cent., provided that he is prepared to allow other newspapers to copy the contents of this book from his paper free of charge, and provided also that he makes a statement to that effect and draws public attention to this advertisement in that statement.

If the Editor is able to trace as many as ten newspapers with the contents of this book printed in its columns, and he is of the opinion that they have all copied it from his paper, he shall be entitled to a further discount of ten per cent., provided that he sends the author a copy of each of those papers, and that he pays postage in full on each of them.

Any Editor of a newspaper printed in a foreign language wishing to translate this for his paper may do so on the abovementioned conditions, and if he inserts pages 44-45 truly translated to the same language that his paper is printed in, he will be entitled to a further discount of fifteen per cent. as a translation fee. Thus he would only have to pay sixpence per one hundred copies of the circulation of his paper.

Provided that he sends the author (postage prepaid) a copy each of ten other newspapers containing the contents of this book as stated above.

Any one wishing to insert this book or any part thereof as second hand news may do so by paying the author a sum of fourpence per hundred copies of his paper, provided that he inserts these two pages as an advertisement, and provided also that he sends the author a copy of the paper he copied it from, and that the same paper bears an earlier date than his own; omitting these conditions it will be sixpence per one hundred copies of the circulation of his paper.

No Newspaper shall have any rights to the Copyright of these Extracts, nor shall any one be called upon to pay the second time for the use of same. But any Editor having paid once, will be at liberty to repeat all or any part of this booklet through the columns of his paper as often as he likes in the future.

All moneys to be forwarded to the authors address as stated here below, together with a copy of the newspaper in which the article and the advertisement have been inserted; the postage to be prepaid by the Editor, and the paper as well as the remittance to be posted to the author's address the same week as the article is published.

TO PEOPLE IN DISTRESS.

People in extreme poverty. Returned Soldiers, War Widows, cripples of all kind, blind people, and any person in distress, from any cause whatsoever, are hereby authorised to have this book with

It contains printed at their own expense, and will be at liberty to retail it in the streets of any town or anywhere for their own personal benefits.

Provided that pages 44-45 are also inserted in the book, and that the text of the book is unaltered. Such people shall not be called upon to pay anything to the author, nor will the author pay them anything for the advertisement.

But the author requests that one free copy be sent him out of each edition, postage prepaid, so that he can verify the text.

The same privilege is granted on the same conditions to Public Hospitals, Children's Homes, Deaf and Dumb Institutions, Poor Houses, and to all kinds of Charitable Institutions in all countries.

K. J. BACKS FINANCIAL SYSTEM.

This little booklet consists of some concentrated extracts from a book of about three hundred pages.

The book contains several pieces that are intended for the "Talks."

One of these is "Isaac Under the New System of Finance."

Under the Old System Isaac makes but little, and it is very difficult to collect the little he does make, because his customers have nothing. But under the New System Isaac receives his money in advance. He becomes a very popular man. Isaac works for everybody and everybody works for Isaac, and all are doing well.

One is the Modern Version of the "Prodigal Son."

Four brothers are sober, honorable and industrious. They all have to slave for the Moneylender all their lives. The fifth is a runkard and does not even attempt to do anything. He is the only one who escapes.

Another one is "Mrs. Maloney's Standing Army." This is the author's version of Militarism.

The retail price of the book will be eight shillings. But anyone who orders it from the author direct will be able to obtain it for seven shillings, provided that the order with remittance comes to hand before the metal has been destroyed. Should the order come too late the money will be returned.

Anyone wishing to secure the sole use of the Copyright for translation purposes for any particular country or language may make an offer to the author and it will be considered.

K. J. BACK, G.P.O., SYDNEY,
N.S.W., AUSTRALIA.

X755 :576

G2

DEBTS 6
AND
REPARATIONS

THEIR EFFECT ON CURRENCY, EXCHANGE,
WORLD TRADE, COMMERCE AND FINANCE,
ON YOUR HOME AND MY HOME.

*An attempt to discuss them in simple
language*

BY

WALDRON SMITHERS, M.P.

I have been asked to put on paper, in simple words, some of the elementary considerations which are involved in the international problem of Debts and Reparations, their effect on Currency and Exchange, and their repercussion on the trade, finance, and industry of the world.

I venture to think that it is the duty of us all to try to understand these great problems which vitally affect the livelihood and the homes of all people in all countries, and by so doing to create a public opinion which will insist on a permanent international settlement without which *stability* and *confidence*—the foundations of all profitable commerce and trade between nations—are impossible.

WALDRON SMITHERS.

House of Commons.

March, 1932.

DEBTS AND REPARATIONS.

THEIR EFFECT ON CURRENCY, EXCHANGE, WORLD TRADE, COMMERCE, AND FINANCE.

These subjects are often thought to be complicated, especially the principles which lie behind them, but those principles are the same principles as guide the framing of the "budget" in any home, the only difference being that in the case of the one it is a question of two or three pounds a week, and in the other two or three million pounds a week. But whatever the size of the figures, the fact remains that two plus two make four. In other words, we may defy economic facts for a time, but in the end they will beat us and, if ignored, crush us.

First, let us realise this.

If we owe a *fellow countryman* a debt, we can pay him in pounds, shillings and pence.

If we owe a *foreigner* a debt, we have to buy so many dollars, marks, francs, lira, escudos, before we can pay him. And it is important, when it is a question of paying foreign debts, that the pound sterling should have such international value that we can buy with it the maximum number of dollars, marks, francs, etc.

This, of course, applies vice versa to foreigners who owe money to England, and if their currencies are depreciated they, in their turn, find it more expensive to buy pounds sterling with which they can pay us.

As we are a great creditor nation (i.e., a nation to which other nations owe large sums of money and to which, because

of immense foreign investments, large sums in interest are payable annually), we must in all our legislative action bear in mind that we, in common with other countries, cannot hope for a world revival unless we are prepared to act in a neighbourly spirit and to help all the countries of the world to get on their feet again. The English proverb, "Live and let live," is one which should be taken to heart by the statesmen of all countries.

Debts, Reparations, Currency and Exchange and their repercussion on trade and industry are subjects which are occupying the minds of eminent statesmen, economists and financiers the world over. A body of international experts could no doubt soon arrive at a working agreement, but they are hampered by the often uninformed and prejudiced political and electoral forces in their own countries. That is why it is so important that all of us should try to understand these matters.

Let us remember, in passing, that Reparations are not identical with Debts. DEBTS are the money borrowed and expenses incurred by the Allies in the conduct of the Great War. REPARATIONS are the sums demanded from the enemy countries in satisfaction of the damage done by those countries during the War. For our present purposes we may lump them together as LIABILITIES.

And here let me state quite briefly the history of the main negotiations concerned with these liabilities, for the problem of international debts and reparations is intimately connected with the present troubles of the world and their settlement is the first and necessary step towards world recovery.

In January, 1921, the Financial Council of the Allies at Brussels fixed the total amount of Germany's reparations debt at £6,600,000,000, which she was to pay in thirty annual instalments of £220,000,000 each.

In the light of subsequent events it has become clear how fantastic this proposal was and how little that Financial

Council of experts understood either the difficulties they were creating or the magnitude of the sum they were demanding.

Germany could not pay even the first instalment nor anything approaching it, so, in 1924, another Committee of Experts, presided over by the American, General Dawes, was appointed to reconsider the matter. The result was the Dawes Plan, by which Germany's liability was fixed at about half the original sum, and it was arranged that she should pay £125,000,000 a year for an indefinite number of years.

In August, 1928, Germany, who was bearing the cost of the occupation, raised the question of the evacuation of the Rhineland by the Allied forces, and the question of debts and reparations again came to the fore.

Another Committee was set up, presided over by the American Banker, Mr. Young, and in June, 1929, it reported and proposed, in what is known as "The Young Plan," that Germany—and mark the terms—should make *reparations* payments of £102 millions a year for 37 years, plus payments to cover allied *war debts* of £80 to £85 millions a year for 22 years. The first instalments were divided into two portions—the "unconditional" of £33 millions, to be paid in any circumstances; and the "conditional" balance, payment of which could be postponed for two years.

In 1931 it became evident that Germany could not pay even the unconditional portion, and President Hoover—fearing that the economic, financial and political collapse of Germany, at so critical a juncture in international finance, might precipitate general default among her Allied debtors—proposed, in June, 1931: "The postponement *during one year* of all payments on inter-governmental debts, reparations, and relief debts, both principal and interest."

In view of the Presidential Election next November and the difficulty of overcoming the prejudices and the ignorance of public opinion in America—the ignorance of whose people concerning international conditions is one of their worst

faults—I suppose this was as far as President Hoover felt able to go, but in any event this proposal was a belated realisation of an impossible situation and was in reality a partial acknowledgment of the wisdom of England's policy laid down by Mr. Balfour ten years earlier. (This policy is again referred to later on).

Under the Young Plan we are due to receive, next year: £21½ millions from Germany, £12½ millions from France, £4 millions from Italy, and £1½ millions from the other Allies—a total of nearly £40 millions. Against this we are due to pay America £38 millions. But, since we are off the Gold Standard and have a depreciated £, our liabilities would amount to over £50 millions. (At \$3.50 to the £, about £54 millions; at \$3.60 to the £, about £52 millions).

On the 9th January, 1932, Dr. Brüning, the German Chancellor, said: "It is clear that Germany's situation renders it impossible to continue political payments."

It will be said that this was an obvious remark for Dr. Brüning to make; but the Young Plan provided for the setting up of an independent committee to test the sincerity of such a statement. Consequently, on November 19th, 1931, the Bank of International Settlements convened a Special Advisory Committee which, in December, 1931, made a report which stated:—

- (a) "Germany would be justified in declaring . . . she will not be able in the year beginning in July next to transfer the conditional part of the annuity." (*i.e.*, after termination of the Hoover Moratorium).
- (b) "The German problem . . . calls for concerted action which the Governments alone can take."
- (c) "But the problem has assumed a world-wide range. . . . Action is most urgently needed in a much wider field than that of Germany alone."

- (d) "*Already the crisis has taken formidable dimensions . . . accumulating difficulties which, if not dealt with, will only prove forerunners of further catastrophes.*"
- (e) "*Transfers from one country to another on a scale so large as to upset the balance of payments can only accentuate the present chaos.*"
- (f) "The release of a debtor country from a burden of payments which it is unable to bear may merely have the effect of transferring that burden to a creditor country which, in its character as a debtor, it, in its turn, may be unable to bear."
- (g) "*The adjustments of all inter-Governmental debts (reparations and other war debts) to the existing troubled situation of the world . . . is the only lasting step capable of re-establishing confidence, which is the very condition of economic stability and real peace.*"

The terms of this report, made by the *independent* committee, should be carefully noted.

A new question at once arose. What is the position, with regard to the payment of debts, of the European allies—especially the position of England—towards the United States? For be it remembered that a great part of the money lent to Europe by America during the war was lent to England, whose credit was an important factor in the successful prosecution of the War. (In round figures, America's loans during and immediately after the war were \$4,300,000,000 to England, \$3,000,000,000 to France, \$1,600,000,000 to Italy, and smaller amounts to the smaller Powers).

An International Conference to consider all these questions was arranged to meet at Lausanne on the 25th January, 1932, but this Conference was never held and is now announced to take place in June next.

The policy of Great Britain was laid down in August, 1922, by Lord Balfour, and, as far as I know, it is still our policy.

“ In no circumstances do we propose to ask more from our debtors than is necessary to pay to our creditors. And, while we do not ask for more, all will admit that we can hardly be content with less.”

And Mr. Neville Chamberlain, in reply to questions in the House of Commons, made the following statement on February 2nd, 1932:—

“ The policy of His Majesty’s Government is that a comprehensive and permanent settlement of the reparation question must be reached as soon as possible. We believe, as successive Governments of this country have believed in the past, that this aim could best be realised by a general cancellation of reparations and war debts.”

If Germany and the Allies do not—or cannot—pay us, can we, or should we, continue to pay America?

Let it be noted in passing that we have lost the £900 millions owed to us by Russia, and that we have already paid to the United States £200 millions more than we have received in Debts and Reparations from the Allies and from Germany. We have made incomparably greater material efforts and sacrifices than have been made by any other of the allied nations involved in the Great War. And, in addition, we have shown our sincere and earnest desire to help in the solution of world problems by reducing armaments by a greater proportion than any other nation, and by so doing we have given a magnificent lead to the world of which, in future negotiations, the world must take account.

What further steps can be taken? Only one thing can save the civilised world from chaos and ruin: **THE CANCELLATION OF WAR DEBTS AND REPARATIONS.** Or, at the very least, reparations payments must be reduced to a figure which it is economically certain Germany can pay, and must be fixed at a figure which will not indefinitely cripple her. If

the world is not to drift along and gradually sink into complete economic collapse—and possibly worse—both Debts and Reparations will have to be reduced to such proportions as it can comfortably manage. In effect, this means practically cancellation.

In common fairness and to satisfy, to some extent, French public opinion, it may be necessary to impose reasonable conditions on Germany concerning the extent to which she should arm or be allowed to dominate world trade. It is manifestly unfair to let Germany off Scot free and, by so doing, put her in a better position than her former enemies. It may be impossible to fix a definite sum to be paid by a definite time, but if it is considered advisable to maintain the *principle* that Germany shall continue to pay, then let the amount and time be determined by her capacity to pay, and let that capacity be settled by an independent body—such as the Advisory Committee of the Bank of International Settlements—and not by the Government or Governments of her late enemies, who are apt, for political reasons, to demand sums out of all proportion to the ability of Germany to meet those demands.

At the same time, even France must realise that a reasonably prosperous Germany is a healthier and more helpful neighbour than a bankrupt Germany, and that Germany will never be prosperous so long as her people are haunted by the fear that their money may at any moment suffer confiscation. There is no doubt whatever that Germany has placed vast private resources abroad, but there is no way of discovering and attaching these sums, and they will only return to Germany when confidence in her own solvency is re-established.

The presence of 65,000,000 virile people in the middle of Europe cannot be ignored, and if a policy of "crushing them" is pursued, there is the danger of driving Germany, in desperation, into the arms of Bolshevik Russia, letting loose the forces of revolution and chaos, the consequences of which are too terrible to contemplate. And those nations,

France in particular, who advocate such a policy would eventually discover that the very means they had adopted for the continued subjection of Germany would recoil on them and bring us all down together.

It is clear that debtor nations will agree with cancellation; but creditor nations may reply: "Of course, that's an easy way out for the debtors!" Nevertheless, cancellation is a necessary condition of recovery for the good of the world as a whole, and it does not matter whether the suggestion is put forward by a creditor or a debtor—it is TRUE, and France and America are beginning to realise it.

The necessity for at least some measure of cancellation was realised by Mr. Hoover when he suggested a year's moratorium. But public opinion in all countries is hard to sway, and the ignorance of the general public in all countries concerning international questions of finance, currency, and exchange, and their repercussions on world trade and world prosperity, is so great that this temporary relief is as far as the Governments of the interested countries, in view of their fear of public opinion, have felt able to go. The time has come—if the world is to be saved—when statesmen of foreign countries should have the courage—regardless of electoral consequences—to tell their people the truth in the same way as we did in August, 1931, the result of which was seen in the General Election of October, 1931. I am certain that political, economic and financial leaders in every country realise the necessity for cancellation, but until the principle is accepted by all peoples in all countries we cannot hope—nor can any country in the world hope—for a permanent revival of industry and trade, with a consequent raising of the standard of living and the reduction of the numbers of unemployed, which now amount to something like 20,000,000 throughout the world.

You cannot transfer huge sums—for which there is no *commercial* basis—from "debtor" to "creditor" nations without dislocating trade, currency, and monetary systems, and without destroying confidence and stability. The first requisite for good and profitable national and international

business is *stability*, which alone can give the leaders of trade and industry confidence in making the contracts, some for many months ahead, which will put men into employment. As an expert friend of mine, who read the proof of this paper, put it: "This is the 'guts' of the whole business."

Folly—and suicidal folly at that—made America and France demand huge payments by way of debts and reparations, and then raise and maintain high tariff walls which prevented us from paying our debts in goods or services. We were compelled to pay in gold, until the point was reached at which there was no gold left to send, and we were *forced off* the Gold Standard in spite of our most valiant efforts to remain on it. The use for which gold, as an international medium of exchange, was intended was to settle *balances* of trade. Directly gold is used as a commodity of trade, and as a means of hoarding wealth, there is a shortage of gold, and the Gold Standard must cease to function.

The world in general, and France and America in particular, are faced with two alternatives:—

- (1) To listen to reason and to act accordingly and at once;
- (2) To learn through the bitter lessons of bankruptcy and chaos, which conditions may not originate in those countries but must in time react on them and drag them, and us all, down.

The question the American Government must ask itself is: "How much further downhill will America go before the American people ask their President to cancel War Debts, and dare we allow America to go so far down?" In America the balance of political power lies with the farmers and the producing classes; they are not yet feeling the pinch to the same extent as the city dwellers. But soon the ruin of the city dwellers will prevent farm products from being produced at a profit or even sold at all.

There is another reason—and one which is often forgotten—why war debts and reparations should be cancelled.

Debtors know it is difficult to *pay*. When will creditors realise that it is ruinous for them to *receive*?

There is now practically no *gold* left for America to receive from Europe. Therefore Europe can only pay in goods and services. The receipt of *goods and services* in payment of war debts is impracticable, because the American people cannot receive payment in goods and services without injury to themselves and without accentuating their present grievous condition. If goods are sent they must be sold, and their sale would depress prices of similar goods in America. There, wages must fall, unemployment must rise.

This tendency is now in progress in America and is reflected in increased unemployment, bank failures, budget deficits, and an unprecedented fall in the stock markets. Americans are learning that hoarding and the mere possession of vast amounts of gold bring neither peace of mind nor material prosperity.

Payment of debts to America means a one-way traffic. There is no *exchange* of commodities and therefore no *trade* is initiated and no employment given *there*, but to the extent to which goods are received more Americans are thrown out of work.

America could not even receive goods and sell them abroad. She has a surplus of her own goods for sale, and even if the Reparations goods were sold by America, she could only receive payment in goods again and so strengthen and widen the vicious circle.

Tariffs or no tariffs, payments in goods and services can never settle these huge international war and political debts.

So we come back to the principle laid down by Lord Balfour in 1922. If the world had had the breath of vision then to accept Lord Balfour's policy, not expert but instinctively British, we should have been saved from many of the troubles which now beset us. Are France and America

incapable of taking the large view, of gaining that vision without which the people perish? Cannot France realise that, however great may be her fear of Germany—and that fear is ingrained in the hearts of her people—she cannot ignore the existence of 65 millions of active people who, if they go bankrupt, will drag the rest of the world down with them? France is obsessed with a crippling fear. She is securing every ounce of gold she can get with no apparent good reason. Certainly she can never eat nor wear it. Does the mere possession of it mean security for her or can the possession of it bring prosperity to her?

A simple story may explain what is happening. In a school of twenty boys, marbles was a popular game. One boy succeeded in winning all the marbles from all the other boys, but he then found he had no one to play with. The only way in which the game could be restarted was by his giving ten marbles to each of the other boys.

Lord Balfour's policy was the expression of the best British character and mentality: "Live and let live." Let us proclaim and prove to the world once more that the policy which results from the higher development and expression of that indefinable something which is "*character*" must be recognised as the basis of the future policy of the world if civilization is to emerge triumphant from its present troubles. Quite humbly, but at the same time quite truthfully, we may say that the best expression of that "something" has been seen in the policy and the influence of England.

In all the speeches delivered by the Chairmen of our five great Banks at their Annual Meetings, you will find the words "Hope," "Confidence," "Psychology," "Trust," "Credit." Yet if you search the ledgers and journals of all the business firms in the world, you will not find the value of these terms expressed in so many pounds, dollars, francs, or marks, but they are basic.

The lesson which peoples and nations must learn was perfectly expressed by His Royal Highness the Prince of

Wales in his epoch-making speech at the Albert Hall at the end of January. He then said: "The mere acquisition of material wealth is not in itself the fulfilment of an individual or a national purpose." And Mr. Baldwin, in a speech at Leeds on the 13th March, 1925, referring to the years after the War, said: "I think some of us found we were getting to cling much more loosely to material wealth, and to realise that wealth was made to be a servant and not a master—that, as a servant, it had a most useful function to perform, but that as a master it meant damnation." And Mr. Beaumont Pease did not hesitate to ask his bank shareholders, at their Annual Meeting, whether, behind the spiritual meaning embodied in the "Second Great Commandment" there does not lie worldly wisdom—wisdom which is peculiarly applicable in these days, both to individuals and to nations. There are certain things which cannot be included in Balance Sheets, Statistical Abstracts, Board of Trade Returns, or Budget Estimates. But those indefinable things are fundamental to the material prosperity of the nations, and the production of a good balance sheet at the end of the year depends on them.

By what right can England take up this attitude, and what right has England to tell the world the course it should pursue?

After the War we punctually met all our obligations, at whatever sacrifice, until—owing to forces outside our control—it was utterly impossible for us any longer to do so, and so we faced the crisis of the year 1931.

The most important factor in the restoration of general confidence was the crushing defeat of the Socialists at the General Election in Great Britain, the effects of which were felt the world over.

Just before that crisis came in August, there were signs of grave financial difficulty throughout Europe. This country, true to its traditions, tried to localise and isolate the trouble by giving what help she could in the shape of credits, first to Austria and then to Germany.

To try to twist this situation, as some have tried to do, by saying that London was only out to make a commission between long and short loans, is a complete travesty of the facts and of the motives behind the action of the financial houses of London.

The Bank of England has already repaid the £50 millions of credit which it received during the crisis from Paris and New York, and within the last few days the Treasury has been able to repay—six months before the due date—the greater part of the £80 millions of credits it received last year from France and America to save the pound sterling.

When our own crisis came, we as a nation faced it without flinching, as the General Election of 1931 proved, and as a first step we balanced our Budget for two years on a basis of three million unemployed. We are now taking steps to balance our trade. Heavy taxation has been met and paid in a way that has won the admiration of the world. We have strained every nerve to overcome our difficulties. The Banking system of this country has been kept liquid and all along has retained the confidence of our people. While the people of other nations have been afraid of the solidity of their Banks and have been hoarding wealth, our people have brought out their gold coins and trinkets and have willingly and gladly sold them for pieces of paper bearing nothing but the imprint and signature of the Bank of England.

Last year, in America, over 2,000 banking institutions closed their doors, the depositors losing over \$1,500,000,000. Whatever differences of opinion there may be about the management or mismanagement of our currency and of the Gold Standard, the fact remains that we have, almost alone among nations of the world, had no "run on the Bank" and no Bank failures. This alone gives the lie to the cry raised at the last election that the crisis was "A Bankers' Ramp."

The National Government is maintaining law and order in India, and that country was able to pay her January maturity of £15,000,000 in cash.

All this has been possible because of the confidence the people have reposed in the National Government, the representatives of the British people. Is this confidence justified? There can be no doubt of the answer to this question. Because of an unexampled display of character, material prosperity is returning. *The date of its return depends on the speed with which we can make our influence felt in the world at large.* Many other nations have still their pill to swallow. Let them swallow it quickly and get it over, for only so, with health restored, can they once again become active partners and good neighbours to us and to each other.

Let us not be afraid to give a lead. An announcement to the world—as soon as we are in a position to make it—of the monetary policy we intend to pursue is the first and necessary step to a general reconstruction and to trade revival, for that monetary policy is the dominating factor in the situation.

If all War Debts and Reparations were wiped out to-morrow, the internal debt per head of the population in England would amount to £150. In France it would be £56, and in Germany only £8. Even in the United States—the heaviest sufferer from cancellation—the amount per head would be only £27.

So long as the question of Debts and Reparations remains unsettled, the question of currency and exchange is a difficult one. But there is no need for despair. So much of the world is off the Gold Standard and related to sterling that, by degrees, we shall recover a sufficient volume of trade with the non-Gold Standard countries to ensure us against any undue increase in the cost of living. (Sir Basil Blackett has suggested a “sterling area.”) As far as can be ascertained, there are 28 countries on the Gold Standard; 8 are theoretically on the Gold Standard, 45 off the Gold Standard, and 21 countries on Sterling.

We seem to be the only people who are capable of organising, insuring, and financing the commerce of the world. That in itself is a great asset. The ability to con-

tinue to hold this position depends on the extent to which we can stabilise sterling and be free from violent exchange fluctuations. If America and France persist in their dog-in-the-manger attitude, they will find themselves isolated. The world will ignore gold and find some other means of carrying on international trade. France and America will discover that their budgets will continue to show deficits, that their trade will diminish, and their unemployment increase. Their shops, restaurants and hotels will be empty and their industry will go from bad to worse, and their present stocks of gold considerably reduced in value.

Sterling has been, is, and will remain, the currency on which the goods of the world will be moved; if, as time goes on, economic forces prove too strong for us and we are unable to return to the Gold Standard, then those countries which are still on a gold basis will be compelled, if they wish to trade, to relate their currency to sterling. Sterling will absorb gold and not gold sterling. Sterling is to-day the dominating factor in international commerce, and confidence in it has returned and will be maintained if only we maintain national unity, balance our budgets annually, continue to display our national characteristics, and present a united front to the world.

The internal purchasing power of the £ is as great as it was when we went off the Gold Standard. This is not so much due to the fact that sterling has "gone down" as that gold has been "cornered" and its price has "gone up."

The £ is worth what it will buy in its own country.

Another important point which would take too long to develop here at length is this. War debts were contracted and arrangements made for their repayment on a gold basis. No serious account seems to have been taken as to the quantity of commodities a given amount of gold would buy in 1914, during the years of the war, or since the war.

From a book published by the Vendome Press I quote the following paragraph, which puts the case in a nutshell:—

“ For two years, wheat in Chicago was worth \$3.50 a bushel. England doubtless bought millions of bushels at this rate. Wheat was recently worth less than fifty cents a bushel. England owes the gold value of seven bushels to-day for every bushel she received ten years ago.”

This is another reason for the re-consideration and re-examination of debts and reparations.

Certain tariff proposals have recently been given the force of law, but time must elapse before the real effects can be seen. For this country, a general tariff is an experiment, but a wholly wise experiment. Its chief value lies in the fact that we have at last a weapon which we can use effectively in bargaining with other nations. In view of the fact that we were the last big Free-Import country in the world, I hope and believe that one of the most important effects of our imposition of a tariff will be a general all-round reduction in international tariffs. All we ask is to be allowed to compete on equal terms with the rest of the world, and secure for ourselves equality of opportunity.

For ourselves there is only one course to pursue, and that is to back this National Government for all we are worth. The country is right in demanding courage and action from the Government, but is not the Government justified in asking from the country courage and a little patience?

We must continue to present a united front to the world. We have in the present Cabinet the best brains of all parties working together for the common good. They have at their disposal information and knowledge that no single person can hope to have. Surely we can do no less than put aside all private interests and help and encourage the National Government with all our might and main! We have the sure knowledge that no class, no nation, can hope to improve its conditions unless foundations are laid, and laid soon, for an all-round recovery. In helping to lay those foundations we can best serve—and save—the world, and, incidentally, ourselves.

AMERICA CAN DO NO OTHER.

"We are now about to accept the gage of battle with this natural foe to liberty, and shall, if necessary, spend the whole force of the nation to check and nullify its pretensions to power.

"We are glad, now that we see facts with no veil of false pretence about them, to fight thus for the ultimate peace of the world, for the liberation of its peoples, the rights of nations great and small, and the privilege of men everywhere to choose their way of life and obedience. The world must be safe for democracy. Its peace must be planted upon trusted foundations of political liberty. We have no selfish ends to serve. We desire no conquests and no dominion. We seek no indemnities for ourselves, and no material compensation for sacrifices we shall freely make. We are but one of the champions of the rights of mankind, and shall be satisfied when these rights are secure as fact and the freedom of nations can make them.

"To such a task we can dedicate our lives, our fortunes, everything we are, everything we have, with the pride of those who know the day has come when America is privileged to spend her blood and might for the principles that gave her birth, and the happiness and peace which she has treasured. God helping her, she can do no other."

Woodrow Wilson on America's entry into the Great War.

AS WE LAY STONE ON STONE.

"When we build, let it be such a work as our descendants will thank us for; and let us think, as we lay stone on stone, that a time is to come when those stones will be held sacred because our hands have touched them, and that men will say as they look upon them, '*See! this our fathers did for us.*'"

John Ruskin.

THE FAITHFUL TRUSTEE.

"Finance is not as some think the rich man's art. It is the art of the public trust. Its business lies in the centre of communal life, as developed by industrial civilization. In all this the man to be sought for and on whose discovery everything depends, is the man who unites in himself the breadth of the international mind, the trained accuracy of science, and the faithful spirit of the trustee. Let him withdraw his support and down comes the whole structure in ruins, which neither the diplomat nor the agitator can rebuild."

Professor L. P. Jacks.

"Greatness can only be maintained in the future if we are faithful to those principles which have secured greatness in the past."

"To think that two and two are four
And neither five nor three,
The heart of man hath long been sore
And long is like to be."

A. E. Housman.

"There is no alleviation for the sufferings of mankind except veracity (truth) of thought and action, and the resolute facing of the world as it is when the garment of make-believe with which pious hands have hidden its uglier features has been stripped off."

Huxley.

PROPOSED BANKING ACT
of 1935

STATEMENT 7
by
WINTHROP W. ALDRICH

Before the Subcommittee of the United States Senate
Committee on Banking and Currency
at Washington, D. C.

May 15, 1935

THE CHASE NATIONAL BANK
of the City of New York

X62:(273).N35

G5

PROPOSED BANKING ACT

of 1935

MR. CHAIRMAN:

I regard this bill as one of the most important measures now before Congress. It is more than a banking bill: it is a credit and currency bill. As such it deserves the most careful consideration not only of bankers but of business men generally. It has even a wider scope, for it touches at vital points every person in the United States. This is true whether the individual works for hire, owns or rents property, has an income, buys, sells, produces or consumes.

For these reasons I shall not speak simply as a banker, though a thorough understanding of the bill requires a certain amount of banking knowledge, and more than that, a knowledge of the very specialized department of banking which has to do with the business of a bank of issue. I shall discuss the practical as well as the theoretical aspects of the bill and attempt to explain how I think its provisions will work under conditions as they now exist or may exist in the future.

I shall not take up the time of the Committee at this point with a discussion of Title I, which is designed to perfect the system of Federal deposit insurance, or Title III, which makes technical amendments in existing banking laws. To do so would require speaking of matters which are of primary interest to banks, whereas Title II is the concern of the whole country. If at the close of my testimony the Committee will permit me to do so, I should like to make some observations with respect to Title I, which relate especially to certain provisions of that Title as it was adopted by the House of Representatives.

In the meantime I shall proceed, if the Committee pleases, to discuss Title II, which greatly changes the theory and practice of Federal Reserve administration, and therefore has a broad bearing on the economic life of the United States.

Reserve System Fundamentally Changed.

According to the newspaper reports of his testimony before this Committee, the Governor of the Federal Reserve Board has testified that the changes to the Federal Reserve Act proposed in this bill are urgently needed at the present time. I shall endeavor to show that this testimony is not justified by the facts. Governor Eccles has further testified that the proposals made do not alter the fundamental character of the Federal Reserve system or the original nature of the organization. It will be remembered that the National Reserve Association, as originally proposed by the Monetary Commission, consisted of a privately-owned central bank of issue with branches, but that under the leadership of President Wilson and Senator Glass this central bank was converted into the Federal Reserve system of twelve regional Federal Reserve banks with a high degree of individual autonomy, the Federal Reserve Board being set up in order to coordinate their activities. I will endeavor to show that the fundamental character of the Federal Reserve system so created is completely altered by the proposals made in this bill.

Governor Eccles has further testified that there is nothing in this bill which would increase the powers of a political administration over the Federal Reserve Board, and at the same time undertook to defend government control over the management and operation of the Federal Reserve system by referring to foreign central banks.

He is reported to have said:

"There is in the world today no central banking institution, whatever the facts as to stock ownership or the legal provisions of its charter, which is not subject to control by government."

If Mr. Eccles intended to say that in the modern state the government can alter by constitutional means the charters of central banks, just as it can perform other acts

within its constitutional limitations, he is merely reciting a truism. If he meant to imply that the central banks and the governing authorities should take counsel with each other so as to avoid conflicts of policy, or even that the government is represented, as in the existing organization of the Federal Reserve system, in the administration of many foreign central banks, he also is right. But if he meant to inform the Committee that political authorities abroad have the same powers of dictation over their central banks that this bill would provide with respect to the Federal Reserve system, he is wide of the facts.

Limited Government Control of Foreign Central Banks.

The evidence to the contrary is overwhelming. I find, for instance, on page 17 of the authoritative work on "Central Banks" by Sir Cecil H. Kisch and W. A. Elkin, the following paragraphs:

... " . . . Since the war the tide has set strongly against State interference with the functions of a Central Bank. The Brussels Conference Resolution of 1920 in favor of the creation of independent central banks crystallized the general feeling. Resolution III proposed by the Commission on Currency and Exchange and adopted by the Brussels Conference, 1920, says 'Banks and especially a Bank of Issue should be freed from political pressure and should be conducted solely on the lines of prudent finance.'

"The independence of the bank of issue was a cardinal feature of the League of Nations reconstruction scheme for Austria and Hungary, and the League's financial committee have remained strong advocates of independent central banks as is apparent from the statutes for the Banks of Esthonia and Greece, drafted in 1927. Further, in countries where the pre-war legal provisions remain, the actual tendency has been strongly against active political control. The operation of a similar principle is to be discovered in the constitutions prescribed for the central banks recently established in certain South American Republics. Central banks have more and more come to be looked upon as analogous to large public trusts and less and less as Departments of State."

I shall speak later of the elaborate safeguards set up in the German Reichsbank and the Bank of France against the use of central bank credit for financing the German and French Treasuries. In each case the safeguards were the product of grievous experience. In the

case of the German Reichsbank the law goes to great lengths to prevent political control. The first words in the Reichsbank law are the following: "The Reichsbank is a bank independent of Government control." It is 100 per cent privately owned, and up to the present regime its officers were freely elected by the General Council, subject only to confirmation by the President. In Italy, where the central bank is also privately owned, the governor and senior officers are appointed by the directors subject to approval by the Government, and the directors in turn are elected by the shareholders. The directors of the Bank of England, which is privately owned, are elected by the shareholders, and the governor and deputy governor are nominated from their own number by the directors and elected by the shareholders. The directors fix the rate of discount, though the governor can do so on his own authority if an emergency intervenes between meetings of the directors. The Netherlands Bank is privately owned and the directors are elected by the shareholders, who also propose the name of the governor for appointment by the Queen. The Swedish Riksbank, which is an exception to the general rule, is government-owned, and six members of its board of directors are elected by Parliament and one is appointed by the King. In the new Bank of Canada which opened for business early this year, and which is privately owned, the board of directors is elected by the shareholders, and the directors appoint the governor and principal officers for terms of seven years, subject to the approval of the Government. Short-dated loans may be made to the Governments of the Dominion and the provinces, but in strictly limited amounts and must be repaid by the first quarter of the following year.

The Bill Potentially Despotic.

These are instances which I have selected more or less at random. It is of course impossible to deduce from them a uniform rule universally followed, as Mr. Eccles implied. There is much variation in the procedure of selecting the central banking authorities, in their functions and in the restraints which the law places on the exercise of those functions. But I find nowhere among the central banking

organizations abroad so complete political control as the present bill provides for. The members of the Federal Reserve Board are already 100 per cent appointed by the President acting solely on his own initiative, subject of course to the advice and consent of the Senate. It is to this group, three of whom are directly representative of the political administration, that the bill would grant powers more extensive than are granted to any foreign central bank that I know of,—first, the power to force on the Federal Reserve system an indefinite amount of Government obligations of any and all maturities whether purchased directly from the Treasury or not; second, the power to fix rates of discount and interest charged by the Reserve banks; third, the power to fix at will what deposits the member banks shall keep with the Reserve banks; fourth, the power to lower the standards fixed in the law describing the quality of paper the Federal Reserve banks may buy or lend upon; fifth, the power to dilute the currency; and sixth, the power to force the Reserve banks to engage in whatever open market operations it may decree. This is not liberalizing the Federal Reserve system. It is making it over into an instrument of despotic authority.

In my discussion I shall base most of what I have to say on the Senate bill as it stands, but where the bill recently passed by the House of Representatives deviates from it in important particulars, I shall refer to that bill also.

I. LOCAL SELF-GOVERNMENT IN FEDERAL RESERVE ADMINISTRATION.

Section 201(a) of the Senate bill provides that the governors of the Federal Reserve banks shall be annually appointed and that after each appointment they shall be approved by the Federal Reserve Board as a condition to their taking or retaining office. The governor becomes chairman of the board of directors, and the joint office of Federal Reserve agent and chairman is eliminated. The House bill varies this programme somewhat. The governor's first appointment is made subject to the approval of the Reserve Board. He serves out the unexpired term of

the chairman whom he succeeds, and then must be appointed and approved again. Thereafter he has to be appointed and approved every three years. The effect of the House bill for the immediate future is to make the governor's name come up for approval twice in a little more than two years.

Existing Plan Provides Balanced Control.

The change which either bill proposes in the administrative plan of the Federal Reserve system goes much deeper than appears on the surface. It raises the whole question of how far local self-government in the system is to be preserved. One of the outstanding characteristics of the Federal Reserve plan as it has operated since the establishment of the system twenty years ago has been the balance carefully maintained among all the parties at interest. The system has been operated under the joint control of business (including agriculture and industry), the member banks and the Federal Government. These three parties at interest have been equally represented on the boards of directors of the regional banks, having three directors each. Throughout the life of the Reserve banks the men sitting on their boards of directors have consistently represented the highest standards of their respective districts. They have elected the governors and the other officers and have been responsible for the administration of the Reserve banks. The operations and personnel of the Reserve banks have been notably free from political influence or group domination, and the quality of their operation has compared favorably with the best business practice.

In addition to its representation on the boards of the Federal Reserve banks, the Federal Government already has complete control over the personnel of the Federal Reserve Board in Washington, designed primarily as the coordinating agency for the system and the general supervisory authority.

The effect of this arrangement has been to preserve local self-government and at the same time provide for the exercise of Federal authority both in the central coordinating agency and in the Reserve banks themselves.

President Wilson an Advocate of the Balanced Plan.

President Wilson recognized that a correct balance between local self-government and central authority was one of the outstanding features of the Federal Reserve system. The Governor of the Federal Reserve Board, testifying before this Committee the other day, was quoted as putting Mr. Wilson's views in a somewhat different light. Mr. Eccles read the following sentence from President Wilson's message to Congress on June 23, 1913:

"And the control of the system of banking and of issue which our new laws are to set up must be public, not private; must be vested in the Government itself, so that the banks may be the instruments, not the masters, of business and of individual enterprise and initiative."

It seems to me, after reading that message that Mr. Eccles was a little too selective. I find at least two other parts of it that bear on the point. The first is this:

"It is absolutely imperative that we should give the business men of this country a banking and currency system by means of which they can make use of the freedom of enterprise and of individual initiative which we are about to bestow upon them."

There is no reference here to a centralized authority which would be charged with a mandate to regulate economic life as a whole. Emphasis is placed upon freedom of enterprise and individual initiative. And my next quotation makes it clear that in President Wilson's view it was imperative that the monetary resources of the country must not be concentrated anywhere in a few hands:

"The principles upon which we should act are also clear. The country has sought and seen its path in this matter within the last few years—sees it more clearly now than it ever saw it before—much more clearly than when the last legislative proposals on the subject were made. We must have a currency, not rigid as now, but readily, elastically responsive to sound credit, the expanding and contracting credits of every-day transactions, the normal ebb and flow of personal and corporate dealings. Our banking laws must mobilize reserves; *must not permit the concentration anywhere in a few hands of the monetary resources of the country* or their use for speculative purposes in such volume as to hinder or impede or stand in the way of other more legitimate, more fruitful uses."

All of this, of course, was some six months before the original Federal Reserve Act became law. A year or so

later he was able to speak in less general terms, for the text of the Act was before him and the Federal Reserve banks were in process of organization. In a letter written on October 17, 1914, to Representative Oscar W. Underwood, then leader of the Democratic majority in the House of Representatives, President Wilson gave his ideas of the balanced system which a few days later was to begin operations. He spoke both of the coordinating Federal authority and of the value of local self-government. After describing the merits of the elastic currency provided by the new system, he went on to say:

"More than that, the power to direct this system of credits is put into the hands of a public board of disinterested officers of the Government itself who can make no money out of anything they do in connection with it. No group of bankers anywhere can get control; no one part of the country can concentrate the advantages and conveniences of the system upon itself for its own selfish advantage. The board can oblige the banks of one region to go to the assistance of the banks of another. The whole resources of the country are mobilized to be employed where they are most needed. I think we are justified in speaking of this as a democracy of credit. Credit is at the disposal of every man who can show energy and assets. Each region of the country is set to study its own needs and opportunities, and the whole country stands by to assist. *It is self-government as well as democracy.*"

This is no plea for centralized authority. On the contrary, it is an accurate forecast of how the Federal Reserve system was to function through the next twenty-odd years, with fair representation of all the parties at interest and arbitrary powers for none. What Mr. Wilson said applies to the Federal Reserve Act as the Act stands today. It does not apply to the changes proposed in the bills. They violate in the essential particulars of local self-government and a balanced system the principles which Mr. Wilson set forth.

Rupture of the Balanced Plan.

Though Section 201(a) makes few alterations in the form of the Federal Reserve administrative plan, it goes far to change its substance. The abolition of the joint office of Federal Reserve agent and chairman involves no question of principle and may serve somewhat to simplify organization. But the provision that the governor shall be

elected frequently and must be approved as frequently by the Federal Reserve Board before he can take office raises the whole question of local self-government in the system. The effect of the change is to make the governor of every Federal Reserve bank, heretofore the appointee solely of a local Reserve bank's board of directors, inescapably responsive to the Federal Reserve Board in Washington.

But the result goes even further and would make the administration of the twelve Federal Reserve banks directly subordinate to the central authority of the Federal Reserve Board. Since the bill makes the officers and employees of the Reserve banks directly responsible to the governors instead of to the directors of the Reserve banks, and the governors in turn are made subject to frequent approval by the Federal Reserve Board, the chain of control is complete. If the impartial operation of the Reserve system is to be maintained, and if the personnel of the Reserve banks is to be kept clear of politics, the independence of the governors must be preserved and they must not be controlled by anybody or any group other than their own boards of directors who themselves are representative of business (including agriculture and industry), the member banks and the Federal Government.

The existing law (Section 4 of the Federal Reserve Act) provides that "every Federal Reserve bank shall be conducted under the supervision and control of a board of directors" and that the latter "shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law." The high technical standard of work done by the personnel of the Federal Reserve banks testifies sufficiently to the success of this arrangement. I believe it to be a backward step to diminish the authority of these men and to relieve them of responsibilities which they have fully lived up to.

The bill in other sections which I shall presently discuss adds greatly to the powers to be exercised by the Federal Reserve Board and diminishes certain of the powers heretofore exercised by the directors of the Reserve banks. At the same time it gives the governors of the Reserve banks, or certain of them, at least advisory participation in the

formulation of policies which the Reserve banks would be obliged to carry out irrespective of any opinion which the directors may have with regard to them. If the governors are independent, they will bring to their work supplementary judgment adequately reflecting the opinion of the local directors, and thereby afford the country additional protection against the adoption and enforcement of hasty or experimental policies.

It should be added that the Reserve Board's authority seems already sufficient to deal with misconduct in office, for it has the power under Section 11 of the present Act to suspend or remove any officer of a Reserve bank upon stating the cause in writing.

Recommendations on Section 201(a).

I accordingly recommend that Section 201(a) of the bill be changed so that the election of a governor of a Federal Reserve bank be made subject to the approval of the Federal Reserve Board only once and that no re-approval be required. Corresponding changes should be made in the bill with respect to the vice-governors of Federal Reserve banks.

I also recommend that the date when the other proposed changes shall become effective, including the abolition of the joint office of Federal Reserve agent and chairman, be not "ninety days after the enactment of the Act," as the bill provides, but as of the first of the next calendar year. This will make the change to the new plan coincide with the expiration of the terms of office of three directors in each Federal Reserve bank, thereby minimizing the disruption of the existing organization.

II. THE FEDERAL RESERVE BOARD.

Section 203 of the Senate bill and the same section of the House bill deal specifically with the Federal Reserve Board. Each leaves the total membership of eight as provided in the present law. Each changes the description of the qualifications which the President shall have in mind in selecting the six appointive members. The Senate bill (but not the House bill) raises the compensation of the

members of the Board, and provides for pay after retirement. Each makes the designation of the Governor terminable upon order by the President, but under the House bill a Governor whose designation is withdrawn can continue on as a member of the Board until his term expires.

I understand that one of the reasons advanced for the foregoing amendments provided for in the Senate bill is to establish firmly the prestige of the Federal Reserve Board. I heartily endorse that purpose, for I believe that the members of the Board should hold a position among bankers corresponding to that of the justices of the Supreme Court among lawyers.

In setting forth the qualifications which the President shall have in mind in selecting persons for membership on the Federal Reserve Board, the existing law says that "the President shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests, and geographical divisions of the country." The bill omits this clause and in substitution therefor it prescribes that "the President shall choose persons well qualified by education or experience, or both, to participate in the formulation of national economic and monetary policies."

It may be true that the present law stresses too much the strictly representative principle in the selection of members of the Federal Reserve Board. Since the Board is a national body, its members should frame their policies for the benefit of the nation as a whole rather than for the advantage of any particular section or group. Yet this change in the text of the Act cannot be appraised independently of other sections in the bill. Accordingly, I shall reserve my comments upon it until a later point in my discussion when I hope to draw together the various provisions granting new powers to the Federal Reserve Board. I shall then be able to consider this clause in the light of the bill as a whole.

For the moment I suggest merely that the experience qualification be made somewhat more explicit since the business of the Federal Reserve Board relates in large part to technical banking matters. It seems entirely in order that some members of the Board should have had practical ex-

perience in the administration of Federal Reserve banks or of member banks. If the Board has among its members at least two men who are familiar in a practical way with the problems with which the Board is daily confronted, much time will be saved and its efficiency will be conserved.

"A Supreme Court of Banking."

I now come to a phase of the existing law which I think is open to question and which each of the present bills continues. If either bill is to achieve the purpose of making the Federal Reserve Board a body of the highest prestige, corresponding to the Supreme Court, its independence from political control must be assured. The six appointive members, as the law now stands, are in fact removable at the pleasure of the President. Until two years ago the law provided that they should serve for fixed terms "unless sooner removed for cause by the President." This provision was eliminated by the Banking Act of 1933.

I believe it is vital that the bill should provide that members of the Federal Reserve Board should serve for fixed terms and should be removable only for cause and after notice and hearing.

I realize that the case of *Myers v. United States*, 272 U. S. 52, decided by the Supreme Court of the United States in 1926, raises serious questions as to whether the Constitution permits Congress to place any limit upon the power of the President to remove from office any officer appointed with the advice and consent of the Senate, and unless that case is distinguished by the Supreme Court of the United States from the *Humphrey* case, now pending before that Court, the Court in effect may hold that Congress has no constitutional right to place any limitation upon the power of the President to remove any member of the Federal Reserve Board at any time and for any reason he sees fit. If the Court should so decide, the possibility of removing political pressure from the members of the Federal Reserve Board would be terminated. This, it seems to me, constitutes a very serious reason why action upon this bill should be postponed until after the decision

of the Supreme Court in the Humphrey case has been rendered.

A Smaller Federal Reserve Board Desirable.

Under both the Senate and House bills the Federal Reserve Board is continued as a body of eight members, including the Secretary of the Treasury and the Comptroller of the Currency as *ex-officio* members. They fix more closely than heretofore the responsibility of the Governor to the executive. In consequence, three members of the Board become directly representative of whatever administration is in power. I do not question the principle that the fiscal policy of the Federal Government should be closely coordinated with the broader policy of the Federal Reserve system. Unless the Treasury and the Reserve system work in harmony, each is able to counteract or perhaps even nullify the policy of the other. I think, however, that this unity of policy can be adequately assured through the person of the Governor of the Reserve Board. I would even go so far as to suggest that his term might be made to coincide with that of the administration under which he was appointed. In making that suggestion I merely recognize a tendency which has become more and more marked in the system even under the present law.

Since a governor so appointed is able adequately to represent prevailing Treasury and administration policies, the reason disappears for retaining the Secretary of the Treasury and the Comptroller of the Currency as members of the Federal Reserve Board. The Reserve Board would become less subject to political pressure and less disposed to use its powers for financing budget deficits if these two *ex-officio* memberships are terminated. If the powers of the Federal Reserve Board are to be in any wise enlarged, the need for eliminating these memberships becomes correspondingly more important.

I propose also that the total membership of the Federal Reserve Board should be reduced to five. There is at present an even number of members and on certain critical occasions the vote of the Board has been evenly

divided, resulting in inaction and indecision. Accordingly, in addition to eliminating the Secretary of the Treasury and the Comptroller of the Currency, one of the appointive membership should be allowed to lapse, thereby bringing the total down to five.

Recommendations on Section 203.

My explicit recommendations are the following:

(a) Section 203 (1) should be amended so that at least two of the appointive members of the Federal Reserve Board shall be selected from persons of tested experience as executives either of Federal Reserve banks or of member banks.

(b) Section 203 (2) should be amended so that any member of the Federal Reserve Board, regardless of age, whose term expires after a service of at least five years and who is not reappointed, would be entitled to a pension on the same basis as if he had reached the retirement age; that is, an annual pension of \$1,000 for each year of service up to twelve. The provisions for increased compensation, eliminated in the House bill, should also be restored.

(c) Section 10 of the existing Act should be amended by providing that the members of the Federal Reserve Board shall be removable, prior to the expiration of their respective terms, only for cause and after notice and hearing.

(d) The total membership of the Federal Reserve Board should be reduced from eight to five, by eliminating the designation of the Secretary of the Treasury and the Comptroller of the Currency as *ex-officio* members, and by reducing the appointive members from six to five. With the Board thus reduced, Section 203 (3) might be amended so as to make the Governor's term identical with that of the administration under which he was appointed; but he should not be removable except for cause, as in the case of other appointive members of the Board.

III. THE FEDERAL OPEN MARKET COMMITTEE.

Section 205 of the Senate bill provides for the creation of a committee of five members, serving for a calendar year, to be composed of the Governor of the Federal Reserve Board, who shall be chairman, two members of the Board whom the Board itself shall select, and two governors of Federal Reserve banks selected by the governors of all Federal Reserve banks. This committee is to have the power to frame open market policies which the Federal Reserve banks will have no choice but to put into effect. It is also to have the duty of making recommendations to the Federal Reserve Board regarding the discount rates of the Federal Reserve banks.

The House bill varies this arrangement in important particulars. The Federal Open Market Committee as such disappears and in place of it an Open Market Advisory Committee is created, consisting of five "representatives" of the Federal Reserve banks, selected annually by the governors of the twelve Reserve banks. The committee thus created is to have no authority whatever, beyond that of making recommendations which the Federal Reserve Board can take or not as it chooses. The Board, on the contrary, can impose its will on the Reserve banks, though it must consult the Advisory Committee before it makes any changes on its own initiative—I quote the language of the bill—"in the open market policy, in the rates of interest or discount to be charged by the Federal Reserve banks, or in the reserve balances required to be maintained by member banks."

Proposed Concentration of Power.

The existing open market procedure is the outgrowth of experience. For several years prior to 1933 there was an open market committee upon which the various Reserve banks, or such of them as desired to participate, were represented. It was the group through whom Reserve bank purchases of bankers' acceptances and Government obligations were organized and dis-

tributed. The existence of the committee was recognized in the Banking Act of 1933 and it was made a formal body. Each of the twelve Reserve banks by vote of its board of directors selected a member. There was no Reserve Board representation on the committee, though the members of the Board were authorized to attend the meetings if they desired. The Federal Reserve Board retained the power to issue regulations concerning open market transactions and could approve or disapprove of policies initiated. But the directors of any local Federal Reserve bank could in their discretion decide not to participate in open market operations.

The change now proposed is complete. Whereas under the existing law the Reserve banks themselves have the power to initiate open market operations subject to approval of the Federal Reserve Board, the Senate bill would give them no authority over them save for the presence on the committee of a two-to-three minority in the persons of two Reserve bank governors who in turn must depend upon the Board for their continuance in office beyond a year. Under the House bill this remnant of authority is further reduced, and the Reserve banks are left in the position of advisers only. Further, under the existing law any Reserve bank can decline to engage in open market operations, whereas under either bill they would have no choice but to follow the instructions of the central authority. The effect is to concentrate in a majority of the committee, or in a majority of the Federal Reserve Board, as the case may be, the right to dictate to the Federal Reserve banks when they shall buy or sell acceptances or Government obligations and in what amounts, with no discretion whatever remaining to them or to their boards of directors. Exclusive authority thus passes into the hands of men dependent for their positions upon whatever political administration is in power, and three of whom are directly representative of it. I refer, of course, to the Governor of the Federal Reserve Board himself, the Secretary of the Treasury and the Comptroller of the Currency.

The function of open market operations in the Reserve system has been much distorted recently in theoretical discussions which appear to have received a certain amount of official credence. In some respects their influence has been magnified far beyond what is warranted by actual experience. In other respects their influence has been minimized or overlooked entirely. I refer here to the vast consequences which may follow from the purchase of Government obligations by the Reserve banks directly from the Treasury, a type of transaction which falls within the meaning of "open market operations" as commonly understood in the Reserve system.

Open Market Operations and Credit Control.

In a published defense of the bill, Governor Eccles made an issue of the fact that open market operations are an instrument of Federal Reserve policy. He said:

"By these operations reserves may be given to or taken away from member banks; and it is on these reserves that deposits are based. It is not too much to say that the power to control open market operations is the power to control the expansion and contraction of bank credit, and thus in large measure to control the country's supply of money."

It is, of course, true that the power to buy and sell Government obligations and acceptances in the market often furnishes a useful instrument of Federal Reserve policy, but I do not find that in practical operations actually put through in the last five years it has given control of bank credit. The most that can be said is that open market operations may influence but not necessarily control bank credit. Whether they do or not and to what extent depend upon conditions as they prevail at the time the operations are put through. Far from controlling bank credit, there are recent instances which go to show that open market operations have resulted in the Reserve banks losing the control they previously had possessed over bank credit. Moreover, under conditions as they exist at present, operations conducted in the open market would have very little effect if designed to expand credit; they could have

substantial effect only on the downward side—that is, to reduce the volume of credit and raise interest rates.

In order to illustrate from actual experience, I think it would be of interest to refer to operations which the Reserve system has conducted in the last five or six years under the authority it has had and now possesses.

Between October, 1929, for instance, and March, 1930, the Reserve bank holdings of Government obligations rose about \$400,000,000 to a total of about \$440,000,000. Simultaneously the member banks reduced debt at the Reserve banks by about \$600,000,000. This operation was fairly successful mainly because the member banks were in debt at the Reserve banks. The principal effect was to enable the member banks to pay off at the Reserve banks and there was relief from strain in the money market which resulted in a temporary boom in the stock market.

In March, 1932, the Reserve banks undertook the use of open market operations in an effort to combat the depression. This was after the passage of the Glass-teagall bill in February of that year which gave the Reserve banks temporary authority to offer Government obligations as security for Federal Reserve notes. At the beginning of the operation the Reserve banks held about \$800,000,000 of Government obligations. By the end of the year they had increased these holdings upwards of \$1,800,000,000. The chief effect was to reduce the bill holdings of the Reserve banks to almost nothing and to bring down the member banks' borrowings to less than \$300,000,000 for the entire system. Though the operation appears to have been successful in checking the decline of bank credit then in progress, it did not stimulate its growth.

In May, 1933, a further extension of open market operations was undertaken. In the six months up to November a further \$600,000,000 of Government obligations were purchased and the total of \$2,430,000,000 was reached, a level at which they have since remained. Member bank borrowings again declined, but the ex-

pansion of bank credit was slight as compared with the facilities afforded.

In giving the foregoing instances I should make it clear that I have left out of account other developments of great importance such as the losses and gains in gold, the effects of the gold buying policy, and so on, which have exerted influences on the member banks' reserves similar to those which open market operations tend to produce. The point to be observed is that beyond an initial and rather gentle influence, open market operations carried on under such conditions as have prevailed, have not succeeded in increasing proportionately the volume of bank credit. This has been true because influences of vast importance, some practical and some psychological, which have affected the business public as a whole, have restrained their effect.

One of the results of past open market operations which we still have with us is the additional reserves over and above statutory requirements which the member banks have on deposit at the Federal Reserve banks. In February of this year their reserves were about \$2,300,000,000 above requirements, quite the largest excess on record. The excess is now around \$2,200,000,000. I do not mean to imply that this vast excess is due only to open market operations; an even more important factor in their growth appears to have been the inflow of gold during the past year. But the point I want to emphasize is that this margin is surely enough for the stimulation of credit, if credit is to be stimulated that way. It is hard to see how the excess reserves, if further increased by open market operations, would have any substantial influence upon the growth of banking credit.

I can well imagine, however, that results would follow from an operation if now conducted in the reverse direction, that is, if the Federal Reserve banks should sell to the market any considerable part of their holdings of Government obligations. Such action would, of course, draw down the member banks' excess reserves and tend to raise interest rates. Of course, any

such operation seems out of the question at this time, in view of the present financial policies of the Government.

I deduce from the foregoing that the possibility of effective use of large scale open market operations on the side of purchases of securities lies more or less remotely in the future, and that the probability of such operations being undertaken on the side of sales of securities is extremely remote.

Open Market Operations and Budgetary Deficits.

I now come to a feature of the bill which must cause any thoughtful person great concern, though I have seen no reference to it in any official discussions of the bill. As I have already indicated, the proposed powers are broad enough to permit the central authorities—whether the Federal Reserve Board under the House bill or the Federal Open Market Committee under the Senate bill—to compel the Federal Reserve banks to purchase Government obligations directly from the Treasury. When I speak of such transactions, I should make it clear that I am not referring here to the short-term advances or temporary over-drafts such as the Reserve banks commonly grant to the Treasury over maturity and tax dates. I am referring to the use of the Reserve banks as a means for financing the Treasury.

The machinery thus provided in the bill corresponds closely with the machinery which was utilized at the time of the German inflation and the French inflation with most serious consequences to business life and the welfare of the people. In each case the central bank bought bills directly from the Treasury, thereby providing funds as and when desired. In each case, also, the Treasury acted, as it no doubt supposed at the time, according to the highest sense of duty. The heads of the central banks concerned felt that they had no choice but to comply. Similar motives with even more efficient machinery such as that now proposed can produce similar results.

Abuse of Central Bank Credit in Germany.

I think it worth while to read at this point a paragraph from the book of Professor James W. Angell of Columbia, who went to Germany after stabilization and wrote a work entitled "The Recovery of Germany," published by the Yale University Press for the Council on Foreign Relations. It is one of many similar paragraphs obtainable from a multitude of sources. Professor Angell says on page 29:

" . . . The fundamental difficulty was the state of the Reich finances. In the five years from 1919 to 1923 the Government's receipts, measured in gold values, never came anywhere near to equalling its expenditures, and for the period as a whole averaged only about 25 per cent of them. This state of chronic deficit was again due to the waves of exchange depreciation and the consequent further increases in prices. However adequate a given tax measure might have seemed at the time it was passed, weeks or months necessarily elapsed before the receipts began to come in; and in the meantime a further depreciation of the exchanges had usually pushed prices and wages still higher, and with them most of the Government's expenditures. A deficit of course resulted. To meet it the Government had to resort to further borrowing which led to the printing of more notes and the vicious circle of inflation was thus renewed. Moreover, despite the unceasing growth in the note issue, the rise in prices was even more rapid, and the gold value of the total currency circulation fell to absurdly low figures—at one time to less than 1 per cent of the pre-war level. An acute currency shortage resulted, and to keep the country's economic life going at all still more notes had to be printed. It should be observed, however, that the Government did not itself print notes, except for the negligible volume of the Reichskassenscheine. After the end of the war the deficits in the budget were met chiefly by floating short-term treasury loans of various sorts. *Of these an increasingly large proportion were discounted at the Reichsbank in exchange for Reichsbank notes, and this produced the principal increases in the currency circulation.*"

I think this paragraph of Professor Angell's illustrates pretty clearly how convenient and how fatal it is to finance Treasury deficits with central bank credit.

Restrictions Under New German Bank Law.

When the German inflation was finally stopped, the gold mark was worth a million million paper marks. In order to prevent a repetition, the Germans in their new bank law proceeded to block up the channels between the

Treasury and the central bank. The new Reichsbank law was passed as part of the Dawes Plan of 1924 which was drawn up, as the Committee will remember, with American advice and assistance. Effective steps were taken to divorce the bank and its officials from the control of the political authorities and severe limitations upon lending to the Treasury were written into it. The latter were for the protection of the entire population against devastating inflation, and have had unvarying popular support from that time to the present because the people as a whole have learned from experience what disaster inflation inescapably causes. Under the law of 1924, purchases of Treasury bills and the amount loaned upon them could not together exceed a total of 400,000,000 reichsmarks (then about \$100,000,000). Latterly the Reichsbank has obtained authority similar to that which the Reserve banks now have to buy bonds of the Reich in the market but, as the law explicitly states, "for the purpose of regulating the money market." Otherwise it can not buy Government obligations beyond the limits originally set.

The French Experience.

The lesson to be learned from the French handling of their post-inflation legislation is similar. When the French stabilized in 1928, they, like the Germans, were careful to avoid a repetition of the conditions which led up to the inflation and tapped off about 80 per cent of the gold value of their currency. The Bank of France makes no advances to the Government over the amount of a fixed loan of 3,200,000,000 francs which it agreed to hold at the time of stabilization and has held ever since. The law gives it no authority to engage even in open market operations except as regards the so-called Caisse bills (bills of the Caisse d'Amortissement) issued to it in 1928 in return for certain bonds of the Republic held at the time of stabilization. The Bank can sell these Caisse bills to the market and buy them back again. Because of the failure of the law to provide for open market operations of the usual sort, the Bank of France declined some months ago to buy short Treasury bills from the market as proposed by the present Premier, M. Flandin, and the Governor of the Bank was dismissed

on that issue. Under the agreement subsequently effected with the General Council of the Bank and the new Governor, the Bank of France is now prepared to grant advances, not directly to the Government but to the banks on the security of Treasury bills. These advances can run for only thirty days and are restricted in amount to not more than 80 per cent of the nominal value of the Treasury bills pledged. Even with this liberalized procedure the Bank of France still makes no advances directly to the French Treasury.

I would repeat the point: Both France and Germany suffered ruinously from inflation and when they revised their banking laws they undertook to prevent a repetition. The changes made recently in their respective central banking procedures are very moderate and in neither case grant anything that the Federal Reserve banks have not had for years. Law and practice still prevent the very things which Title II of the present bill freely provides for. Indeed, Title II goes even further and makes such transactions compulsory if a majority of the Federal Open Market Committee, or as the case may be, the Federal Reserve Board, so decides.

The use for any length of time of central bank credit to finance the public Treasury has never succeeded. It has always failed with most serious consequences to the population as a whole; and those who have suffered most are the laboring and middle classes. I see no reason, granted sound Treasury policy, why any such facilities as I have been discussing should be even temporarily useful in the United States. There is therefore no occasion to grant an unlimited authority which can only have an unsettling effect upon the public and business mind because of the dangers inherent in its use.

Extension of Reserve Board Power Over Rate Changes.

So much for open market operations as such. I now want to refer to a matter which is set forth clearly in the House bill and is implicit in the Senate bill. This is the power granted to the Federal Reserve Board to make changes on its own initiative in the rates of interest or discount to be charged by the Federal Reserve banks.

The Federal Reserve Act now provides in Section 13 that rates of interest charged on advances to member banks, and in Section 14 that rates of discount on paper purchased on the market, shall be established by the Federal Reserve banks "subject to the review and determination of the Federal Reserve Board." The establishment of interest and discount rates by the Federal Reserve banks has been one of the most responsible functions of their respective boards of directors. Obviously, the exercise of this power ordinarily involves directly and inescapably the relations of each Federal Reserve bank with the banks in its own district, and is therefore an important element in the whole issue of local self-government.

Throughout the history of the Reserve system, with only two or three exceptions, the regional boards of directors have acted first in making rate changes, and the Federal Reserve Board second. This sequence seems a rational compliance with the terms of the Act, since the Reserve banks are charged with "establishing" the rate, "subject to the review and determination of the Federal Reserve Board." I realize that the Federal Reserve Board itself has not always shared this view, and in one notable case at least has fixed a rate against the opposition of a Federal Reserve bank's board of directors. The House bill clearly, and the Senate bill implicitly, now seek to resolve this question of initiative in favor of the Federal Reserve Board.

To the outside observer this seems a strange solution, for on the whole the record of the Reserve banks has been better in the matter of rate changes than the record of the Federal Reserve Board. I refer especially to the long difference of opinion between certain of the Reserve banks and the Federal Reserve Board over the proposed increase of discount rates in the first half of 1929 as a means for curbing the rising tide of stock market speculation. The rate at the New York Reserve bank remained unchanged from July 13, 1928, until August 9, 1929, notwithstanding the vast speculation then in progress. From the beginning of 1929 onward, the directors of the New York Reserve bank, as well, I believe, as the directors of certain other Reserve banks, voted consistently to raise their rates, and consistently the Federal Reserve Board failed to determine them.

This long postponement had immeasurable consequences both on the height of the speculative tide and the extent of the collapse, and has come to be regarded as quite the most conspicuous failure of the Federal Reserve system since its inception.

The implications of the present law that the directors of the regional banks should have the power to initiate rate changes seem indisputably correct. These are men who represent all the parties at interest, including that of the Federal Government; they have consistently represented the highest standards of their respective communities, and they are close to practical affairs.

The proposed change in the law looks precisely in the wrong direction. The House bill goes even so far, I think, as to make the establishment of the rate by the Reserve banks a ministerial act only and leaves this whole delicate and gravely responsible matter exclusively in the hands of the Federal Reserve Board, all the members of which depend for their positions upon whatever political administration is in power.

Recommendations on Section 205.

In summary of my discussion of Section 205 of both bills: The Federal Open Market Committee as recognized in the present law is able to serve all the practicable purposes advanced for the changes proposed in the new bill. The changes, on the other hand, introduce new factors of uncertainty, perhaps of danger. They take powers away from the Reserve banks and confer them upon the Federal Reserve Board, creating a concentration of financial authority hitherto unknown in this country and rarely equalled anywhere else. In order to promote the coordination of the system without incurring new and unnecessary hazards, I recommend that the amendments be re-written taking account of the following points:

(a) That the Federal Open Market Committee be composed of nine members, five comprising the entire membership of the Federal Reserve Board reconstituted as proposed above, and four being governors of Federal Reserve banks, whose independence shall have been protected in the

anner already recommended, and who shall be freely elected to the committee by the governors of all Federal Reserve banks.

(b) That it be plainly recognized that the directors of regional Reserve banks possess the initiative to establish rates on Federal Reserve bank advances and discounts, subject to the approval without time limitation of the Federal Reserve Board; but that if in the opinion of the Federal Open Market Committee, constituted as above, a rate change is desirable in the general interest, a new rate can be imposed by a two-thirds vote of the Committee.

(c) That the direct purchase of Government obligations in the Treasury or any Government agency be specifically declared not to be open market operations within the meaning of the Act.

BROADENED ELIGIBILITY REGULATIONS FOR FEDERAL RESERVE BANK LOANS AND INVESTMENTS.

Two sections of each bill affect more or less broadly the acts which Federal Reserve banks are empowered to accomplish. The first is Section 206 which says that "subject to such regulation as to maturities and other matters as the Federal Reserve Board may prescribe" the Reserve banks may discount any commercial, agricultural or industrial paper for the member banks upon their endorsement. It also says that the Reserve banks may make advances to the member banks on their "promissory notes secured by any cash and assets" they may desire to pledge. The bill is not clear in stating whether the Reserve Board is authorized to make regulations on the latter category of loans as well as on the first category, but I presume that the intent is to give the Board corresponding regulatory powers in both cases, including the power to determine what constitutes sound collateral.

This section replaces in somewhat broader terms the authority conferred as an emergency measure under Section 10(b) of the present Act, which lapsed on March 10, 1935. The exercise of such authority, as a matter of fact, is its justified use only in times of emergency. The Fed-

eral Reserve Board should not have as part of its day-to-day procedure the power to broaden at will the carefully written specifications given in Sections 13 and 13(b) of the present Act where the intent of Congress is expressed concerning the loans which the Federal Reserve banks may make to member banks.

A Power for Emergencies Not-for Ordinary Use.

The point can be made clear in a practical way. Let us suppose that this Section is already law and the Federal Reserve Board adopts a regulation tomorrow broadening in some substantial way the character of paper which a member bank may pledge at the Federal Reserve bank. Will a well-conducted bank immediately start making loans of sorts that fall within the new classification? The Federal Reserve Board has the power not only to make the regulation but to cancel it, and if cancelled the banker who has made loans in reliance upon it is left with paper which he can not make use of at the Federal Reserve bank. Is it not common sense for a banker to shape his course according to what Congress has written into Sections 13 and 13(b) and not rely upon regulations subject to change without notice?

But there is another point involved. The re-discounting facility, however broad the Federal Reserve Board may make it by regulation, is only partial insurance against loss. And the ability to pledge "any sound asset" does not mean that the value of that asset cannot decline. I seriously doubt the expediency of throwing out to member banks generally the hope implied in the bill that any sound assets may perhaps be acceptable or become acceptable at a Federal Reserve bank in any and all circumstances. In an emergency some such provision as this might be very useful but I seriously question the wisdom of making it open to use at any time and under all conditions.

There is also a third question involved. If in ordinary times the Reserve banks accumulate portfolios of slow or doubtful items, the capacity of the Reserve system to respond adequately to emergency conditions will be impaired. And, still more broadly, it should not be forgotten that this

amendment is proposed as a new paragraph in Section 13 of the Federal Reserve Act and for that reason any obligations acquired under it become immediately eligible as security for Federal Reserve notes. This is true whether Section 16 of the present Act, which describes the security behind Federal Reserve notes, is altered in the way this bill proposes or not.

In order to retain the usefulness of the provision in an emergency in the sense corresponding with that contemplated in Section 10(b) and at the same time to prevent its being abused for the sake of profit, I suggest that member banks' borrowings under Section 206 be made subject to a penalty rate. This will afford necessary protection in a practical way.

The second of the two sections broadening the credit powers of the Reserve banks is Section 207. The effect of this Section, as I see it, is merely to permit the Reserve banks to buy longer-dated obligations guaranteed by the United States in just the same way as they are now qualified to buy and hold the direct obligations of the United States. On this clause taken by itself I have nothing to suggest, but it should be remembered that under the present reading of the section dealing with the Federal Open Market Committee it would be possible for the latter to oblige the Reserve banks to buy longer-dated guaranteed obligations of the Government both in the open market and direct from the issuers; and under Section 208, which I shall discuss in a moment, it would be possible for these obligations to be used as collateral for Federal Reserve notes.

Recommendations on Section 206.

I confine my recommendation with respect to the proposals for broadening the eligibility regulations to Section 206. I suggest that it be amended so that paper discounted or loans made under its authority shall be subject to a rate not less than 1 per cent higher than the highest discount rate then in effect at the Federal Reserve bank concerned, and that no such paper shall be discounted or loans made under that authority until after all other eligible assets of the applicant bank shall have been exhausted.

V. RESERVE AND OTHER SECURITY FOR FEDERAL RESERVE NOTES AND DEPOSITS.

Section 208 of both the Senate and House bills strikes out the first ten paragraphs of Section 16 of the Federal Reserve Act and substitutes in place of them four new paragraphs. The principal effect of the changes, aside from the alterations in procedure required by the elimination of the joint office of Federal Reserve agent and chairman, has to do with the security behind Federal Reserve notes. These changes introduce a totally new theory into the Federal Reserve Act, since they abandon the idea of specific cover for notes and replace it with the idea of a general and undefined claim against assets.

The present law (Paragraph 2, Section 16) provides that the Federal Reserve banks shall tender to the Federal Reserve agent specific collateral in an amount equal to the sum of the Federal Reserve notes applied for. The collateral thus pledged shall be "notes, drafts, bills of exchange or acceptances acquired under the provisions of Section 13 of this Act" (the section relating to member banks' discounts and advances) or bills of exchange and acceptances purchased in the market, or gold certificates. The present law also authorizes the Reserve banks to offer as collateral security "direct obligations of the United States," in an amount not less than the sum of Federal Reserve notes applied for. This authority, which was granted as an emergency power to terminate on March 3, 1935, subject to further extension up to two years, was in fact extended for the full period by proclamation of the President on February 14, 1935. Pending further discussion of the use of Government obligations owned by the Reserve banks as collateral for their note issue, the point I want to emphasize here is that the present law provides not only that the circulation shall be 100 per cent covered, but that the special quality of the cover is defined and restricted.

The new bill wipes out all of these prescriptions. It provides simply that Federal Reserve notes shall be "se-

cured by a first and paramount lien on all of the assets" of the respective Reserve banks. Further, the bill does away with the existing redemption provisions and would appear to permit one Federal Reserve bank to pay out another Federal Reserve bank's notes. Instead, it grants to the Federal Reserve Board the power to prescribe rules and regulations under which Federal Reserve notes shall be issued and retired, a clause which in itself is so broad and in terms so vague that the Federal Reserve Board, acting within its authority, might assume an arbitrary control over the volume and quality of the preponderant part of the country's currency. The issue involved in the proposed change is not whether the nominal amount of the security behind Federal Reserve notes is sufficient to pay them off, but whether the quality of that security is sufficiently defined and its volume sufficiently restricted to maintain the soundness of the country's currency. These surely are not matters which can be left to the discretion of a small group endowed with arbitrary powers.

Need for Protecting the Note Issue.

The universal experience of banks of issue in other countries and of the Federal Reserve banks up to the present time, is that the law must prescribe as precisely as possible exactly what assets can be used as cover—or collateral—for the note issue or else make some other arrangement to prevent undue expansion or arbitrary contraction of the currency. Central banks the world over have adopted some or all of three methods as follows:

1. An exact definition of the quality of assets to be pledged against currency—whether gold, commercial paper or other self-liquidating assets.
2. A rigid restriction of the quantity of notes that may be issued over and above the notes specifically secured by gold. The fiduciary issue of the Bank of England, specifically limited in amount, is an example of this type of restriction.

3. Limitations upon the amount of Government obligations owned by a bank of issue which it can use as security against notes; or else limiting their use to collateral for short-dated promissory notes of other borrowers which in turn can be used as cover for circulation.

In addition to the foregoing are the familiar requirements for metallic reserves or, in a diminishing number of cases, for metallic reserves and foreign exchange.

It is practically the unbroken record of central banking that where there has been no restraint on the type of collateral against which notes can be issued, the currency has become debased. And whether there are restrictions or not on the kind of business paper that can be used as cover, if there are no limitations on the use of Government obligations for that purpose, debasement is almost sure to occur as soon as the budget gets out of balance. I have already indicated in my discussion of the section of the bill dealing with the Federal Open Market Committee that the power of the central bank to buy Government obligations directly from the Treasury and to issue notes against them furnished the chief mechanism for the French and German inflations. The same rule holds true with respect to other historic instances of inflation in many parts of the world.

Effects of the Bill on Federal Reserve Notes.

This bill, nevertheless, sets up the machinery for the same thing. The Federal Open Market Committee may decree, and the Reserve banks must undertake, the purchase of Government obligations in the market or, what is still more dangerous, from the Treasury itself. The transaction will be settled in Federal Reserve credit which will be immediately convertible into notes, and the purchased bonds will be their adequate security under this law.

The same sequence holds, of course, for any other assets the Federal Reserve banks may acquire under

the provisions of the bill. I have already discussed the section which permits the Reserve banks to lend to member banks on their promissory notes secured by "any sound assets." The fantastic extremes to which this power could be carried under the direction of a complacent Federal Reserve Board or under a Federal Reserve Board riding some theory of desired expansion will occur immediately to anyone. As soon as such paper becomes part of the assets of the Federal Reserve banks, it would provide security for additional issues of notes.

It is true that the requirements of the law calling for a minimum gold certificate reserve of 40 per cent against Federal Reserve notes appear to set a limit to the expansion of the circulation. But this limit is very remote and would exercise little restraint before vast damage had been done. The gold certificates held by the Reserve banks plus the surplus gold held by the Treasury are now upwards of \$8,700,000,000, whereas the amount of Federal Reserve notes in circulation is about \$3,200,000,000. After making due allowance for other fluctuating elements, it is clear that the margin of currency expansion is very great before the restraints of the required reserve would be felt.

And this leaves out of account three very important factors affecting the currency: First, the authority of the Federal Reserve Board under Section 11 of the present Act to suspend reserve requirements subject to penalty; second, that under the conditions specified in Section 43 of the Act approved May 12, 1933, the reserve requirements may be suspended without penalty; and third, the substantial increase in the silver certificate circulation already under way.

Recommendations on Section 208.

In my other recommendations I have proposed safeguards against the concentration in a few hands of the power to precipitate inflation or deflation. Amendments to the bill in the manner suggested would not only offer protection in those other connections but to

the note issue as well. My recommendations with respect to Section 208 have been made with those proposals in mind and in order also to further the purpose of simplifying Federal Reserve internal procedure. The earmarking of individual collateral against notes has gradually become, I understand, largely a matter of form and it is urged that it be dispensed with on the ground that its elimination will do away with an unnecessary and cumbersome procedure. My recommendations admit of the elimination of that requirement while still adhering to the principle that the note issue be covered 100 per cent with assets satisfying the rules of eligibility and furnishing certain other essential safeguards.

I recommend accordingly:

(a) That the specifications of Section 16 of the present Act with respect to the types of security eligible as cover for Federal Reserve notes be retained in the law; without, however, the requirement that individual collateral be explicitly earmarked. The amount of notes must never exceed the amount of the collateral eligible and available.

(b) That the use of Government obligations owned by the Federal Reserve banks as security against notes shall be subject to a penalty of at least 1 per cent above the rate carried by the obligations so used.

VI. CHANGES IN MEMBER BANK RESERVE REQUIREMENTS.

Section 209 of each bill gives the Federal Reserve Board power to change from time to time the reserve requirements of member banks; that is, the proportionate amounts of their own deposits which they are obliged to keep on deposit with the Reserve banks. Under conditions as they exist and as they are likely to remain for some time to come I can see in this proposed power only an instrument of deflation. Because of the leverage which the reserve requirements exert on the member banks, as I will presently explain, a vigorous application of this

authority would prove a very powerful instrument of deflation.

This section is proposed as an amendment to the sixth paragraph of Section 19 of the existing Federal Reserve Act. In order to point out the differences between the existing law and what is proposed, I shall read the paragraph which it is desired to amend:

"Notwithstanding the foregoing provisions of this section, the Federal Reserve Board, upon the affirmative vote of not less than five of its members and with the approval of the President, may declare that an emergency exists by reason of credit expansion, and may by regulation during such emergency increase or decrease from time to time, in its discretion, the reserve balances required to be maintained against either demand or time deposits."

The principal points of difference between the existing law and the proposed amendment are the following:

1. The existing law requires the declaration of an emergency by the Federal Reserve Board with the approval of the President. The new bill requires no declaration either by the Board or the President, and makes the adjustment of reserve requirements an ordinary function of the Board.

2. The existing law presumes that credit expansion is already under way. The new bill permits the exercise of the power as a *preventive* to forestall either expansion or contraction.

3. While there is some ground for assuming that the existing law contemplates nationwide action only, there is no doubt on that score in the Senate bill at all. The latter would give the Federal Reserve Board specific authority to alter the reserve requirements by Federal Reserve districts or by banking groups,—*i.e.*, central reserve city banks, reserve city banks, and country banks; or by banking groups within any Federal Reserve district. It also seems to give the Board power (though this is probably not intended but merely a mistake in drafting) to alter the reserve requirements of any individual member bank anywhere. The House bill modifies this arrangement somewhat by dividing the member banks of the country into two classifications, (1) banks in reserve and central reserve cities, and (2) banks elsewhere. But its language is still so vague as to

leave doubts whether or not the Reserve Board could alter the reserve requirements of any individual bank.

In other connections I have referred to the very large deposits which the member banks now have with the Federal Reserve banks. Taking the member banks as a whole, these deposits are about twice as much as the law requires. (The existing requirements for banks in the central reserve cities are 13 per cent of their net demand deposits, for banks in reserve cities 10 per cent and for banks elsewhere 7 per cent. On time deposits the required reserves are 3 per cent for all banks.) The excess of the total deposits of member banks in the Reserve banks over their required reserves is now about \$2,200,000,000, the result of two principal causes—first, the purchases of Government obligations in the open market up to the autumn of 1933, when they ceased, and second, the great influx of gold into this country in the last fifteen months.

Theoretical Use as a Measure of Control.

Before I consider what would happen under conditions such as these, if the Federal Reserve Board were to make use of the authority which it is proposed to give it, I should explain the theoretical use of this power as a measure of control. Under the requirements as they stand at present, the member banks on average have to keep about one dollar with the Reserve banks for every ten dollars of their demand deposits. If there are no excess reserves, an increase of a dollar in the reserve deposits will support by and large an additional ten dollars of member bank demand deposits. Of course, if any individual bank expanded its loans at that rate when its reserve deposit increased, it would promptly get into trouble. But taking the banking structure as a whole, the rule holds theoretically good. A decline in a member bank's reserve deposits works theoretically in the reverse direction, and it either has to borrow additional reserve or reduce deposits, also at the ratio of about ten to one.

Accordingly, if the reserve requirements are raised or lowered, a powerful lever theoretically comes into play which has the effect either of inducing a member bank to

lend more freely, or, on the other hand, forcing it to borrow or to contract its deposits.

Practical Use under Existing Conditions Questionable.

I now want to test out this theory under conditions as they exist at present, when the excess reserves are so very large. If the Federal Reserve Board were to reduce the reserves which the member banks have to keep with the Reserve banks the result would be merely to add to the excess reserves already existing. There is no ground for assuming that such a reduction under present conditions would give any substantial impulse to the growth of bank credit. An additional few per cents of excess reserves would not afford an appreciable supplement to the stimulating factors which already exist nor would they remove any of the depressing factors. As for the future, I, of course, cannot prophesy; but I think it will be a long time before conditions are ripe for a reduction of reserve requirements to be effective in the direction of expansion.

But in the direction of contraction and deflation the exercise at times such as these of the power to raise reserve requirements would become effective very promptly, and increasingly so as reserve requirements were progressively raised. This is a matter of first-rate importance to business and recovery. While the member banks as a whole now possess reserves nearly twice the amount required, it does not follow that all individual banks are so placed. If the Federal Reserve Board should start raising requirements, one bank after another would find its reserves inadequate and would be obliged to borrow or sell investments or to call loans,—or what is broadly the same thing, to let loans run off without granting new loans. Deflation thus artificially set in motion would be on the way before the existing excess reserves of the banks as a whole were exhausted.

It follows from this that under present conditions the exercise of the powers asked for in this section would not be effective in stimulating the growth of credit, but would be very effective in retarding it, or even contracting the existing volume of credit. Moreover, the very existence of this authority in the unrestricted form proposed would have

a restraining and even deflationary effect whether it was used or not, because it would introduce a new factor of uncertainty into banking and business calculations. No banker would know how to lay out his lending policy because at any moment the Federal Reserve Board, in its uncontrolled discretion, might decide to force him into debt or oblige him to curtail credit.

Recommendations on Section 209.

If it were not for the fact that the power to alter reserve requirements might have value in an extreme emergency, as contemplated in the existing law, I would recommend that Section 209 be eliminated altogether, but in order to preserve whatever contingent value it may have, I recommend that it be retained with the following changes:

(a) That the power to alter reserve requirements of member banks shall be limited to emergency use, that its exercise be restricted within any 60-day period to a range of 10 per cent of the requirements as they now exist and that the maximum reached at any time shall not be higher than double the present level, or the minimum be lower than 75 per cent of the present level.

(b) That any increase or decrease shall apply to all member banks, and shall be proportionate to the reserves now required to be maintained.

VII. LOANS ON REAL ESTATE.

Section 210 of the Senate bill amends Section 24 of the Federal Reserve Act, considerably broadening the power of national banks to lend against real estate.

The geographical restriction (within 100 miles) is removed. Loans up to 75 per cent "of the actual value" are permitted on condition that regular amortization within a period of twenty years is provided for. Otherwise the loan can be but for 60 per cent and the period but three years. (This compares with 50 per cent and five years under the present Act.)

The aggregate amount of real estate loans of a national bank may not exceed its unimpaired capital and surplus or

60 per cent of its "time and savings deposits whichever is greater." (This compares with 25 per cent of the unimpaired and paid-in capital and 25 per cent of the unimpaired surplus, or 50 per cent of its savings deposits, as provided in the present Act.)

The House bill makes material changes in the foregoing. It provides that national banks shall not make new real estate loans for more than 60 per cent of the "appraised value" of real estate, but maturities are not specified. The Federal Reserve Board is to have general powers of regulation which perhaps include the power to determine maturities.

I am opposed to any change in the law which tends to weaken the banking structure and prevent it from doing its duty in times of emergency. Accordingly, in the light of the experience many banks, especially country banks, have had in recent years with real estate loans, I seriously doubt the wisdom of relaxing the existing loan conditions. To the real estate speculator easier credit terms would no doubt be advantageous, but to the lending bank they might well prove the reverse.

Weakening the Banking Structure.

The tendency to weaken the banking structure is two-fold. In the first place, certain bankers, forgetting the experience of former years and yielding to the desire for earnings which all bankers have at this time, may go ahead under the terms of the bill and make loans they would not grant on their own merits, trusting that the Federal Reserve banks under the authority proposed under Section 206 would admit mortgages as collateral for Reserve bank advances. In doing so, they would be counting on an uncertainty, because under Section 206 this facility can be withdrawn as readily as it is given. I think any banker making such a loan and finding out later that the Federal Reserve Board had changed the rules in the meantime, would be justified in charging that he had been misled. But the damage to his bank would have been done.

In the second place, even if this facility could be counted on, the lending banker would have no safeguard against a decline in the value of the mortgaged property to a point far below the high limits fixed in the bill. Real estate values are peculiarly subject to local influences which central credit policies, however generously conceived, can hardly affect. In cases of decline—and we have seen many such in recent years—the lending banker would be left with a depreciated mortgage or depreciated real estate, and if he had already pledged the mortgage at a Reserve bank, he would have to make good on it. Thus the bill introduces a factor of insecurity which is bound to come to the surface at the most inconvenient time.

Moreover, even if the Section were not open to objection on these practical grounds, I would oppose it for more general reasons. If, as I understand to be the intention, real estate mortgages are to be admitted as collateral for Federal Reserve bank advances, then such loans under Section 208 will become security for Federal Reserve notes. I know of no grounds upon which this procedure can be approved and experience in foreign countries is against it.

Finally, the Senate bill as it stands does not sufficiently take into account the practical difficulties involved in the renewal of old real estate loans falling due at this time. The Federal Reserve Board should have power to provide by regulation for such renewals so as to avoid the necessity for forcing liquidation as old loans mature. This point seems to be adequately covered in the House bill.

Recommendations on Section 210.

I therefore recommend that as to new real estate loans by national banks the following conditions shall apply:

(a) Unamortized loans to mature in not more than three years, and to be in amounts not exceeding 50 per cent of appraised valuations;

(b) Amortized loans to mature in not more than twelve years, and to be in amounts not exceeding 60 per cent of appraised valuations;

(c) Territorial limitations and the provisions with respect to the aggregate amount of real estate loans a national bank may make, to apply as in the present Act.

VIII. GENERAL CONCLUSIONS.

I have now reached the point in my discussion where I can draw some general conclusions based upon the analysis I have already given of Title II, section by section.

First—The principle of local self-government in Federal Reserve administration is impaired. The authority of the directors of the twelve Federal Reserve banks is much reduced. These are men of the highest standing in their several communities, fully representative of all the parties at interest, and intimately aware of local requirements. They lose their power to determine investment policies, their right to initiate discount rate changes definitely passes out of their hands, and their authority over the administration of the banks is largely taken away. Their power to elect the governor becomes merely the power to nominate, and their nominee for governor must be approved and frequently re-approved by the Federal Reserve Board in Washington. The governor, in this manner made subject to the Reserve Board, is also made the person to whom "all other officers and employees of the bank shall be directly responsible." Thus the way is cleared for central domination—even for central political domination—of the Federal Reserve banks, their policies and their personnel, with the directors occupying the impossible position of bystanders.

Second—The Federal Reserve Board or, as the case may be, the Federal Open Market Committee which the Board is able to control, can undertake at will to force an expansion or contraction of credit. The Reserve banks can be forced to buy or sell Gov-

ernment obligations in the market or to buy them directly from the Treasury itself. The Federal Reserve Board can arbitrarily raise or lower the reserve requirements of member banks. Operations of either sort, depending upon the circumstances in which they are undertaken, may work as powerful levers on the supply of credit, may be perfectly futile, or may produce results of great importance but entirely unpredictable. We cannot be sure that these powers would not be used for political purposes.

Third—The standards of banking practice are lowered. Encouragement is given to banks to make a character of loans they would not ordinarily make in reliance upon the power of the Federal Reserve Board to change the eligibility rules by regulation. These regulations in turn are changeable at will. It is not only the banking structure which may thus become enfeebled. The currency itself may deteriorate, for under the terms of the bill the Federal Reserve banks may acquire not only in an emergency but at any other time a type of assets which world-wide experience has proved to be unsuitable as security for the note issue.

The foregoing are serious indictments of the bill as it stands. Yet I believe I have given the adequate basis for each of them. I believe also that the changes I have recommended, assuming them to be adopted as a substantial whole, would remove from the bill the principal points of objection.

There remains one practical question. If the Federal Reserve Board gets the new powers proposed for it in Title II, what can it do with them? I shall try to answer this question, having regard not to conditions as they may exist in theory or at some future time, but to conditions as they exist at present.

The Objective of the Bill.

Let me first attempt to define the objective. Aside from such indications as the proponents for the bill

have given in their testimony before the House committee, there are three pieces of evidence in the bill itself which go to show the purpose of the legislation. The first of these appears in Section 203, where the qualifications of the appointive members of the Federal Reserve Board are described:

"In selecting the six appointive members of the Federal Reserve Board the President shall choose persons well qualified by education or experience or both to participate in the formulation of national economic and monetary policies."

This is the paragraph which supplants the requirement in the present law that in selecting members of the Federal Reserve Board, "the President shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests, and geographical divisions of the country."

The second appears as Section 204(b) of the House bill as it was passed. I believe an amendment to the same effect has now been offered to the Senate bill. That section says:

"(o) It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration."

The third piece of evidence is negative. Both bills, the one now before the Senate and the one passed by the House, omit from the re-draft of Section 12A, which deals with the Open Market Committee, the following prescription for open market operations:

"(c) The time, character, and volume of all purchases and sales of paper described in Section 14 of this Act as eligible for open market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

It is clear from the foregoing that the objectives set up for Federal Reserve policy differ materially from what Congress has fixed heretofore. Instead of "accommodating commerce and business," for example, the Federal

Reserve administrators are to be qualified "to participate in the formulation of national economic and monetary policies," and are to exercise such powers as they possess and as far as they can to mitigate "unstabilizing fluctuations in the general level of production, trade, prices and employment." This introduces the planning idea into Federal Reserve policy. In addition it constitutes a mandate to try out the powers granted in the bill plus those that the Federal Reserve authorities already have, in order to put the plans into effect.

So it appears that the objective of the bills is to put into the hands of a few persons—a majority of a total of eight—the power to manipulate the credit and currency system of the United States in furtherance of a plan or a sequence of plans which they themselves may draw up. And all eight hold office at the pleasure of the President; and three of them represent directly whatever administration is in power. This is a concentration of authority such as has not been known heretofore in the United States. It is set up without check or balance in law and with few restraints in fact. And perhaps the most serious aspect of all is that the exercise of these powers is capable of drawing off the savings of the people, of dissipating the endowments of our educational and charitable institutions, of cutting down the real wages of labor, of putting a hidden tax on everyone who consumes and on many who produce. This bill is a measure not of security but of insecurity, for the exercise of powers freely granted under it can wipe the practical value of all social security legislation off the slate, and make benefits granted to the aged or the unemployed mathematical expressions only.

In saying this, I do not imply that any man or group of men would draw plans intentionally to such ends. Nor do I offer any criticism of planning as such, if by planning we mean the exercise of rational foresight and prudence. But I am opposed to planning if we mean experimentation with one powerful instrument after another upon the credit and currency of the United States, or if we mean the riding of one superficial, simple theory after another through the vast complex of American economic life.

Three Experiments That Misfired.

I think of at least three experiments tried in the last few years which have misfired. They have produced few or none of the results hoped for them, and on the contrary have started processes of incalculable consequence, the end of which is not yet.

The first of these, and perhaps the least important because reversal is at any time possible, was undertaken by the Federal Reserve banks themselves under powers they still possess. This was the purchase of Government obligations to which I have already referred in my discussion of the Federal Open Market Committee. Between March, 1932, and November, 1933, the Reserve banks bought about \$1,600,000,000 of Government obligations. What were the results? Federal Reserve bank loans to member banks went down \$600,000,000, and their holdings of bankers' acceptances declined about \$90,000,000. Thus, out of the \$1,600,000,000 of Government obligations purchased, some \$690,000,000 represented only a shift in the form of Federal Reserve bank assets. The effect in the beginning was to relieve strain in the member banks, but notwithstanding a strong impulse given to bond prices in the market, which has continued since that time, there was no proportionate stimulation of the growth of bank credit, one of the purposes which the purchase of Government obligations was intended to achieve. But the operation had one unexpected and profoundly important consequence which we still have with us in augmented form. The member bank excess reserves increased \$735,000,000, which are capable of supporting some \$7,000,000,000 of additional member bank deposits. The excess reserves so created may be regarded as a dangerous by-product remaining over from an operation which was only partly successful.

The second experiment, quite the most important of the three I have in mind, was the devaluation of the dollar coupled with the purchase of gold at prices above the old gold parity of \$20.67 an ounce. The purpose as I understood it at the time was to raise domestic prices roughly in proportion to the degree of devaluation. It is now nearly two years since we left the gold standard as we formerly

knew it, and eighteen months since we began to buy gold at prices gradually increasing until the present price of \$35 an ounce was fixed on January 31, 1934. There are few persons who pretend that this operation has accomplished its purpose. I recognize the fact that the prices of some basic commodities widely dealt in in the world markets have risen, but prices by and large have lagged far behind the rise in the price of gold; and even such increases as we have observed may be attributed in considerable part at least to the drought, to processing taxes and to other causes. Meanwhile great damage has been done in other directions. Deflation and business distress have been forced upon other countries, currencies have become unsettled and foreign trade has been further depressed. For our part, we have increased our holdings of gold by some \$1,500,000,000, but it has done us no good. The influx has merely added to our already ample gold stock and at the same time has caused the excess reserves of the member banks to rise to their present great proportions. Though the gold and these excess reserves are now dormant, they are in fact a potential source of danger in addition to that already existing, which must cause any thoughtful person serious concern.

The third experiment to which I refer was the silver-buying policy. As in the case of gold, it was hoped that it would result in raising the general price level. But except for its obvious effect on the price of silver itself, any healthy influence on the general level of prices has not been detectible. Far from improving conditions in the Far East, it has had the result of imposing a condition of acute depression upon China, and has seriously affected Mexico. As for our own currency, the result appears for the moment to be unimportant. New silver certificates have merely displaced to a relatively modest extent other forms of currency. Excess reserves of member banks have been further increased.

In citing these three experiments I have no desire to question the motives of their proponents. I cite them merely as examples of how the three outstanding efforts at currency and credit management have worked. They have not accomplished in any substantial fashion the results they

were designed to produce. On the contrary, they have produced results which were not desired and are not desirable. Is there any reason to assume that the five men who will constitute the majority of the Federal Reserve Board, now to be endowed with arbitrary powers, will be any more successful in accomplishing desired results through credit and currency management?

I think they will be less successful, rather than more so. And for a reason that does not in the least reflect upon their capacity but merely takes account of facts as they are.

The Stubborn Obstacle to Credit Management.

Perhaps the most unlooked-for result of these three experiments is that credit and currency management in any effective sense was not brought nearer but was made more remote. I have referred many times to the excess reserves of the member banks, now about \$2,200,000,000. These were created almost entirely by the three experiments I have referred to; but they will have to be eliminated, or nearly so, before the Federal Reserve authorities can even start a programme of currency and credit management. They furnish a cushion between the Reserve banks and the member banks which necessarily softens the impact of any policy of expansion or contraction which the central authorities may put in operation. This is a stubborn fact of primary importance in considering the practical value of the powers it is proposed to place in the hands of the Federal Reserve Board.

Assuming that the powers are granted, what can the Board do to eliminate the excess reserves? One way, which would be entirely within the authority of the Federal Reserve Board, would be to contract Federal Reserve credit. It could order the Reserve banks to sell to the market out of their own holdings successive lots of Government obligations, thereby drawing down the deposits of member banks at the Reserve banks until the excess reserves were exhausted. The effect upon the market for Government obligations and

upon the credit policies of banks generally as this process was followed through has already been discussed in the section on the Federal Open Market Committee. As an alternative to this method, the Reserve Board could arbitrarily raise the reserve requirements of member banks. Again, as in the case of the sale of Government obligations to the market, deflationary effects would become more and more acute as the process went on. There are of course other possibilities, such, for instance, as a loss of some \$2,000,000,000 of gold to foreign countries, and a withdrawal of Treasury balances from the member banks. But I dismiss the first as very unlikely to occur, and the second because it would be only a temporary expedient to be immediately reversed as soon as the Treasury paid out the funds in the course of business.

The other way of eliminating the excess reserves is by processes of expansion of member bank credit. That is, the deposits of member banks would have to rise to such a degree that the excess reserves would become part of the required reserves. I hesitate to assign a figure to the expansion which would have to take place because many cross-currents could intervene to change the result. But the present deposits of member banks in the Reserve banks are rather more than twice what the law requires, and it is obvious therefore that a vast change must take place in the existing situation before the excess reserves would all fall into the category of required reserves.

The Federal Reserve Board has only partial powers, even under the expanded authority granted in the bill, to carry such a programme through. It can relax the rules governing the kind of paper eligible for rediscount. It can encourage the member banks to make mortgage loans, for example, on the chance that such loans can be pledged as collateral for advances at the Reserve banks. It can, in other words, persuade the member banks to make loans of a sort they would not ordinarily make, so as to swell the volume of bank credit.

These are relatively slow methods, because the lending bankers will have to take the brunt of the risk, and with the experiences of the past few years in mind many will exercise restraint. But here another factor intervenes, the combination of a widely unbalanced budget, heavy Treasury borrowing and complete independence of such checks as market conditions ordinarily impose. The extent and speed with which this combination could operate to eliminate the excess reserves would be determined only by the will and capacity of the government to spend.

Artificial Facilities for Treasury Borrowing.

I have referred already to the fact that purchases by the Reserve banks of Government obligations directly from the Treasury are commonly regarded as open market operations. I repeat it here merely to emphasize the ease with which the Treasury and the Reserve Board could collaborate in financing the budget deficit. The Reserve banks would have to supply the funds whether they approved or not. Nor is this all. Under legislation such as the proposed social security bill, insurance reserve funds are to be set up in the Treasury for unemployment insurance and old age pensions. These funds offer every facility for financing budget deficits. The reserve fund under the social security bill would amount in seven years to some \$9,000,000,000, and ultimately to \$32,000,000,000. Sums of such magnitude, coupled with ready access to the credit-making powers of the Federal Reserve banks, would detach any Congress and indeed any Secretary of the Treasury completely from reality and tempt them to a course of reckless extravagance.

The Dangers of Further Experimentation.

We must not delude ourselves. The three efforts to accomplish a higher price level by manipulating credit and the currency have failed. But they have left behind them a vast amount of explosive material which some future effort may set off. The potentialities are so vast,

and the restraints so few, that should some later effort succeed, the result would most likely not be an isolated detonation but a vicious and perhaps uncontrollable conflagration.

In the recommendations I have made in the course of my discussion of the several sections of the bill I have attempted to remove the hazards to business and the public welfare which the bill contains, and to preserve those features which promote the efficiency of the Federal Reserve system for both ordinary and emergency action. In making my proposals and in my discussion I have had to draw on banking knowledge and to use banking terms. But the language used should deceive no one. This bill is not the business of the banks, except as they are concerned in the welfare of the nation as a whole. Its effect is upon every member of the community, and the threats it contains are directed, however unwittingly, against the entire citizenship of the country.

**SUGGESTIONS *for* IMPROVING
the BANKING SYSTEM**

A STATEMENT

by

WINTHROP W. ALDRICH

Made before the Sub-Committee of the United States Senate
Committee on Banking and Currency
at Washington

November 29, 1933

8

X62.73.N3
G3

PUBLISHED BY
THE
CHASE NATIONAL BANK
of the City of New York

SUGGESTIONS *for* IMPROVING *the* BANKING SYSTEM

MR. CHAIRMAN:

As I understand it, the purpose of the banking phases of the investigation which your Committee is now conducting is to obtain information which will serve as a basis for the drafting of legislation supplementing or revising existing laws, designed—

FIRST. To prevent a repetition of mistakes and abuses which have been incident to the conduct of both commercial and investment banking in recent years; and

SECOND. To reconstruct our financial machinery so that it may be most effective in bringing about a business revival and in assuring a sound financial basis for the future conduct of industry, trade and agriculture.

The importance of attaining these ends cannot be exaggerated, for the soundness and efficiency of our banking structure affect the very foundations of the economic welfare of the nation.

No one who has observed events or who is familiar with the testimony presented to your Committee during the past year can have failed to be impressed by the necessity of change. This must be true whether one be an officer of a commercial banking institution charged with the responsibility of giving effect in practice to the banking laws of the United States, or a member of your Committee, which

has the duty of so formulating those laws that they will work to the best interests of the community as a whole. This change must occur not only in the manner and spirit in which the laws have been observed by certain bank officials, but also should be embodied in legislation which it is the function of your Committee to initiate.

The immediate and direct responsibility for preventing the recurrence of faulty conditions which have been disclosed here and elsewhere rests upon those of us who are engaged in the management of commercial banking institutions. It is obvious that the character necessary to qualify an executive officer of a bank to meet the obligations imposed upon him cannot be created by legislation. The daily operation of a commercial banking institution requires of its officers above all things the education to perceive and the character to live up to the highest standards of the trust relationship. This fiduciary relationship extends not only to the stockholders and depositors of the bank, but also to all who come to the institution for financial accommodation or advice.

Beyond all this, the officers of our commercial banking institutions should have constantly before them a realization of their great responsibilities to the public. The bank officer's usefulness to his bank and to the community is dependent upon public confidence in his integrity of purpose. His actions must be of such character that when they are fully exposed to public view, no doubt can arise as to his motives. If our financial institutions are to be preserved, the public is not only entitled to expect, but it must have absolute assurance that the business of our commercial banks is being carried on in a manner which commands complete confidence.

As for The Chase National Bank, I can say without qualification that it is our purpose to be governed at all times by the standards I have just outlined.

In this statement I shall seek to point out respects in which I believe your Committee can be of help in remedying the situation. In doing so it will be necessary to imply criticism of certain practices which have arisen in American banking. But I would like first to pay tribute to that great number of American banks and bankers who, during the past ten years, have done their duty to their stockholders, their depositors and their communities.

There is one very important objective which the Congress can attain, and that is to so amend our banking legislation as to protect the sound bankers of this country from the unfair competition of bank management which fails to measure up to the high standard of conduct which their profession calls for. This result should be accomplished by legislation which will not only prohibit specified practices, but which also will bring about above all else complete divorcement in interest between commercial and investment banking.

The Congress, by the enactment of the Glass-Steagall Bill, now known as the Banking Act of 1933, has already taken action designed to eliminate many bad practices. The Banking Act of 1933 does not, however, fully accomplish the purposes which the Congress had in view—purposes which I believe are demanded by both sound banking experience and enlightened public opinion. It is accordingly necessary to address further efforts to that end.

I

THE WISDOM *of* SEPARATING COMMERCIAL BANKING *from* INVESTMENT BANKING

My experience as a bank official commenced at the end of the year 1929, when I became President of The Equitable Trust Company. From June, 1930, upon the amalgamation of that institution with The Chase National Bank, until January, 1933, I was President of The Chase National Bank but not its executive head. In January, 1933, I became its executive head, upon my election as Chairman of the Governing Board. This experience as a bank official, coupled with the testimony which was presented to your Committee in February of this year, had convinced me that many of the abuses in the banking situation had arisen from failure to discern that commercial banking and investment banking are two fields of activity essentially different in nature. I came to believe that while it was essential that there should be coordination between these two types of banking, such coordination could best be protected from abuse and thus enhanced in usefulness through absolute separation of interest between the two fields.

On March 8, 1933, therefore, I issued a public statement suggesting the following provisions, among others, which experience indicated should be enacted into law. These were in addition to the provisions of the Glass-Steagall Bill as it then stood, which required the divorcement by commercial banks of their investment affiliates:

- “(1) No corporation or partnership should be permitted to take deposits unless such corporation or partnership is subjected to the same regulations and required to publish the same statements as are commercial banks.

- “(2) No corporation or partnership dealing in securities should be permitted to take deposits even under regulation.
- “(3) No officer or director of any corporation nor any member of any partnership dealing in securities should be permitted to be an officer or director of any commercial bank or bank taking deposits, and no officer or director of any commercial bank or bank taking deposits should be permitted to be an officer or director of any corporation, or a partner in any partnership engaged in the business of dealing in securities.
- “(4) Boards of directors of commercial banks should be limited in number by statute so as to be sufficiently small to enable the members to be actually cognizant of the affairs of their banks and in a position really to discharge their responsibility to stockholders, depositors and the business community.

“The spirit of speculation should be eradicated from the management of commercial banks, and commercial banks should not be permitted to underwrite securities except securities of the United States Government and of states, territories, municipalities and certain other public bodies in the United States.”

Immediately following the issuance of the foregoing statement, The Chase National Bank undertook for itself to carry these policies into effect.

On March 8, 1933, the Executive Committee of the Bank appointed a special committee to advise and recommend a plan for the separation from the Bank, at as early

date as practicable, of its affiliated securities corporations. Following action by the Executive Committee, a meeting of the stockholders on May 16, 1933, authorized the discontinuance of the securities business by the Bank's affiliates, and on the same date the securities affiliate, the Chase Harris Forbes Corporation, formally voted to engage henceforth in no new business, and to liquidate its affairs. The Chase Securities Corporation thereafter became The Chase Corporation, simply a holding and liquidating company, relinquishing its power to engage in the securities business. The Bank itself took over in its Bond Department that part of the business of the Chase Harris Forbes Corporation relating solely to Federal, State and Municipal bonds and other limited classes of securities approved by law as proper for national banks to deal in.

It was also voted at the meeting of the shareholders of the Bank held May 16th that the size of the Bank's Board of Directors should be reduced from 72 to 36 members. In the reconstruction of the Board of Directors under that decision all members of investment banking houses who had been directors retired from the Board.

Such changes as the foregoing obviously involved a break with tradition. There are sincere differences of *Break with Tradition* opinion as to the wisdom of these changes. There is, as every one recognizes, a very influential body of banking opinion which honestly and seriously believes that the functions of investment banking and commercial banking can, with great advantage to the public, be performed by the same institution or private banking firm. That view is entitled to respect.

The thought, however, that the overlapping of interest is between commercial banking and investment banking

might be subject to grave danger was not in any sense a new one. The hearings and the report of the Pujo Committee dated February 28, 1913, had pointed out the desirability of such changes. Any wise observer must realize that investment banking, as a self-contained enterprise, not only should not be destroyed or superseded by any governmental agency, but also should be allowed to operate with as little restriction as is commensurate with due protection of the investing public. Normal investment banking should, however, be improved if separated from any direct interest in commercial banking.

A principal difficulty in the past has been that commercial banks doing an investment banking business have been paralleled in operation by private bankers doing a deposit and investment business. *The Fault in the Banking System* As there was no clear definition of function or differentiation in interest between the two types of banking, it was not unnatural that officers of commercial banks should have at times failed to appreciate the distinction between their own position and that of members of private banking firms. The system itself which permitted overlapping of function and interlocking of interests between these two types of banking has been responsible for much that the public now condemns.

A commercial bank, whether or not it is a member of the Federal Reserve System, is an essential and integral part of the monetary and credit machinery of the nation. Of course the commercial banks are under obligation to endeavor to earn a fair return upon the money entrusted to them as capital by their stockholders. The desire to protect that capital and to earn a return upon their investment for the stockholders has the effect of making the

commercial banks not only anxious to extend credit but also cautious and conservative in seeking to assure as far as possible that the credit so extended shall be repaid. It is accordingly obvious that the commercial banker should have the utmost encouragement by the government to exercise all of the sound judgment, the constructive imagination, and the creative thinking which he can bring to the stimulation of private enterprise in extending credit.

The commercial bank's credit function is very definitely governed by its responsibility to meet its deposit liabilities on demand. It must not seek excessive profits by taking undue credit risks and it cannot wisely tie up its funds in long-term credits however safe they may be. Its primary credit function is performed by lending money for short periods to finance self-liquidating commercial transactions—largely in the movement of goods and crops through the various stages of production and distribution; and in the making of short-term loans against good collateral. The commercial bank cannot safely make loans to a borrower who lacks capital of his own or who cannot in the normal course of his business repay the loan within a reasonable period of time. It is within this framework that the commercial bank renders sound and constructive service to the industry, trade and agriculture of the country.

The investment banker also renders necessary and effective service to the industry, trade and agriculture of the country. He does it by meeting long-term needs, providing funds for plant and equipment or for permanent working capital. He does, and should, take speculative risks of a sort unsuitable to the commercial bank in providing

capital funds for new and promising enterprises, even though the major volume of his transactions is naturally to be found in providing additional capital for industries well established and less uncertain in their prospects. With every new issue, moreover, he takes the risk that the public may not readily absorb the new securities which he brings out and that his own capital may be tied up for a long period of time. This last distinction between investment and commercial banking emphasizes the wisdom of the legislation forbidding investment bankers from taking deposits.

Although there should be a sharp delineation between the activities of commercial banks and those of investment bankers, there are certain points of contact between them, whereby they complement each other. It is perfectly proper, for example, that commercial banks should lend to investment bankers, on short term, funds necessary to carry a new issue of securities while it is in the process of being marketed. Such a loan, always secured by collateral and carefully scrutinized by the commercial bank, performs an essential service. The commercial bank or banks making such a loan, however, should be absolutely free from interest in the issue, and immunized from possible influence arising from interlocking interests with the investment bankers participating in it.

Again, a commercial bank frequently finds that its own customers require permanent financing. A rapidly growing business needs additional permanent working capital. The commercial bank properly affords temporary financing to the enterprise, but permanent provision for adequate working capital or for plant or equipment requires long-term credit. When such long-term credit is required, the services of the investment banker are needed. But in

uch cases the investment banker himself should be free from control or influence by the commercial bank which suggests or introduces the business. The investment banker should be in a position to form an absolutely independent judgment as to the wisdom of issuing the credit and as to the conditions under which it shall be issued. The commercial bank should not be in a position to exert any pressure whatever arising out of a dual financial interest.

What I have said with regard to the relationship between commercial and investment banking does not imply that such influence as I have described would necessarily or even usually be exercised in a manner detrimental to the public interest either by the investment bankers in the one case or the commercial banks in the other. Nor does it suggest that there are not conscientious investment bankers, meticulously careful of both the interests of their customers and of the investing public.

Nor is what I have said intended as a sweeping criticism of the motives or practices of investment bankers generally. Any such criticism would be most unjust. But in considering legislation aimed at prohibiting practices contrary to the public interest, it is impossible to draw a distinction between the careful and conscientious banker who would never consciously permit his influence to be misused or his allegiance to be divided, and the banker, who, through recklessness or even because of his private interests, might exercise his influence improperly, if opportunity is permitted to exist.

*Sweeping Criticism
of Investment Bankers
Unjust*

II

CHANGES NECESSARY to MAKE *the* BANKING ACT of 1933 ACCOMPLISH ITS DECLARED OBJECTIVES

The wisdom of effecting a clear differentiation of function and separation in interest between commercial banking and investment banking was recognized in the Glass-Steagall Bill, passed last June and now known as the Banking Act of 1933. The history of that Act and its general provisions indicate a clear intent on the part of the Congress to effect, once and for all, a complete separation between commercial banks and investment bankers. I believe that the public is likewise under the impression that the Act effectively accomplished that purpose.

Careful analysis of the Act and observation of its subsequent operation, however, show that all the purposes intended are not effectively achieved, and that further amendments to the Act will be necessary if its purposes are to be accomplished.

I submit that the provisions of the Banking Act of 1933 and of Section 8 of the Clayton Act show that the legislative policy of the Congress is—

1. That there be a divorcement of the commercial banking business from the investment banking business;

2. That there be no interlocking of management between the commercial banking business and the investment banking business;

3. (Based in part upon another policy) That there shall be no interlocking of management between commercial banks themselves operating in the same community; and

4. That the enforcement of this legislative policy shall not work in a discriminatory manner unfavorable to the

successful operation of national banks, or of member banks of the Federal Reserve System;

The Banking Act of 1933 only partially realizes these purposes. It is true:

1. That it requires the divorcement of security affiliates by commercial banks which are either national banks or member banks of the Federal Reserve System;

2. That it prohibits persons, partnerships or corporations engaged in the securities business from receiving deposits;

3. That it prohibits anyone from receiving deposits unless such person, firm or corporation is subject to examination and regulation under State or Federal law, or submits to periodic examination by the Comptroller of the Currency or by the Federal Reserve Bank of the district and publishes periodic reports of condition;

But, it is also true:

1. That the present statute law* leaves wide open the opportunity for an interlocking of management on the one hand between investment bankers and commercial banks, both national and State. It also leaves open opportunity for interlocking management between commercial banks themselves, so long as they are not national banks; and

2. That the present statute law leaves wide open the opportunity to an individual who may actually be engaged in the securities business through a corporation (so long as he is not a director or officer of the corporation doing such business but employs

* See Section 8 of the Clayton Act and the provisions of Sections 32 and 33 of the Banking Act of 1933.

other people for those offices) to act as a director of a commercial bank without even the necessity of obtaining a permit from the Federal Reserve Board.

It is not my desire to burden your Committee with a long and technical analysis of these omissions in the present statute law. A study of Regulation L, Series of 1933, and of Regulation R, Series of 1933, of the Federal Reserve Board, issued on October 31, 1933, which Regulations I desire to put in the record at this point, and of Section 8 of the Clayton Act and of the provisions of the Banking Act of 1933, will disclose the situation. If your Committee desires I will have prepared and submitted to it a detailed study of the matter.

It is clear that in spite of the general prohibitions set forth in the Act and the obvious legislative intent to separate investment and commercial

*Wherein the Statute Law
Fails to Accomplish its
Declared Objective*

banking, the statute law* actually in force today—

1. Allows any individual (investment banker or otherwise) to act as a director, officer or employee of any number of commercial banks, so long as no one of them is a national bank.

2. It allows any individual to act as a director, officer or employee of a national bank as well as of two other banks—if the Federal Reserve Board issues a permit therefor.

3. It allows a member of a partnership engaged in the investment banking business, or an officer or director of a corporation engaged in such business to act as a director, officer or employee of any member bank,—provided only

* See Section 8 of the Clayton Act, Section 32 of the Banking Act of 1933 and Section 8-A of the Clayton Act as added by Section 33 of the Banking Act of 1933, as analyzed in the Federal Reserve Board regulations referred to.

that he obtains a permit therefor from the Federal Reserve Board.

4. It allows anyone engaged in the securities business as a controlling stockholder in an investment banking corporation (so long as he does not act as a director or officer of such corporation) to act as a director, officer or employee of any bank, without the necessity of a permit from the Federal Reserve Board.

Although Section 8-A of the Clayton Act as contained in Section 33 of the Banking Act of 1933 does not by its terms expressly authorize the Federal Reserve Board to issue permits to avoid certain prohibitions therein contained, the Federal Reserve Board has ruled (and I understand that such ruling is, as a matter of law, a sound one) that certain of the prohibitions against interlocking management contained in Section 8-A of the Clayton Act may be avoided subject only to the permission of the Federal Reserve Board.

The fact is that under the present law any of the prohibitions contained in Section 32 of the Banking Act and Sections 8 and 8-A of the Clayton Act, can actually within certain limitations be avoided with the permission of the Federal Reserve Board. The Federal Reserve Board must only determine that such exceptions as it makes are in its judgment "compatible with the public interest."

To state the situation in another relation:—

The Banking Act of 1933 in Section 21 (a) (1) prohibits unconditionally an investment banker from at the same time engaging in commercial banking. No provision is contained in this Section of the Act even permitting the Federal Reserve Board to authorize an avoidance of this prohibition, and yet Section 32 of the same Act, as indicated above, permits the Federal Reserve Board to author-

ize indirectly an evasion of this prohibition by permitting an interlocking directorate between an investment banker and a commercial bank.

The foregoing observations are not to be interpreted as criticism of the Federal Reserve Board; nor to imply that the Federal Reserve Board will not proceed conscientiously in discharging the duties imposed upon it by law.

The Federal Reserve Board not at Fault

The point here made is that the necessities of so vital a situation should not be subject, once Congress has determined public policy, to the discretion of the Federal Reserve Board or of any other authority. It is only natural,* that if the Federal Reserve Board *is given* such power, the Federal Reserve Board will interpret this as a mandate from the Congress to *exercise* such power. The fact is that Congress, having acted to prohibit certain relationships, presumably because in its judgment they were contrary to the public interest, has apparently delegated the power to the Federal Reserve Board to determine whether Congress was itself right. I submit that Congress was wise in its legislative purpose, and that its wisdom in that regard should be expressed in mandatory rather than permissive terms.

To accomplish the purpose and intent of the Congress to effect a complete termination of interlocking directorates between commercial banks and investment bankers, I urge that the Banking Act of 1933 should be amended by incorporating in the National Bank Act a provision expressly disqualifying anyone engaged, directly or indirectly, in the investment banking business from acting as a director or officer of a national bank.

* As was pointed out when the Kern Amendment was first added to Section 8 of the Clayton Act whereby the Federal Reserve Board was given power by permit to excuse from the prohibitions against certain interlocking directorates.

Similar provisions should expressly disqualify any director, employee or officer of a national bank from acting as a director, officer or employee of any other bank in the same community.

There should also be incorporated in the Federal Reserve Act (which is the organic legislation dealing with State member banks) an appropriate provision applying the same canons of eligibility with regard to the officers, directors and employees of State member banks, so that there shall be no unfair discrimination against national banks.

The present law contains an obvious anomaly. Under the present law a director of a national bank may, with permission of the Federal Reserve Board, act as director of not more than two other banks which "make loans secured by stock or bond collateral." But a director of a national bank may not, even with permission of the Federal Reserve Board, serve as director of a corporation not engaged in the banking business which may as an incidental matter occasionally "make loans secured by stock and bond collateral," to others than its own subsidiaries.

Taking the law literally, a man may be a director of a national bank and of another bank if he obtains a permit therefor, but he cannot be, and cannot obtain dispensation to be, at the same time a director of a national bank and some other corporation, if such corporation should occasionally and as an incident to its primary business "make loans secured by stock or bond collateral" to others than its subsidiaries. I have no doubt that in the complexities of modern business, such loans are occasionally made by practically all of the business, public utility and railroad corporations of the country.

This particular type of disqualification of a director of a national bank does not apply to a director of a State member bank. Although the language of Sections 8 and 8-A of the Clayton Act refers in this connection to directors of any "bank, banking association or trust company organized or *operating* under the laws of the United States", nevertheless, this language has been construed* to apply only to national banks and not to include State member banks.

The entire subject of the qualification of directors, officers and employees of national banks and State member banks should be comprehensively covered by the elimination of the provisions in Sections 81, 82, and 83 of the Banking Act of 1933, the repeal of Section 8 of the Clayton Act, and the making of appropriate amendments to the National Bank Act and the Federal Reserve Act in accordance with principles indicated above.

***Necessity of Re-defining
Qualifications of Bank
Directors***

In making such amendments to the Banking Act designed to separate absolutely the business of commercial and investment banking, you will of course take account of the fact that there are varying definitions of investment banking embodied in the present law.

I suggest accordingly the wisdom of drafting a carefully phrased definition of the business of dealing in securities. For the sake of clarity, such definition should be so drawn as to exclude any organization which sells, either through itself or through a subsidiary, no securities other than those issued by itself. Likewise, it should exclude, for the same reason, those buying and selling securities solely as brokers or agents.

* By the Federal Reserve Board on the authority of an opinion by the Acting Attorney General of the United States dated September 10, 1917.

The law now undertakes to exclude certain interlocking relationships between banks. In re-classifying the qualifications of directors which may involve such overlapping of interests, directors of banking institutions would not be prohibited from at the same time acting as directors of corporations,—such as, for example, the Discount Corporation of New York—which deal primarily with the obligations of the United States Government, in making acceptances or trade acceptances. Such corporations assist in the functioning of an important part of the machinery of the Federal Reserve Act. Likewise an American bank director should not be forbidden from serving as a director of the Bank for International Settlements which functions in connection with the foreign commerce of the United States. Parenthetically, I would also suggest that national banks be expressly permitted to hold the stock of these banking institutions.

There is another reason leading to my suggestion for eliminating the provisions of Section 32. Section 21 of the Banking Act of 1933 contains a sweeping provision against any one engaged in the securities business at the same time and to any extent whatever engaging "*in the business of receiving deposits.*" Nevertheless, Section 32 of the Act permits a dealer in securities to "hold on deposit" funds on behalf of a member bank if the Federal Reserve Board decides that such receiving and holding on deposit is "not incompatible with the public interest" and consequently issues a permit therefor. An irreconcilable inconsistency such as this should be corrected by the elimination of this provision of Section 32.

Furthermore, the provisions in this Section 32 as to the correspondent relationship between a commercial bank and a firm or institution engaged in the securities business are of doubtful meaning. They should certainly be eliminated or clarified.

III

SUGGESTED ADDITIONS *to the* BANKING ACT *of* 1933 TO PREVENT CERTAIN PRACTICES

As I have mentioned in an earlier portion of this Statement, one very important contribution which the Congress can make toward the improvement of commercial banking is to so amend our legislation as to protect the sound bankers of the country from a type of competition involving certain undesirable banking practices which have been brought to the attention of this Committee and which experience shows should be outlawed. In line with this the following suggestions are made:

A

The Banking Act undertakes to legislate against a certain practice out of which much embarrassment and at times abuse has arisen. The Act prohibits an executive officer of a member bank from borrowing from another bank without reporting the fact to the chairman of the board of directors of his own bank. Parenthetically, it is not very clear just what the chairman of the board is to do with this information, nor what he must do if he himself is an executive officer and desires to borrow, nor is the situation covered where there is no chairman of the board. The important point is that the Act refers to borrowing *only from another bank*. *An officer may borrow from any other source* without making a report. There is no provision covering borrowing from brokers, private bankers or others. It would seem that the rule should be that all executive officers of a member bank should report to the board of directors all of their borrowings above say,

ome nominal minimum, related to the size of their salaries. Thus the Board will be informed of the obligations such officers may be under to all those who are lending them money.

B

The Act should be so amended as specifically to prohibit executive officers of member banks from participating directly or indirectly in syndicates which are offering securities to the public, or in trading accounts or pool operations in securities which are dealt in publicly. As such executive officers may be called upon to make syndicate plans, and may be responsible for the formulation of the policies of their banks in connection with loans on stock and bond collateral, they should be prohibited from having any interest in or subscribing to any such syndicate or in joining in any such trading accounts or pool operations. Banking experience has conclusively demonstrated the undesirability of participation by bank officers in transactions of this kind.

C

The Act should also prohibit both executive officers and directors of Federal Reserve Banks from participating directly or indirectly in similar syndicates or trading accounts or pool operations. Directors of Federal Reserve Banks occupy a very delicate relationship to the whole credit machinery. Their decisions profoundly affect both the money market and the securities market; consequently they should have no interest in syndicates which are offering securities to the public or in trading accounts or pool operations in securities dealt in publicly.

D

The Act should be so amended as to require an executive officer of a member bank to report to his board of directors every case where any such officer becomes a director, officer or member of the firm of or financial adviser to any outside interest, whether an individual, corporation or partnership, and, if any fee or salary is paid for such service, other than ordinary director's fee, the amount thereof.

Outside Interests of Bank Officers

It is desirable that a bank officer, particularly in large cities, should have his primary interest, and usually his exclusive interest, in the bank for which he works. Many exceptions to this rule may, of course, arise—especially in small communities. The important thing is that his board of directors should know and approve of any outside interest on the part of a bank officer. There are many occasions when an executive officer without question should be permitted to have an interest in and take a salary from an outside activity, but the law should require that his board of directors should be apprised of the details of every such instance, except in the case of ordinary directors' fees, and should approve thereof.

E

The Act should contain a provision covering loans made for reasons of policy. Banking in America is competitive and it should remain competitive. It should always be open to a good customer who feels that he is not being treated properly by one bank to take his business to another bank. But the level of competition in banking, as in every other business, should be so regulated by custom, by professional standards, and where necessary and pos-

Loans for Reasons of Policy

ible by law, that banks will not do unsound things in their effort to get new business or to keep the business which they have.

One rather serious and widespread outgrowth of competition between banks has been the making of loans which a bank would prefer not to make on the strict merits of the loans themselves, but which none-the-less it may be tempted to make because borrowers are in a position to influence other important business of the lending bank or to bring important business to the bank. Such loans are made chiefly in the following three connections:

1. Loans to an officer of a depositor bank;
2. Loans to an officer of a depositor business corporation;
3. Loans to the financial agent of an important individual or partnership depositor.

In a large percentage of cases it is perfectly proper to make such loans. These borrowers may present entirely acceptable collateral, may handle their loans in a wholly proper way, and may have individual accounts which justify every consideration. But the situation would be less subject to abuse if there were added to the Banking Act a provision that in every case where a loan is made by a member bank to individuals in relations such as those specified above, a report should be made by the lending bank to the board of directors of the customer bank or corporation of which the borrower is an officer, or to the individual depositor or partnership for whom the borrower acts as financial agent, excluding, of course, cases where an individual acts as financial agent for the members of his family. The provision suggested should not apply to existing loans, or renewals thereof, but only to new loans or to existing loans if they are to be increased.

The lending bank would in such cases naturally inform the borrower in advance that the law required the making of these reports, and the knowledge that the law existed would largely prevent improper requests from being made. Objection cannot be made to a provision of this sort that it robs the officer of the depositor bank or corporation or the financial agent of the individual depositor or partnership of his privacy in financial transactions. He need not borrow from the same bank that his principal deals with if his loan can stand on its own merits.

IV

SUGGESTED REVISIONS *of the* BANKING ACT *of* 1933 TO OBVIATE CERTAIN PRACTICAL DIFFICULTIES

In two respects the Banking Act of 1933 has placed upon member banks, I believe unintentionally, a number of immediate practical burdens which have had and will continue to have most injurious results. Relief from these burdens would in no way weaken the effectiveness of the legislative policy in requiring divorcement of commercial banks and investment affiliates. The difficulties created, first, by the unhappily sweeping definition of the term "affiliate," and, second, by the apparent failure of the Act to afford a reasonable opportunity, in these abnormal times, to salvage to the best advantage assets involved in the liquidation of a securities affiliate.

A

The Banking Act requires that in cases where a member bank owns or controls another corporation regular reports of such controlled or affiliated corporation must be forwarded to the authorities and published, and that the loans and investments of a member bank to and in certain kinds of affiliated corporations shall be restricted as set forth in section 13. This is an entirely wise provision of law in so far as it relates to corporations which are controlled by banks through deliberate choice. The case is wholly different, however, where such control is forced upon the bank as a result of accidental conditions which it could not itself govern. This may be brought about, for example, from the necessity of reducing collateral to possession to realize upon a loan, or through or from participation in a reorganization as a means of salvaging a loan.

Another process whereby what may be called "accidental" affiliates may be acquired is the control of stock by a bank in the exercise of its trust powers as executor, administrator, depository, etc.

The law does not appear to exclude, either expressly or by implication, any of such "accidental" affiliates from the operation of its requirements. Presumably, therefore, not only must regular reports be published of this innumerable group of "accidental" affiliates but also loans to, or investments in, such corporations must be taken into account in determining the limit of loans and investments permitted to member banks in connection with their affiliates.

A number of incidental hardships have been created in connection with the preparation and furnishing of these required reports (not to mention the advertising and other expense involved) by reason of this sweeping inclusion into the fold of bank affiliates of the countless number of corporations which may be within the class of "accidental" affiliates. The accounting difficulties in preparing financial statements of all different kinds of corporations, perhaps scattered all over the world, contemporaneously with a call by the Comptroller for a statement of condition by the bank in question should not be underestimated.

Most important of all, however, particularly at present when debtors in one form or another are in dire need of credit assistance, is the fact that a member bank may very well be seriously embarrassed in endeavoring to work out its loans (let alone the even greater embarrassment to debtors) if the loan and investment limitations of Section 13 are applied (as the law now apparently applies them) to this great number of "accidental" affiliates coming within the Act's unhappily sweeping definition. Correc-

tion of this situation can only be made by Congressional action taken promptly.

To cure this condition, as well as expressly to exclude from the term "affiliate", corporations the stock of which is held by the bank in some fiduciary capacity, it is suggested that the definition of the term "affiliate" as contained in the Act be qualified by a proviso that the term shall not be deemed to include corporations or businesses which shall be controlled by a bank in a fiduciary capacity or control of which shall have been acquired in one form or another in connection with the salvaging of a *bona fide* loan.

B

The Act prescribes a time limit of one year from June 16, 1933, for the complete separation of commercial banking from the securities business. Every effort should indeed be made to effect such a separation or the termination of the securities business of an affiliate at the earliest possible date. As I have heretofore stated, the securities business of the securities affiliate of The Chase National Bank had been terminated prior to the enactment of the law. We have also determined upon the complete liquidation and winding up of our securities affiliate at the earliest possible date.

The period of one year for the termination of the securities business of a securities affiliate allowed by the Glass-Steagall Bill is indeed needlessly long. A securities affiliate can cease over night to do new business, as was the case with the Chase Harris Forbes organization. But the period of one year is exceedingly short for the liquidation of such an organization, under present conditions. Even

though the affiliate has ceased engaging in the securities business, nevertheless, a liquidation of the assets of such affiliate, consisting largely of unsold securities, should be pursued in a prudent manner. For the purpose of permitting a prudent and orderly termination of a securities affiliate, without disturbance to market conditions and without incurring unnecessary losses, I suggest that the Act be amended. Such amendment might well permit a member bank one of two options to minimize or avoid loss; namely, either—

(1) To continue the corporate existence of its affiliate and its affiliation with the bank beyond June 16, 1934 solely for the purpose of effecting a prudent liquidation of its assets, and of course without conducting any new business; or

(2) To take over such assets from its affiliate at their fair value and hold them pending the opportunity to make a prudent disposition thereof.

Exercise of either of these options should be subject to the approval of the Comptroller of the Currency or of the Federal Reserve Board as to the length of time of the continuance of the affiliated relationship and also of the corporate existence of such affiliate, as well as to the retention by the member bank of such assets as a member bank would not normally be permitted to invest in.

V

GENERAL

In the foregoing discussion I have confined myself to suggestions for legislation intended to prevent unsound banking practices and to remedy certain omissions. I have said nothing about a number of other problems which are of vital importance, and the solution of which must be found before any program of strengthening the banking system of the country can be completed. I have failed to touch upon these problems not because I have overlooked them, but because it does not seem to me that they are germane to that phase of the inquiry which is at the moment before you.

In considering legislation it should never be overlooked that the whole mechanism of trade is as delicate as it is complicated. The law cannot wisely establish too rigid grooves within which business transactions shall be conducted. To prohibit specific practices which are clearly injurious is sound and to impose all necessary public supervision is also wise. But business enterprise, initiative and courage flourish in an atmosphere of the utmost freedom compatible with protection of the public interest.

The banks and bankers of the country have sometimes been held primarily to blame for the economic catastrophe of the past few years. Indefensible transactions were indeed entered into in the period of the speculative mania. But many more transactions, which in the light of subsequent events, have proved unfortunate or even disastrous, were warranted on the basis of the situation as it seemed to be at the time the transactions were undertaken. Banks and bankers in the United States were responsible for specific acts and for certain abuses, but they did not create

the unsound money market situation which undermined so many of these transactions. The banks did not create the great excess of member bank reserves which were characteristic of the greater part of the period from the middle of 1922 through early 1928, and they did not cause the gigantic expansion of commercial bank credit which in a competitive banking system is the automatic consequence of a prolonged excess of reserves in a time of general confidence. Between the middle of 1922 and April of 1928 the deposits of the commercial banks of the United States increased by 18½ billion dollars while their loans and investments increased by 14½ billion dollars. That great increase in commercial bank credit, unneeded by commerce, flowed into capital uses, generating an immense speculation in real estate and securities.

Many people are too prone to blame all financial evils upon bankers — either commercial or investment. Bankers have enough to atone for without being held responsible for orgies of gambling upon stock or commodity exchanges or for the rapacity of individuals who seek to gain inordinate financial profits by reckless speculation. *Bankers Not to Blame for All Financial Evils* I undertake to condone no improper practices, but do suggest that a proper sense of perspective is necessary.

Banks themselves were responsible when they took improperly secured mortgages, unseasoned, high-yield, narrow-market bonds, or loans against securities inadequately margined, inadequately diversified, or which otherwise failed to satisfy sound banking standards. But they did not create the general money market situation which meant for the banking system as a whole such an excess in the number of mortgages taken, the number of bonds purchased and the total of credit going into

securities, that it undermined the entire fabric and made the ordinary standards of safety, even when applied in individual cases with due care, no longer adequate.

In looking back upon the events of the past few years, we should not permit ourselves, therefore, to overlook the innumerable acts of courage and foresightedness which individual bankers did for the relief of their customers and the community, nor should we allow the mistakes now freely admitted to obscure the merit of resourceful and constructive action effectively taken.

A banker's courage, and public confidence in the banker, are interdependent. Given public confidence in him and in the general situation, the banker can safely and properly do many things of constructive importance and value to the community which he dare not do if that confidence is low. To enjoy public confidence, the banker must, of course, deserve that confidence. His principles and practices must command public approval. Law and public opinion must support him in the maintenance of high standards and in the courageous exercise of his opportunities for usefulness.

It is clear that our banking system should be modified and strengthened. To do so will require a most thorough and dispassionate examination of the entire problem. Under a banking system wisely improved and coordinated, the country's financial system should be able effectively and permanently to foster the national welfare.

The Present and Future Development of Public Utility Finance

Address made by

**Harry M. Addinsell, President of
Chase Harris Forbes Corporation,
before the Forum in Investment
Banking offered by The Graduate
School of Business Administration
of New York University in co-
operation with The Investment
Bankers Association of America
(New York Group) held in the
Governors' Room of the New
York Stock Exchange, Thursday
afternoon, December 15, 1932**

XN.73.N3

92

ONE of the most generally recognized solons of the public utility industry, Mr. Alex Dow, President of the great Detroit Edison Company, when recently asked to make an address on the present and future course of electric rates, notwithstanding his half century of outstandingly successful experience in his chosen field, disclaimed the idea that he was "either a prophet or a son of a prophet" and, therefore, could not foretell the future. It will be obvious to you that, even if I possessed Mr. Dow's wisdom, as my experience covers only a little over a quarter of a century, I could not hope to be a prophet either. So I shall try to give you a brief review of the history of the business of public utility financing and the present situation, and with that background I shall make some perhaps obvious observations about the future. As so many types of business come under the heading of public utility, I shall deal with my subject in particular relation to the electric and gas industries.

NATIONAL ASPECT OF THE SUBJECT

At the outset of my remarks I wish to stress as forcibly as possible the national aspect of the subject of public utility finance. There are estimated to be over 24,000,000 electric rate payers and over 16,000,000 gas customers in the United States. Over 82,000,000 people in this country are estimated to receive electric service. To this class of people the size of their electric and gas bills are, in an important measure, dependent upon the cost of money to the electric and gas companies. Another group which has a primary interest consists of the direct investors in public utility securities. Of these, with respect to all classes of public utilities, there are estimated to be in this country over 10,000,000. They have contributed some \$18,000,000,000 of capital to the electric and gas industries alone. In addition, there are millions of indirect investors in the securities of these companies. There are the savings bank depositors, the holders of life insurance policies, the owners of investment trust securities and others who indirectly have a financial stake in the industry. To the investors, direct and indirect, the stability and safety of their investments and the income which they derive therefrom are of primary importance. The combined interest of these

millions of direct and indirect investors in, and customers of, the electric and gas companies makes the problem of public utility finance one indeed of national scope.

PUBLIC UTILITIES DIFFER FROM OTHER INDUSTRIES

All of us are familiar with the fact that public utilities differ fundamentally from the usual form of industrial concern. These companies are correctly believed to be "affected with a public interest." They are public servants engaged in supplying services essential to the public welfare. Their high fixed capital investments in relation to gross revenues are such that competition between similar units in a common locality does not make for lower rates. This was well demonstrated in the early history of the industry. At the outset one could find many separate organizations attempting to compete with one another in the same community. A good example of the result is given by the following quotation from a New York Stock Exchange listing application, dated October 8, 1888, for capital stock of the Chicago Gas Trust. This Company was formed to acquire control of some eight separate companies which were doing business in Chicago and its suburbs. I quote from the listing application: "Bitter competition was going on between the three principal companies occupying the northern and southern divisions of the City which had reduced the price of gas to \$1.00 per thousand. The first of the competing companies, the Consumers Gas Fuel & Light Company, which had secured the largest business, was unable to meet its interest charges and went into the hands of a receiver, was foreclosed in 1885, and reorganized late in 1886. The second of the competing companies, the Equitable Gas Light & Fuel Company, had not reached a point where it could earn fixed charges. The third, which was the oldest and strongest of all, the Chicago Gas Light and Coke Company, had exhausted a considerable surplus fund and ere long would have been obliged to borrow money to continue the war." This bird's eye view of the past is illuminating. Comparison of the conditions existing then with those of today is indicative of the changed attitude toward utilities. Needless to say, in due course the common ownership of the gas

companies in Chicago resulted in the Peoples Gas Light & Coke Company of today.

Because of the unsatisfactory results arising from direct competition, as just illustrated, public utilities are now usually granted a monopoly in providing their services. In return for this advantage they are generally subjected to state regulation in order primarily to prohibit the imposing of exorbitant rates. Thus, on one hand we have the public utilities with characteristics of high investment in fixed properties and freedom from direct competition but subject to regulation of rates and, on the other hand, industrials with characteristics of low capital investment in relation to sales and freedom from regulation but faced in their operations with direct competition amongst each other.

DIFFERENCES AFFECT FINANCING METHODS

These fundamental differences are of major importance in an understanding of the peculiarities of public utility finance. Whereas many industrial concerns are practically forced by the nature of their business and assets to confine the issuance of securities to preferred and common stocks plus a relatively small amount of debt, the public utilities, with a heavy investment in fixed assets and a more stable income as a result of the monopolistic nature of their business and the regulation of their rates, are enabled to raise a substantial portion of their funds through the medium of mortgage or other debt securities. These companies are therefore able to take advantage of prevailing security market conditions. Thus, when mortgage bonds are in demand by investors, the electric or gas company usually has mortgage bonds available for the raising of new funds; when equity securities are in demand, common and preferred stocks or convertible securities may be issued by the utilities; and when business conditions make impossible the raising of new money through equity issues or by means of long term bond issues, the public utility company may offer short term notes.

During the past four years we have seen extreme examples of unusual conditions which have made this flexibility of financing of inestimable value to the public utilities. During the Spring of 1928 long term mortgage bonds of these com-

panies were in great demand and a number of the better known companies were then able to raise new money on less than a 5% yield basis. In the first six months of that year over \$1,000,000,000 of long term utility bonds were issued as against only \$611,000,000 of utility stocks. With the great increase in speculative interest which took place during the latter months of 1928 and the early months of 1929, long term bonds were not so greatly in demand. During the twelve months ended June 30, 1929 the utilities provided about \$1,530,000,000 of funds for expansion and refunding through the sale of stocks and convertible bonds, while long term non-convertible debt sold aggregated less than \$690,000,000. These figures cover all types of public utilities. This period was also noted for the raising of equity funds through the issuance of rights to stockholders. As a result of the deflation of the stock market with the consequent financial hysteria late in 1929 neither long term bonds nor stocks were readily salable. Accordingly, the utilities turned to the use of short term notes where the raising of funds was absolutely essential. Early in 1931 long term mortgage bonds again came into favor, and have since continued to account for a great majority of all utility capital flotations. I point out these violent fluctuations, from one extreme of corporate financing to another, as indicative of the ability of public utility companies not only to take advantage of existing favorable conditions in security markets but also to adjust their methods of raising funds to the exigencies of the times.

HISTORY OF EARLY FINANCING

The early financing of electric and gas companies was closely similar to that of nearly all new industries. The hazards and uncertainties of new ventures are never attractive to capital and the first few dollars for plant investment must almost always be provided by those individuals who have both the financial means and a high measure of courage and foresight. It is seldom indeed that the original capital for new ventures is provided by the sale of securities to the public. Rather we find that small groups of individuals of wealth join together in promoting the new enterprise. Thus, in the electric and gas industries the forerunners of the present financial

giants were at one time small organizations financed through the sale of common stock to small groups of individuals.

The history of the gas industry goes back many years to 1812 when the first gas company was incorporated in England. In the United States, gas was first introduced for public lighting in the City of Baltimore in 1816. In the large cities manufactured gas quickly supplanted the oil and candles previously used for illuminating purposes. In smaller communities it was not, however, economically possible to provide gas service.

Although gas was then widely used for street and home lighting purposes, in 1877 the arc light, made possible by the invention of the electric generator, had begun to attract attention. Arc lights soon commenced to replace gas for street lighting in the larger cities. They were relegated to the past, however, by the invention and perfection of the incandescent lamp and related apparatus by Thomas Edison.

THE FIRST ELECTRIC COMPANY

The first electric company using incandescent lamps was the Edison Electric Illuminating Company of New York, incorporated in 1880 and commercially operated for the first time in 1882. This company was unquestionably the forerunner of the present electric industry. The genius of Edison had not only invented the incandescent bulb but also developed a complete system of generating facilities, distribution lines, meters and other essential appliances. Over the course of the next two generations a profound change took place. Electricity almost entirely supplanted gas for both interior and outdoor lighting purposes. Gas, on the other hand, after a period of readjustment, emerged as a valuable fuel for domestic cooking and heating and for many industrial purposes. Accordingly, from the turn of the century on, these two great industries have grown side by side and the financial problems of the one have been common to the other.

The Edison Electric Illuminating Company of New York was the forerunner of countless local "Edison Companies" throughout the country. The early financial history of these companies is largely the same. The original capital was provided by local citizens through subscription to common stock.

The growth of business was so rapid that additional subscriptions were soon required. We find for example that the original capitalization of the New York Company of \$1,000,000 had to be increased in five years by 150%, bringing the total to \$2,500,000 in 1887. In 1890 the common stock again had to be increased, this time by an additional \$2,500,000.

The next development of the industry was toward the consolidation of small companies into larger, more compact, operating organizations. This tendency naturally appeared earlier in the gas industry than in the electric field. The situation in Chicago, to which I have referred, is a good illustration. In the electric industry we find that in August, 1892, the Brush Electric Light Company and the Thomson Houston Electric Light & Power Company of Buffalo were consolidated to form the Buffalo General Electric Company, serving the entire city of Buffalo. In 1907 the Chicago Edison Company and the Commonwealth Electric Company were consolidated to form the Commonwealth Edison Company. In New York, on May 1, 1901, the original Edison Electric Illuminating Company was consolidated with the New York Gas & Electric Light, Heat & Power Company to form the New York Edison Company. Nearly all of the consolidations effected in those days were based upon straight exchanges of capital stock. In some few cases smaller companies were absorbed by large companies by means of outright cash purchases. Transactions of this sort were seldom on a large scale in those days.

REASONS FOR CONSOLIDATION

The countless consolidations occurring during the early years all point to two principal causes: first, competition between companies serving the same locality can not be endured with financial safety and adequate service to the public, and, second, greater financial strength and better service to the public result from the combination of small units into large ones.

With the increased size of individual units and with the rapid growth of the industry came the need for greater capital funds and the need for new means of raising them. Here the utilities had guide posts in the shape of the railroads

which at that time were in the full swing of expansion. Taking the cue from them the utilities soon began to place greater dependence on the raising of funds through the sale of mortgage bonds. The Edison Electric Illuminating Company of New York, as early as 1888, issued \$250,000 of 10-Year 6% real estate bonds secured by a first mortgage on a portion of its property. This debt was repaid in March, 1890, with a portion of the proceeds from an issue of \$2,000,000 of First Mortgage 30-Year 5s. The balance of this issue was used for extensions as were further issues which appeared from 1891 on.

As I have pointed out, the original capital almost invariably represented private subscriptions arranged for by the promoters or by private banking houses. With the increased use of debt securities it was logical that the utilities should place greater dependence on investment bankers for the distribution of these securities. Thus it is true that the investment banking business has not only been of great help to the utilities in providing a channel for the raising of funds but has grown in size and usefulness with the growth of the electric and gas industries.

Another development of importance in the early financial history of the utilities was the assistance, in the form of credit, extended to these companies by the equipment manufacturers. The demands for increased service outstripped the ability of the new organization to acquire capital. The manufacturers, through their willingness and ability to take securities of the operating companies in part payment for purchases of equipment and supplies, enabled the industry to continue its progress. I will shortly speak in more detail of this phase of utility financing.

The tendency of the utility companies to provide the equity through the contribution of the original promoters and to raise additional funds through the sale of mortgage bonds continued without interruption from the turn of the century for ten or fifteen years. Few changes from this general plan took place during this time.

THE CLOSED MORTGAGE

We find in looking over the old records that the mortgage bonds issued in those days were generally a simple type of

instrument. The deeds of trust covered the entire property as a first mortgage and the bonds issued thereunder generally ran for periods of from ten to thirty years. Failure to appreciate the tremendous impending growth of their organizations led many companies to continue to issue bonds under closed mortgages and to fail to provide for the redemption of debt prior to maturity. The need for new funds resulting from the unprecedented growth of the utilities during the ensuing years gave rise to the necessity of placing second mortgages on the company's properties in spite of the fact that the closed first mortgages, had they been callable, could readily have been refunded. Thus, we find in the case of Southern California Edison Company that an issue of \$10,000,000 Pacific Light & Power Company (a predecessor company) First Mortgage 5s—closed and non-callable—was sold in 1902. These bonds do not mature until 1942 and as a result subsequent issues by this great company have necessarily been junior lien bonds. In like fashion the funded debt of New York Edison Company includes nearly \$38,000,000 of underlying non-callable bonds issued years ago under mortgages created between 1895 and 1899. One of these issues does not mature until 1995. In the case of many companies the original bond issues bore high coupon rates. The lack of call features and the closed nature of the liens subsequently prevented substantial savings in interest charges as well as improvements in capital structures.

Continued use of the closed mortgage as a financing vehicle soon disclosed its unsuitability when applied to a growing industry. Accordingly, the next development was the creation of mortgages providing for the issue of additional bonds, on the basis of property additions, up to a definite authorized limit. This limited amount was customarily set so far ahead of the Company's then apparent needs that it conceivably would never be reached. Continued expansion of the industry soon proved the fallacy of this idea. Authorized limits were quickly reached, with the unfortunate result that new mediums of financing, junior to the closed non-callable issues, had to be found.

Another detail of the early mortgage instruments which caused trouble was the limitation sometimes placed on the

maturity of additional issues. It was occasionally provided that additional issues up to the authorized limit had to mature on the same date that the original issue matured. As time elapsed, additional issues were thus restricted to short term bonds. This condition often gave rise to difficulties in financing during the last few years prior to the required maturity date. Unsuitable market conditions might make it unduly expensive or inadvisable to sell short term issues. In such cases, the outstanding issue had to be called, or if non-callable, a junior security necessarily resorted to.

THE OPEN-END MORTGAGE

The creation of the open-end mortgage was a natural refinement. This instrument was almost unknown until about 1901 and it was several years thereafter before its application became common in utility financing. One of the earliest open-end mortgages created by the utilities was the first mortgage of the Chicago Railways Company, created in 1907. This mortgage provided that additional bonds were issuable from time to time to reimburse the Company for construction expenditures, subject to approval by the Board of Super-
vising Engineers of Chicago.

By 1910 the use of the open-end mortgage, permitting the issuance of additional bonds against property additions, had become more general practice and by 1920 had almost entirely replaced the earlier forms of mortgage. It resulted in improving materially the flexibility of senior financing for utilities. Under this type of mortgage the issuance of additional bonds is limited to certain percentages of new property expenditures, generally 75% or 80%, and it is usually required that interest charges must be protected by a margin of earnings. This is generally $1\frac{3}{4}$ to twice interest charges. No limitations are placed on the aggregate amount of bonds which may be issued or on the maturity of additional issues. These and other covenants are common and undoubtedly well known to you. They result in a medium for senior financing which is adaptable to the increasing size of the debtor company.

ADVENT OF THE HOLDING COMPANY

With the continued expansion of the industry in the years just prior to the world war a development of major signifi-

cance took place. Consolidations of neighboring operating companies into larger operating organizations were followed by consolidations of large operating companies into groups under the common ownership of a comparative newcomer in the field of public utility corporate structures—the holding company. Although partial holding companies in other industries—organizations which not only owned physical property but also securities of other companies—can be traced back to 1832 and strict holding companies can be found in 1868, it was not until 1888 that holding companies devoted to the gas and electric business made their appearance. It was nearly another generation thereafter before these companies began to exercise a position of importance in the industry.

The United Gas Improvement Company was incorporated in Pennsylvania in 1882 to introduce improvements in the gas industry. Finding it difficult to induce independent gas companies to avail themselves of the Company's licenses for equipment used in the manufacture of water gas, the Company, beginning about 1884, began to purchase stock interests in such companies in order to facilitate sale of the equipment. In 1888, as the result of the acquisition of a broader franchise, the Improvement Company seriously undertook the acquisition of controlling interests in both gas and electric enterprises. The original history of this company indicates, however, that its primary purpose was the acquisition of control simply as a means of stimulating the use of its patented processes for the manufacture of water gas. It was not until later that it functioned in today's accepted sense of a holding company.

The North American Company was organized in New Jersey in 1890 and soon thereafter began to acquire control of electric light and gas properties as permanent investments. This Company appears to have been the first holding company originally devoted to the acquisition of control of operating public utility companies for at least some of the purposes now commonly attributed to holding companies in this field.

AID FROM EQUIPMENT MANUFACTURERS

The second development in the history of the holding company occurred between 1905 and 1910 and has already been

briefly mentioned. During these years the demands for new capital by the growing utility companies was so great that it far exceeded the amount of such funds available. The investing public had not yet become thoroughly convinced that electric utilities were destined for a sound future. Likewise, confidence in the gas companies had been shaken by the advent of electricity as a medium for lighting. Nevertheless, these companies were growing rapidly and their new capital requirements were large. Manufacturing and construction concerns, which were engaged in supplying equipment to the growing companies, found their business held back by the inability of the utilities to raise funds. These concerns therefore found it advisable to take payment in the form of securities for equipment sold to the utilities. In some cases they mingled the securities so acquired with their own investment portfolios and reimbursed themselves through the issuance of additional amounts of their own securities. In general, however, it soon appeared more advisable to create separate companies to own these miscellaneous investments and to use them as the direct basis for the raising of funds. These organizations were among the forerunners of present day holding companies. This is particularly true of Electric Bond and Share Company, formed by General Electric Company in 1905 to hold securities acquired in payment for equipment.

EARLY FINANCING BY HOLDING COMPANIES

Although the holding company was originally devised as a means to eliminate competition, to further manufacturing enterprises, or to act purely as an investment company, it soon became apparent that it could also perform an extremely valuable service as a financing medium. This feature, together with the advantages of efficiency and economy of centralized management, became so apparent as to result in the formation by 1910 of a number of holding companies unrelated to manufacturing organizations and not dictated by the necessities of eliminating competition. These companies in the early days provided their capital funds through the sale of common and preferred stocks and collateral trust bonds to the public. The next step in financing was the sale of unsecured debentures, based solely on the credit of the holding company.

Standard Gas & Electric Company, in 1915, offered to preferred stockholders an issue of \$3,000,000 of 20-Year 6% notes. Likewise, American Power & Light Company, in 1916, offered to the holders of its preferred stock and other equity securities the right to buy an issue of 100-Year debentures. The use of unsecured debentures did not, however, come into general prominence until subsequent to the world war.

The development of the holding company was temporarily delayed by the war. It was not until after the armistice, when the utilities once more were enabled to raise funds in the security markets of the world, that the holding company movement broke into full stride. Probably the development of this type of corporate organization was materially furthered by a more general understanding throughout the country of investment securities resulting from the tremendous sales directly to the public of liberty loan bonds during the war. The general public had become in this way "investment minded." With the cessation of direct government financing and with the upturn in domestic industrial business, the general public turned to corporate issues for investment. At the same time the earnings of electric and gas utilities began a rapid expansion resulting from the industry's ability to make extensions and improvements which necessarily had been delayed during war time. The period from 1923 to 1929 is particularly noted for the great use of holding company debentures as a means of raising funds for the operating subsidiaries. The majority of the numerous holding company debenture securities now outstanding were issued during these years.

DEVELOPMENT OF CUSTOMER OWNERSHIP

The demonstrated stability of revenues of electric and gas companies coupled with the ever expanding uses for the services provided by these companies gradually brought about a greater public consciousness of the value of their securities and by 1920 a further important development in utility financing had taken place. This was the sale of securities directly by the companies to their customers. While the sale of securities to customers had started as early as 1905, it was not until 1920 that this movement had reached a size of real

importance. Customer ownership sales of securities in that year were reported at approximately \$43,000,000. By 1925 the use of this method of raising funds had increased to the point of providing almost \$300,000,000 for that year. While such sales have declined since then, this method of raising funds has had an unusual significance in present day corporate relations. The ownership of a financial interest in the local operating utility has, without question, made for a better understanding by the general public of the problems of the utilities. If properly handled, the sale of securities to customers has two principal advantages. These are: first, it has enabled the operating companies to improve their public relations; and, second, it has facilitated the raising of new capital on favorable terms and occasionally at times when other avenues of financing have been impractical.

As I have stated, the credit of the utilities improved rapidly following the termination of the world war. Ability to resume financing and to take advantage of marked technical improvements soon enabled the utilities to put their financial houses in order. In a few years the obligations of sound operating companies came to be regarded as prime investment securities. The average yield of a representative group of high grade utility mortgage bonds dropped from nearly 7% in 1920 to about 5% in 1927, 1928 and 1929. At the same time the improved credit of these companies had made more generally possible the raising of equity money through the sale of preferred stocks. The lengthening record of successful operation also resulted in the recognition of the common stocks of many of the larger and better known operation companies as securities of an investment caliber.

IMPROVED CREDIT STANDING OF INDUSTRY

A recent address of Mr. Frederick H. Ecker, President of the Metropolitan Life Insurance Company, well illustrates the improvement in credit standing of the utilities. He points out that in 1882 only four life insurance companies operating in New York State owned public utility securities and their total investment was but \$171,000. All of this investment was in the securities of local gas companies. Statistics for life insurance companies holding about 92% of the assets of

all legal reserve life insurance companies in this country show that public utility investments in 1906 represented only 4.7% of the total assets. By 1921 the percentage had actually declined to 3%, presumably as a result of the reduced buying of street railway securities. The use of electrical energy was increasing, however, and the gas industry was entering a new period of prosperity. Confidence was inspired in the success of the new developments and by 1924 the percentage of assets of the life insurance companies invested in public utility securities had risen to 4.8%. In the next eight years, greater appreciation of their soundness resulted in a further substantial increase to 10%, representing an aggregate of \$1,856,000,000 in this form of investment at the present time.

In March, 1927, the State of New York amended its banking laws to permit the investment by savings banks in mortgage securities of electric and gas companies. These securities naturally had to meet certain rigid requirements. The opening of this new field of investment was quickly appreciated by the savings banks. At the close of 1931, 19.2% of their corporate (railroad and public utility) investments and 3.33% of their assets were in the securities of qualifying public utility companies. Both the percentage and dollar value of this form of investment has increased steadily since 1927.

THE FINANCIAL EXPANSION OF 1925-29

The period from 1925 to 1929 may, I believe, be properly termed the period of financial expansion of the public utility industry. During these years the ease of raising money was not only of assistance to firmly established operating companies in expanding and modernizing their facilities but also served to attract a speculative over-development and over-consolidation of existing properties. It was during these years that we first heard of a "new era" in which would be found a completely new level of prices, wages and standards of living. We recall vividly the theory of "common stocks as long term investments." It seemed for a time as though the proponents of the new era were right. Valuation matters found the utilities insisting on reproduction, rather than on historic, costs. The tremendous rise in stock prices to the point where many common stocks were selling on a lower

yield basis than the highest grade of mortgage bonds was bound to result in fierce competition for the acquisition of control of utility properties. This period accordingly was noticeable for the formation of new holding company systems. In some cases the acquisition of properties by these systems was logical in that the properties were geographically related and physically inter-connected. Unfortunately, in some cases properties were acquired without apparent regard to the difficulties of operation where the individual units were scattered throughout the country. Quite naturally the purchase of properties in this period entailed the paying not only of high prices in relation to those prevailing during previous years but also the paying of prices based on competitive bidding. A substantial portion of the necessary funds had to be provided through the medium of fixed interest bearing securities. Properties were purchased on an extremely low income basis on the theory that the growth in earnings as demonstrated by the past could not be interrupted and that any excess purchase cost could be written off out of increased earnings over the course of the next few years.

Examples of over-expansion and over-promotion that can be cited show that the companies which were unable to weather the economic storms of the succeeding years were almost invariably those which were created during the boom period at too high costs and without logical plans of geographical and corporate organization and which were burdened by heavy debts.

On the other side of the ledger we find that the great mass of public utility concerns utilized the period of easy money to improve their financial set-ups and their physical equipment, to extend their lines and mains to new territory, and to acquire control of adjacent properties which could readily be integrated with those already owned. The benefits of centralized control, purchasing and financing as made possible by many consolidations then undertaken should in due course be of very material benefit not only to the investors in the securities of these companies, but also to the ultimate consumer of their services who should, as a result of greater operating efficiency, receive lower rates.

The same period was also particularly useful in the strengthening of capital structures through the sale of common and preferred stocks and through the refunding of existing high coupon and dividend rate securities. We find that approximately 30% of the financing undertaken by utilities during 1927 and 1928 was utilized for refunding purposes as compared with less than 14% during 1924 and 1925. The sound, well managed companies—both operating and holding—did not indulge in excesses which were to overcome them during the ensuing years.

THE PERIOD OF READJUSTMENT

Following the era of speculation and inflation there was bound to come a period of readjustment. We all know that it began in the Fall of 1929 and, in spite of several false attempts at recovery, continued until the summer of 1932. This period has been a test of fire for all forms of corporate organization. I am happy to say that the public utility industry as a whole has fared far better than almost any other type of business. This has been due in part to its nature. Operating companies in this field are, as I have mentioned, regulated as to return; they operate a monopoly; they furthermore provide services which are in the public interest. Above all, they have had a high grade of management. All these elements combine for a relatively stable and sound business. As a result, earnings of public utility operating companies, while experiencing some decline, have held far above the average for industrial and railroad corporations. Due to heavy underlying capitalizations, the earnings of a number of holding companies have been more adversely affected. Nevertheless, the decline in market prices for public utility stocks in general has far exceeded the decline in earnings per share. Prices for public utility stocks have declined in sympathy with the prices for industrial and railroad securities. In addition, they have declined in the process of getting back to a more reasonable level, based more on dividend return than, as heretofore, on future prospects. Twelve public utility common stocks (of both holding and operating companies) listed on the New York Stock Exchange, picked at random a few days ago, are now selling on an average of

about nine times 1931 per share earnings. These same stocks provide an average current return of about 8% on the present market price. At their highs in 1929 they sold for thirty-seven and one-third times 1928 earnings and provided a yield of only 1.88%. Ten of these stocks pay dividends and such dividends are in the aggregate 16% lower now than they were in 1929. Earnings per share, on the same basis, are 17.9% lower. The market value is 80% lower.

THE LESSON OF EXPERIENCE

It seems to me that the tremendous decline in equity values, the reduced earnings, the difficulties of financing and other hardships through which the utilities have come have not been without a full measure of beneficial results. The most valuable of these is the lesson of experience. Heretofore the utilities had successfully faced many problems of divergent nature. The early period of organization and growth had its problems. The later days of expansion, when new capital was not readily available, brought other hardships not easy of solution. The war period, with coincident tremendous increases in costs of equipment and fuel, required a strenuous tightening of the belt. The depression of 1921 had its problems. But at no time heretofore has there been experienced a depression of the magnitude, severity, and wholesale nature of the one from which we are now emerging. The recession in utility earnings, although small in percentage, has been greater than many would have thought possible a few years ago. Coupled with this came problems of refinancing of great magnitude.

The highly successful manner in which the industry as a whole has passed through this difficult period is a good criterion of its fundamental soundness and augurs well for its future.

FINANCIAL ACCOMPLISHMENTS UNDER DIFFICULT CONDITIONS

In the financing of utilities the year 1932 should long be remembered as a period during which difficult financial tasks were successfully accomplished. The public utility industry entered the year faced with the problem of refunding over \$377,000,000 of maturing obligations, exclusive of traction

and rapid transit securities. During normal periods this amount of refunding would not have appeared difficult. 1932 was not a normal year. Security market conditions grew steadily more unsatisfactory as time moved on and the peak of maturities occurred during the summer months which were the most unsettled market-wise of all. Nevertheless, we now find that only about 6% of the total maturities remain unpaid. This is a record of which the industry may well be proud. It signifies a high degree of cooperation between banks, investment bankers, the utility companies and the investing public. In some cases it was impossible to provide the necessary funds through security flotations. Here the banks stepped in with temporary assistance in the form of bank loans which were subsequently liquidated by the sale of securities under the improved conditions obtaining later on in the year. In other cases, the maturities were met by exchange offers of new securities, plus cash. Acceptance of these offers by the holders of the maturing securities was of material assistance in enabling a number of companies to forestall receivership. Such action accordingly was of benefit both to the security holders and to the companies. By far the greater proportion of the securities, however, was paid initially or very shortly thereafter through the direct sale of securities to the public.

During these unusual times no clearly defined trend of the methods of financing can be discerned other than the natural use of the mortgage bond. Obviously, in times such as these, neither new issues of holding company securities or of equity stocks can be readily sold to the public. This is not different from similar periods of the past.

Today we find signs of hope on the business horizon. The rate of bank and business failures has materially decreased from its high point earlier this year; confidence has replaced fear; funds are returning to the banks from hoarding; the drain on insurance companies through policy loans has slowed up; banks and similar institutions find themselves with a plethora of cash or government obligations; the need for unusually high liquidity is gradually disappearing; employment is picking up. Dollars can not long remain idle

and already the effects of this situation are being demonstrated through higher prices for prime obligations of sound utility and industrial concerns.

PUBLIC UTILITIES IN STRONG POSITION FOR FUTURE

The utility industry finds itself well prepared for the future. Operating properties have in general been kept in good condition; maintenance has not been deferred for better times; advantage has been taken in some measure of the technical and scientific developments of the past few years. While there exists an excess of generating capacity in many localities, this has not reached a point of danger. On the other hand, it indicates that the revenue from the first increase in sales should largely carry through to net earnings.

Financially as well as physically the large operating companies are in good condition. Conservative dividend policies of the past have stood them in good stead. New construction expenditures were not necessary in the face of declining sales, and earnings formerly used for this purpose have been stored up as a back log for future needs. Whereas funds are returning to the field of investment, in the immediate future new money will largely be needed by the utilities only for refunding purposes and for a limited amount of distribution line construction. In 1931 over 38% of utility financing was devoted to refunding. For the first ten months of this year over 46% has gone for the same purpose.

During 1933 the amount of maturing issues is considerably less than last year. Excluding tractions, the aggregate of maturities next year is only about \$208,000,000 as compared with \$377,000,000 last year. Of the \$208,000,000 about \$18,000,000 are now in default. It appears probable, therefore, that the amount of utility financing during 1933 will be considerably less than in 1932, although a return of business conditions to a more normal level during the year might well result in the sale of a larger amount of securities for providing new capital than would now be expected.

In the holding company field we find at present comparatively few serious weak spots left. There are some, and it may well be that some additional companies will be faced

with the necessity of reorganization or elimination. By and large, however, most of the large and important holding companies have weathered the storm successfully.

MISLEADING CONCEPTIONS OF THE INSULL FAILURE

The failure of certain of the so-called Insull holding companies in 1931 was a severe blow to the utility industry. It is natural that it should be so, for the Insull system as a whole constituted probably the largest aggregation of utility properties under the control of one group of individuals. The newspapers have seen fit to speak of the collapse of the Insull Empire as a whole. These reports are misleading. The Commonwealth Edison Company, Peoples Gas Light & Coke Company and the Public Service Company of Northern Illinois, the three largest and most important operating units in the Insull system stand today as examples of well operated organizations, physically and financially sound. These three companies handled this year an aggregate of \$60,000,000 of maturities which were paid in full in cash when due. Nearly all of the other operating properties controlled by the same interests are today in sound financial condition. The difficulties of Insull Utility Investments, Inc., Corporation Securities Company and Middle West Utilities Company did not result from a weakness of the operating companies. Expansion, which turned out to be excessive, and failure to correctly estimate the duration of the depression coupled with a contest for control of properties seem to have been the primary causes of the failure of these three companies.

Today we stand at the threshold of a new year. We have behind us a long period of hardships and discouragement. The future will unquestionably have its difficulties, but these should be possible of solution as have been those of the past. With the help of our hard experiences of three years of depression we should not only be able to meet the problems of the future but also to make real progress in constructive action. Past experience indicates the advisability of making improvements in practice which should be constructive in that they will strengthen the credit standing of the utilities.

The holding company as applied to this industry probably has been one of the major factors resulting in the phenomenal growth of the industry. Without this form of corporate organization the continued trend to lower rates and better services might well have been materially retarded. Funds could not have been provided in sufficient quantity at low enough cost to permit expansion and improvement of the facilities of countless small local operating organizations, with the resulting decreases in rates. Yet today we hear from many sides great criticism of the holding company. To it are laid all forms of financial evil. The failure of certain large units has caused advocates of governmental ownership to class nearly all holding companies as devoid of real merit. This broad criticism I believe to be ill-founded and unjustified. Many examples abound today of holding companies which were, and are, strong, solvent and essential to the industry.

ELIMINATION OF UNWISE PRACTICES

That the holding company is susceptible of mismanagement none will deny. Likewise, none will deny that some practices indulged in during the past must be eliminated in the future. One of these is the unwise use of operating company credit to assist the holding company. "Upstream" advances of funds from subsidiary to parent should not occur. The operating company is in the business of supplying its customers with the best possible service at the lowest possible cost commensurate with a fair return to investors in its securities. A sound financial condition is essential to the proper functioning of this duty. Loans to weaker parents or the use of operating companies' credit to provide funds for other unrelated organizations cannot be condoned. Similarly, the disposition of earnings available for dividends must be guided not by what the holding company requires, but by prudent business judgment as to what is best for the operating company. Fortunately, the capable and intelligent management of the leaders of the industry and of the investment banking fraternity recognize the unsoundness of this practice and steps have been and will be taken to cure it.

A further desirable development is the gradual exchange of properties among the large systems so that geographic co-

ordination of the units in each system may be more logical. A notable step in this direction was taken in 1930 by the North American Company when it sold to Pacific Gas & Electric Company its controlling interest in the San Joaquin Light & Power Corporation, the Great Western Power Company and Midland Counties Public Service Corporation. These companies were physically inter-connected with the properties of Pacific Gas & Electric Company and the exchange thereof by North American for a large stock interest in Pacific Gas & Electric was a logical and foresighted step. By this type of exchange a better integration of management and control can be accomplished. It is not necessary that each holding company should control properties in only one state. The advantages of diversification should be retained but scattered groups of properties throughout many states should be so re-arranged as to fall into groups of sufficient size to permit economies of consolidated operation. I believe that the re-arrangement of ownership in this manner will be an important and far reaching tendency of the future.

DEVELOPMENT OF PUBLIC INFORMATION

Fuller provision of information to the public concerning the operations of the corporate giants of the day is another development which should continue to take place. Already noticeable strides in this direction have been taken. In holding company groups detailed income statements and balance sheets should be rendered not only on a consolidated basis but also for the reporting corporation alone. Sufficient detail must be provided so that those who are interested may satisfy themselves as to the soundness of the situation in question and not be forced to take somebody's word for it. Furthermore, these statements should be so arranged as to make them capable of analysis by the average well informed investor. As an additional suggestion in this connection, I feel that much good could be accomplished by the adoption of a uniform classification of accounts for holding companies. There are, of course, some companies which act in unusual capacities, or have other peculiarities not common to the group as a whole. It would perhaps be impossible for these companies to adapt their accounts to a standardized classification. The

majority of holding companies in the industry, however, could do so to advantage. A step in this direction would make more readily possible comparisons and analyses of the securities of these companies. Also I believe that it would be sound business and would tend to increase confidence, no matter how great it now may be, if all holding companies had their accounts and those of their subsidiaries audited annually by certified public accountants and included statements so verified in their annual reports.

Further refinement in the nomenclature of securities is necessary. For example, mortgage bonds must not be called "first mortgage bonds" unless they are such. Unsecured debentures should not be called "bonds." The distinction between voting and non-voting common stocks must be clearly drawn. These measures and others of similar nature will, if consistently adopted, be of benefit to the issuing corporations.

SECURITY SALES TO CUSTOMERS

The desirability of the sale of equity securities of holding companies to customers of the operating companies is open to serious question. Prior to the Fall of 1929 this type of preferred and common stock was sold, in some cases, to the uninformed customer of the local operating company. Local company employees became high pressure salesmen for holding companies' securities. Purchasers may have believed that the securities which they were buying represented in substance, if not in name, the earning power of the local company. The fluctuations of business conditions and earning power are more pronounced in effect on holding company securities than on those of the operating subsidiaries. Unfortunate financial losses to these customers and impaired public relations of the utilities have on occasion been the result. The customers of the operating company are generally not in a position to take the ordinary business risks incident to the purchase of holding company junior securities. A primary object of customer ownership sales should be to insure safety of investment for the customer. Accordingly, I believe the sale of securities to customers should be confined to securities of the operating companies and, possibly in some special cases, to senior securities of the holding company. This will give to the customers

a greater degree of safety in addition to obtaining for the utilities the desired financial interest on the part of the customers—which in turn may be developed into better public relations.

TECHNICAL REFINEMENTS IN FINANCIAL INSTRUMENTS

There are numerous technical details concerned with corporate financing which we recognize are capable of improvement. Of these I will mention only one; this is the need for a further strengthening of the negative pledge clause contained in most unsecured debenture agreements. This is particularly an essential refinement in reference to holding and investment company debentures. The common provision is that the assets of the debtor company must not be pledged, except for periods of less than one year, without equally securing the debentures. This provision, as generally used in the past, has developed an unsuspected weakness. Pledges as security for bank loans nearly always are intended to be for periods of less than a year. Unforeseen events sometimes make these short term loans assume the nature of semi-permanent borrowings. Some sort of definite restriction must be placed on the amount of borrowing which may be accomplished in this fashion. If this is not done, the time may well arrive when a continued decline in the value of the pledged assets will result in the continued pledging of additional assets until the supposed security behind the debentures had been entirely subjected to the pledge. A further decline would then wipe out the debenture holders without giving them any possibility of recouping their losses. It is alleged that this is exactly what took place in the Insull situation, with a fatal effect on debentures which originally had behind them a full sufficiency of assets. This leads to the conclusion that such debentures as may be issued in the future must have either strong and effective negative pledge clauses or else be protected by the actual pledge of collateral.

SIMPLIFICATION OF CAPITAL STRUCTURES

A final suggestion—which is not new or original but which bears repetition—is that the holding company systems should undertake a more general simplification of corporate

structures and capital securities. A corporate set-up which may readily be analyzed makes for a better appreciation of the value of securities outstanding thereunder. Capital issues which are not complex are as a rule preferred by investors to those which are involved. Important steps in these directions are being made by many companies. They should be continued.

As to the future, my remarks will be brief as I have already disclaimed any relationship to a prophet. For the near future I expect that new funds for the utilities will be raised primarily through the issuance of mortgage bonds. As we gradually emerge from the present period of reduced earnings and generally inactive business, equity securities will again be utilized as an important means of providing capital. For those investors who seek possibilities of appreciation, and who can take the business risks coincident thereto, the common stocks of holding companies will offer an attractive medium. Improvement in earnings, the regaining of more normal-security markets and a continued return of confidence should result in the common stocks of sound operating companies being regarded, more than ever before, as an investment medium. The average individual investor will continue to recognize as sound investments the mortgage bonds of operating companies and the debentures of conservatively capitalized holding companies, backed by the ownership of equity securities having tangible value and proven earning power. I look to continued use of the holding company as a means for economic and efficient financing and management of operating properties. The operations of these companies will be carried on in a sounder, more conservative fashion.

A BRIGHT FUTURE FOR ELECTRIC AND GAS INDUSTRIES

In conclusion, I look forward to a bright future for the electric and gas industries. This I feel to be so in spite of the investigations and counter investigations, the political recriminations, and other forms of attack from which the utilities are suffering as did the railroads some twenty to twenty-five years ago. Although electric and gas services now represent one of the smallest items of cost included in

living expenses, rates will be further reduced as a result of technical improvements in the methods of production and distribution. Greater consumption will follow lower rates and the discovery of new uses for these services. More conservative and constructive financial policies will assist in reducing the cost of capital. The final result will be a steadily widening recognition of the investment merit of public utility securities.



THE CAUSES *of* THE
PRESENT DEPRESSION
and POSSIBLE REMEDIES

10

By

Winthrop W. Aldrich

The Finance Committee of the United States Senate has been directed to study and analyze the causes of the present depression and possible legislative remedies. At its invitation Mr. Aldrich appeared before the Committee at Washington, D. C. on Wednesday, February 22, 1933, and made the statement which is published herein.

X:742.73.N3

G3

THE CAUSES *of* THE PRESENT DEPRESSION *and* POSSIBLE REMEDIES



MR. CHAIRMAN:

I am glad to appear before you in response to your invitation, not because I have any panacea to present, but because I think it eminently desirable that there should be frank interchange of opinion between those who are charged with responsibility for government and those who are charged with responsibility for finance and for other phases of the economic life of the country. It is in some ways unfortunate that the political capital and the financial capital of the country should be separated. Misunderstandings between the financial community and the Congress have created many needless difficulties. I feel sure that many of these misunderstandings would pass away and better coöperation would exist if we knew one another better personally, and had the opportunity of talking more frequently and frankly with one another.

I understand that you wish me to present my views as to proper remedies for the present economic trouble. In order to do this it is necessary that I should first undertake to diagnose the situation, and I will ask you to bear with me therefore while I present something of the history of the events which led up to the existing situation. This will introduce the presentation of the remedies which I shall venture to propose.

CAUSES

The present depression has, of course, many features preceding depressions. Any period of intense financial and business activity develops stresses and strains and makes adjustments which compel liquidation and reaction. But the unprecedented severity—absolutely unprecedented as far back as good statistical records go—of the present depression, and the slowness with which the automatic restorative forces have worked, must be found in certain unprecedented circumstances which have preceded it. These are, I believe as follows:

(1) *Shift from Debtor to Creditor Position of U. S.*

The immense shift produced by the war in international debtor and creditor relations, and, very especially, the great shift of the United States from a debtor to a creditor nation.

Before the war we owed Europe a great deal of money represented largely by American stocks and bonds held abroad. During the war we re-purchased most of them and we bought a great many European securities. Finally following our entrance into the war in 1917, our own government advanced roughly ten billion dollars to our European allies.

Before the war we paid interest and amortization on our debt to Europe by sending out an excess of exports over imports. In general the normal thing for debtor countries is to have an excess of exports over imports, and for creditor countries to have an excess of imports over exports, or a so-called "unfavorable" balance of trade. England before the war regularly received about a billion dollars more in imports than she sent out in exports, the difference being covered by her interest on foreign investments, her shipping services, banking services, and other items. France regularly received about half a billion dollars more a year than she

sent out in goods. Germany, the Netherlands and Switzerland all had import surpluses or unfavorable balances of trade, because the rest of the world, debtor to them, paid them in goods. The logical expectation following the war was that countries formerly creditor and now debtor would send out an excess of exports, and that countries formerly debtor and now creditor would receive an excess of imports.

(2) *Inter-governmental Debts*

One of the worst legacies of the war was the existence of the inter-governmental debts, and especially the reparations. These debts involve both a budgetary problem and a transfer problem.

The budgetary problem is the problem of raising the money that has to be paid to the foreign government through taxation or other means in the debtor country, and in the currency of the debtor country. As all the principal debtor countries, very especially Germany, had exceedingly high taxes anyhow, taxes running far beyond anything we have experienced in the United States, the additional pressure on their budgets of raising the money for inter-governmental payments was very severe. This was softened for England, and eliminated for France, so long as Germany paid reparations. In the case of Germany herself, however, the pressure was so great as really to be endurable only in times of very active business, and it was a major contributing factor to the fiscal deficit which was so embarrassing to Germany in late 1928, in 1929 and in subsequent years. The existence of the huge reparation debt, moreover, greatly lessened the credit of the German government, so that it was unable to make much use of the resource which a great government usually can use in times of depression, of borrowing to fill in the gap between its revenues and its expenditures.

The other problem involved in inter-governmental debt payments, as in all international payments, is the transfer

problem—the problem of exchanging the domestic currency for the foreign currency in which the debt payments have to be made. A debtor country can make payments in its own currency of the creditor country to the extent that it can send out a surplus of exports over imports, or can entertain foreign tourists or can perform shipping services, etc., or to the extent that it can borrow foreign currencies, the latter being of course not a real solution but merely a deferment of the problem.

If there had been adequate freedom of movement of goods from country to country, the debtor countries could have solved this transfer problem by sending out goods. But the existence of the reparations and other inter-governmental debts was a great factor contributing to international fear regarding the movement of goods, and intensified the widespread policy of tariffs and other trade restrictions which the world has been engaging in on an increasing scale since the war. During the period when bank credit was expanding rapidly and foreign loans were placed easily, transfers were made without difficulty. But when there came a sudden cessation of foreign loans and debtor countries were suddenly called upon to pay, the problem of transition was a grave one. Germany herself did make the transition in 1929, and began to send out more goods than she took in and some other countries made heroic efforts along these lines. But almost immediately a movement began to stop this by further trade restrictions and when we ourselves raised our tariffs still higher in 1930 there came a very general and widespread intensification of trade restrictions throughout the world. Tariffs are not the only, or even the worst, trade barriers. Quotas, vexatious inspections, exchange controls, and many other trade barriers can be even more restrictive. The payment of inter-governmental debts became increasingly difficult, although they were continued down into the summer of 1931.

(3) *High Protective Tariffs*

Our own high protective tariff policy inaugurated in 1922, preceded by some increases in 1921, prevented our foreign debtors from sending us goods in adequate amount to pay interest and amortization on their debts and at the same time buy our exports in accustomed amount. This tariff policy would promptly have checked our export trade but for the extraordinary financial development next listed.

(4) *Cheap Money and Bank Expansion*

The gigantic and unprecedented expansion of commercial bank credit in the United States from the middle of 1922 to early 1928, amounting to 14½ billion dollars in loans and investments and 13½ billion dollars in deposits, accompanied by great expansion of bank credit in many parts of the world.

This expansion was due (a) to gold coming to us from other countries which were off the gold standard, and (b) to cheap money policies of the Federal Reserve Banks, both of which operated to create excess reserves in the member banks, with the resultant multiple expansion of member bank credit.

Perspective on the figures for expansion given above is gained by recalling that the expansion of bank credit required to win the war, from early 1917 to the end of 1918, was only five billions, eight hundred millions in deposits and seven billions in loans and investments.

The vastly greater expansion in the period from 1922 to 1928 was not needed by commerce and was not used by commerce, and went into (1) real estate mortgage loans in banks, (2) instalment finance paper in banks, (3) stock and bond collateral loans in banks, including loans against foreign stocks and bonds, and (4) bond purchases by banks,

including foreign bonds. The consequences of this great expansion of credit, used in these ways, were, of course, excess construction, including road building, real estate speculation on a great scale, over-expansion of instalment buying, and an immense over-issue of securities including many ill-considered securities, but including also many others which would have been good if the total over-issue had not been so great, the rapid multiplication of bond houses, investment trusts and other financial machinery and a progressive deterioration in the *quality* of bank credit. The 25,000 banks of the country were not in a position to prevent this expansion and their managements were led inevitably into many mistakes in policy because of it. The control of the expansion was in the hands of the Federal Reserve System.

Bank Expansion, Foreign Loans and Export Trade

One very important incident of this expansion was the masking of the difficulties of international debt payments, including interallied debts and reparations, and the maintenance of our export trade despite trade barriers. This was particularly true following the Dawes Plan in 1924. The Dawes Plan was accompanied by an immense government security buying programme on the part of the Federal Reserve Banks. Following this came a tremendous volume of foreign loans which offset the influence of the high protective tariffs upon our export trade. We were able to get out, especially following the summer of 1924, a great volume of farm products and raw materials at good prices which restored, in a precarious fashion, the balance between agricultural and raw material production on the one hand, and manufacturing on the other hand, giving us active business while the foreign loans went on.

The following table exhibits the relationship between American exports and foreign loans, and agricultural prices.

**AMERICAN EXPORTS, IMPORTS, FOREIGN LOANS AND
AGRICULTURAL PRICES**

(In millions of dollars)

	Exports	Imports	Excess of Exports	New Foreign Security Issues	Index of Agri- cultural Prices at the Farm. Yearly Average 1910-14 = 100*
1922	3,832	3,113	719	630	124
1923	4,168	3,792	376	267	135
1924	4,591	3,610	981	1,047	134
1925	4,910	4,227	683	1,078	147
1926	4,808	4,431	377	1,145	136
1927	4,865	4,185	680	1,562	131
1928	5,128	4,091	1,037	1,319	139
1929	5,241	4,399	842	759	138
1930	3,843	3,061	782	1,010	117
1931	2,424	2,091	333	255	80
1932	1,618	1,323	295	26	57

*Year Book of Agriculture, 1932, p. 902. Crops and Markets, January, 1933, p. 31.

(5) *The Three Main Causes of the Depression*

In these three factors, then, (a) inter-governmental debts, (b) high protective tariffs and other trade barriers, increasing in severity throughout the commercial world, including high protective tariffs on the part of our own great country, which had suddenly become creditor on a great scale, and (c) six years of cheap money and rapid bank expansion, we have the main explanation of the unprecedented financial boom, the unprecedented financial break and the unprecedented severity of the depression.

(6) *Artificial Price Maintenance*

An important secondary factor was growing interference with natural competitive markets in the period preceding 1929, partly governmental and partly by private organizations. The efforts to valorize wheat by holding movements proceeded on a great scale from 1926 to 1929. Through the activities of the Canadian grain pool and holding movements under government auspices in Hungary and elsewhere, the world's visible supply of wheat was nearly doubled between the summer of 1926 and the summer of 1929. In the autumn of 1929 our own Farm Board stepped in. The net effect of these efforts to maintain the price of wheat was merely

to defer the facing of facts. Production held up more than it would otherwise have held up, consumption was checked, and surplus was accumulated. A similar policy, with a similar result, appeared in the case of copper, though the business interests responsible for the policy were quicker to recognize their mistake and quicker to change their policy than was our government in the case of wheat.

(7) *Cheap Money in U. S. and in England*

The cheap money policy of the United States was part of a policy of coöperation between the Bank of England and the Federal Reserve Bank of New York. The British believed that cheap money and expansion of bank credit were all that were necessary to get good business going again, and that they could be used as a substitute for industrial readjustments, including the scaling down of prices and costs. Without the strength in gold which we had in the United States, they tried to force the policy through anyhow. They failed to get good business by this policy, but they did succeed in getting credit so over-expanded that when the acute pressure came in the summer of 1931 they found themselves in a frozen position and without adequate gold reserves, and abandoned the gold standard.

The last chance the world had to call a halt on the over-expansion of credit and on speculation based on the over-expansion of credit without an unmanageable reaction was in 1927. I am informed that the Bank of France and the Reichsbank in Germany did try to tighten up then, Paris warning London that it was having to buy too much sterling, that easy money in London was financing speculation in the French franc and that the Bank of France, though reluctant to pull gold out of the London money market, would have to convert sterling into gold unless the process stopped.

The conference of the governors of the central banks held in New York in the summer of 1927 had a very momentous

decision to make. Represented there were the Bank of England, the Bank of France, the German Reichsbank and the Federal Reserve Bank of New York. The representatives of the Reichsbank and of the Bank of France are understood not to have made any commitment regarding policy at this conference except a promise to communicate their intentions with respect to taking gold from London and New York in the future. They left the country before the governor of the Bank of England did. Following this conference there came in the early autumn of 1927, a renewal and an intensification of the cheap money policy of the Federal Reserve System. The rediscount rate was first reduced by the Kansas City Federal Reserve Bank, followed shortly by most of the others. Several hundred millions of government securities were purchased by the Federal Reserve System. Bank expansion moved rapidly, and almost all of it went into the securities market, either in the form of bank investments in bonds or in the form of collateral loans against securities. Shortly following this began a very intense speculation in securities, with rising security prices which ran through 1928 and into the late autumn of 1929.

(8) *Gold Exchange Standard*

Beginning in the middle of 1926, there came an extraordinary development in the substitution of balances in foreign banks, for actual gold in the central banks, as reserve money—the so-called “gold exchange standard,” as distinguished from the strict gold standard. In the two years that followed this went very far. In particular, dollars borrowed in the United States through the flotation of bonds were used by foreign central banks as a substitute for gold, and funds borrowed in London in the form of sterling balances in British banks were similarly used as the reserves of Continental banks. This permitted the credit expansion at home and abroad to go much further than if

each bank had carried its own gold. It created a very dangerous situation, the extent of which we realized in the Winter of 1931 and the Spring of 1932.

The Liquidation of the Gold Exchange Standard

Events began to move very rapidly in 1931. First, Austria was pulled down. Then Germany, though repaying gigantic sums to her creditors, was finally obliged to ask for moratorium and Standstill, and then the run on England's gold reserve began. The gold exchange standard on a great scale is only a fair weather proposition. When doubt arises regarding the goodness of balances in foreign markets, and different countries seek to convert their balances into gold and bring them home, a very difficult situation is created. England and Germany were unable to meet this situation. We ourselves were so strong in gold that we did meet it. But the liquidation in 1931 and 1932 of the gold exchange standard, which had been built up by the over-expansion in 1926-28, was one of the big factors in intensifying the present depression and making it as severe as it is. We must never let international short term credit relations get over-extended to this extent in the future.

International Coöperation of Central Banks

This leads me to an observation regarding proposals that there be international central bank coöperation designed to regulate commodity prices or designed to keep cheap money throughout the world in ordinary times, with a view to making world prosperity. The experience of recent years surely justifies grave reservations on this point. Our effort to coöperate with England from 1924 on, and especially in 1927, was very largely responsible for the excess of cheap money which has made us so much trouble. Incidentally, it created a world situation which meant a breakdown of central bank coöperation in 1931 and 1932, when the central banks of the Continent tried, unsuccessfully, to withdraw

their balances from the Bank of England, and did successfully withdraw their balances from us. I firmly believe that the best policy is for each central bank, including the Federal Reserve Banks, to look after its own money market in ordinary times and to reserve international cooperation for special limited purposes, and for times of emergency.

This was the rule in pre-war days, and it was a good rule. Any country, in pre-war days, which was expanding credit too rapidly, was very likely to find its expansion checked as other money markets pursuing a more prudent policy began to take some gold away from it. Booms did not go so far, and set-backs were not so violent.

(9) *Fear Regarding Standard of Value*

The international scare in the Autumn of 1931 and the Spring of 1932 regarding the standard of value itself, the fear lest we and other countries should abandon the gold standard, precipitated the severest of all the troubles. No other fear is so terrible as this. The countries of Europe which during and following the war had such cruel experiences with depreciating and fluctuating currency, reacted to it in an extreme way. Our own people very generally trusted the American dollar, in view of our unbroken record since the end of 1878 in keeping the dollar good as gold, but even they could not escape the pall of fear which pulled down the volume of business in this country by almost one third from the middle of 1931 to the middle of 1932, which brought the greatest percentage decline of all in security values, and which pulled railroad traffic down from the levels at which the railroads' credit was good to levels at which the railroads' credit was gravely shaken, and which intensified the problem of unemployment to an appalling degree. I shall refer again to this point in discussing "inflation" as a possible remedy for the present trouble.

(10) *Broken Equilibrium*

Business life goes on well when different kinds of production are in good balance, different types of goods being produced in right proportions so that the sale of one kind of commodity produces income which can be used to purchase other commodities, so that goods can clear the markets of one another. The gravest effect of the breakdown of international trade, in the United States as in many other countries, is to throw out of balance the different kinds of production. At the present time nearly every country is geared up to do more export business than it can do under existing conditions, and has an undue percentage of its labor resources directed toward foreign markets. Every country is faced with the necessity of a radical shift in its activities, reducing its activities for export and increasing its activities for internal consumption, unless the trade barriers can be reduced and the foreign markets restored.

In the United States, this means especially that agriculture and other raw material production is greatly over-expanded in relation to manufacturing, which has meant so great a break in the prices of agricultural and raw material commodities that the producers of these things cannot buy even the relatively scant present output of the factories at prevailing prices. The balance among industries must be restored, and the only quick and sure way to do this is to restore the export market.

Equilibrium and Foreign Trade

The importance of foreign trade in our economic life has been questioned on the basis of certain estimates by the Department of Commerce, which made foreign trade 9.9 per cent. of the production of movable goods in 1927, and 9.8 per cent. in 1929.

I must say first, that these figures of the Department of Commerce do not seem to me quite correct. In figuring the

total of movable goods they have taken account of agricultural products, mining products, and value added by manufacture, which is right. Then they have added to the totals, railway freight receipts, which I think is wrong when we are seeking a total to compare with exports. If we are going to consider freight receipts at all they should be divided between export business and domestic business and allowance should be made for the longer haul in the export trade. Further, the Department should consider shipping and other items. But I think the simplest and best way is to consider merely goods produced and goods exported. When this is done the percentages rise somewhat, standing at 11.2 per cent. in 1925, 11 per cent. in 1927, and 10.8 per cent. in 1929. Herewith are the Department of Commerce figures with the freight receipts eliminated:

PRODUCTION OF MOVABLE GOODS AND PROPORTION EXPORTED
(Freight Receipts Eliminated)

Year	(Millions of dollars)				Exports	Per cent. of Total
	Agricultural Products	Manu- factures	Mining	Total	United States Merchan- dise	
1899	3,355	4,831	600	8,786	1,253	14.3
1904	4,262	6,179	850	11,291	1,426	12.6
1909	6,472	8,385	1,238	16,095	1,701	10.6
1914	8,165	9,710	1,450	19,325	2,071	10.7
1919	17,677	24,809	3,158	45,644	7,750	16.9
1921	10,268	18,332	2,900	31,505	4,379	13.9
1923	12,382	25,850	4,300	42,332	4,091	9.6
1925	11,968	26,778	4,100	42,851	4,816	11.2
1927	11,616	27,585	4,000	43,201	4,759	11.0
1929	11,911	31,885	4,100	47,896	5,157	10.8

Source: Foreign Trade of the United States, Department of Commerce, 1931, page 11.

But I do not rest the argument on this tabulation. Eleven per cent. of our total business is a big percentage, but the percentage of many highly important individual products

is enormously greater. The following table shows the percentage of various important exports exported in 1929;

Cotton.....	.55	per cent.
Tobacco.....	.41	"
Lard.....	.33	"
Wheat.....	.18	"
Copper.....	.36	"
Kerosene.....	.35	"
Lubricating Oils.....	.31	"
Gasoline.....	.14	"
Typewriters.....	.40	"
Printing machinery.....	.29	"
Sewing machines.....	.28	"
Agricultural machinery.....	.23	"
Locomotives.....	.21	"
Passenger automobiles.....	.14	"

(Source, Moulton & Pasvolsky's "War Debts and World Prosperity," page 409.)

Not even these percentages, however, tell the whole story. For important great areas, the dependence on foreign markets is even greater. Bright tobacco in Virginia, and cotton in Texas, are cases in point. You can prostrate a whole State when the foreign market for its principal crop is cut off. No percentages can take adequate account of the organic interdependence of foreign and domestic business.

REMEDIES

I think that the foregoing analysis of the major causes of the present situation will justify my proposals as to remedies. Some of them I shall list briefly.

1. Prompt settlement of the inter-allied debts.
2. Prompt reciprocal reduction of tariffs and the moderation of other trade barriers.

These two things are basic to the restoration of our export trade, which, in turn, is basic to the restoration of balance in our own economic life, so that our farmers and other producers of raw materials, receiving good prices for their products, may be able to buy the products of our factories in adequate volume, restoring activity and employment in the cities and restoring an adequate volume of traffic for the railroads.

Interim Measures

3. While these basic measures for restoration of normal activity are being put through, I would continue a policy of emergency credit relief, making use of the Reconstruction Finance Corporation. We must face the fact, however, that not all of the existing fabric of capital debt can be maintained in full.

There are important cases where the capital structure is top-heavy, and where it is desirable to scale it down to conform to the existing facts. The Reconstruction Finance Corporation should not be called upon to validate capital structures which cannot be maintained even when we get a moderate business revival. Instead, we should scale down fixed charges in a good many important cases. It is good credit policy to tide over in emergencies solvent institutions whose total assets exceed their total liabilities, but it is not good policy to undertake to validate the really inadequate assets of insolvent institutions. To facilitate reorganizations, the new bankruptcy legislation—that relating

to corporations as well as that relating to individuals—should be enacted as soon as possible.

4. I would extend emergency credit relief to the farm mortgage situation, and also to certain city mortgage situations when, in the judgment of the Reconstruction Finance Corporation, a general financial interest is involved. In connection with farm mortgage relief, I would make every effort to deal with intelligent discrimination in individual cases, seeking to bring debtors and creditors into agreement with one another, seeking to limit the government's financial commitments to what is necessary to persuade creditors to make the necessary adjustments, but still doing the thing in a big enough way to make sure that an honest and competent farmer does not lose his farm. It is to the interest of the country and to the interest of the creditors, by and large, that that farmer who with his family knows the farm, knows its potentialities, knows local markets and has the home lover's interest in the farm, should be able to stay upon it and control it.

Differential Treatment of Debtors

I think we ought to avoid sweeping legislation making a general rule for every farmer. There are some farm mortgages which are perfectly good, where the farm debtor is able to pay interest and amortization, and where he needs no relief. There is no reason why the contract here should be altered. There are other cases where the farmer needs a great deal of relief. The same thing is true in connection with city mortgages and other debts. Such relief as is given should be given to embarrassed debtors and not to debtors as a class. We must protect the commercial morality of the country in the interest of the future giving and taking of credit. We must seek to be fair to creditors as well as to debtors. If we establish a precedent of allowing men who are perfectly able to pay their debts to escape from

them in part, merely because other men are unable to pay their debts in full, we shall strike a severe blow at the fabric of confidence in the future.

My view is that we shall get out of this depression by removing its causes. The chief of these is a broken equilibrium, growing out of strangled international trade. This has made raw materials and farm products pile up unsold in the United States, even though offered at very low prices, and has led to an immense contraction in the volume of manufactured goods, and in manufacturing activity, though the prices of these things have not fallen nearly as much as have farm prices and raw material prices.

I would ease off the situation by giving emergency credit to prevent further forced liquidation of good assets at depression levels. And I would emphasize the necessity of undeviating adherence to sound money and sound public finance as vitally important to alleviate the fears which have arisen with respect to our currency and our government credit.

I am aware that there is another view, or set of views, advanced by men who think that the trouble with the world is simply a shortage of money and credit, and who propose to bring about a revival of business by what they call "inflation."

"Inflation" Has Many Meanings

The word "inflation" is a very unsatisfactory word. It covers a wide variety of meanings, and I believe it best to distinguish among some of these and to talk about concrete proposals. Among the possible meanings are the following:

- (1) The issue of irredeemable paper money.
- (2) The debasement of the standard of the currency—
 - (a) by reducing the gold content.
 - (b) by introducing bimetallism with silver.

(3) Going off the gold standard by suspending gold payments, which gives you practically the same situation as (one)—namely, the issue of irredeemable paper money.

(4) Some men would call a great increase in gold production in the world leading to an increase in gold throughout the world "inflation."

(5) Some have called the concentration of gold in a single country "inflation." Thus Professor Fisher referred to the gold which we obtained during the war as causing "gold inflation."

(6) Some would call any expansion of bank credit "inflation."

Cassel and Keynes

(7) Some would limit the word "inflation" to those changes in the currency and credit situation *which raise commodity prices*. This, for example, was Professor Cassel's view, and he denied pointedly that there was any "inflation" from 1922 to 1928 because commodity prices did not rise. The fact that credit expanded enormously and that we were having great speculative excesses and great price rises in real estate and in the stock market meant nothing at all to him, and he demanded even more credit when commodity prices softened a little. Mr. J. M. Keynes, in his recent treatise on money (Volume II, page 190) says with respect to the years 1926-29:

"Anyone who looked only at the index of prices would see no reason to suspect any material degree of inflation; whilst anyone who looked only at the total volume of bank credit and the prices of common stocks would have been convinced of the presence of an inflation actual or impending. *For my own part, I took the view at the time that there was no inflation in the sense in which I use this term.* Looking back in the light of fuller statistical information than was then available, I believe that whilst there was probably no material inflation up to the end of 1927, a genuine profit inflation

developed some time between that date and the Summer of 1929."

This confession of error on Mr. Keynes' part comes too late to do anybody any good. He was one of the men who were urging cheap money through the whole of the period from 1922 on, and he continued to do it after the stock market broke in 1929.

Quality and Quantity

One very important distinction must be drawn in connection with these various ideas: (1) that of an impairment of the *quality* of the currency itself, and the other that of mere *quantitative* increase either of money or of credit.

But then a further point comes up at once, that an increase in quantity, if it goes far enough, will impair quality. If paper money, redeemable in gold, is issued in such quantity as to raise doubt about the adequacy of the gold reserves on the part of the issuing authority, runs can be started which will either force a great contraction of the quantity, or force suspension of gold payments and damage the quality.

Similarly, an over-expansion of bank credit impairs the quality of credit. We saw this on a great scale, running progressively from 1922 into 1929, bank credit expanding in excess of commercial needs went into capital uses, speculative uses, and consumption loans, taking the form of real estate mortgages, instalment finance paper, stock and bond collateral loans and bank investments in bonds.

Moderate amounts of any of these would have been all right, but the total was so great that there came impairment of quality, and the capital values of securities and real estate which underlay the credit became top-heavy and broke violently. Then there came loss of confidence in the assets of many banks, followed by a loss of confidence in their liabilities—namely, their deposits, which led to runs on banks, which took reserve money out of them and which

forced even strong, solvent banks to contract credit. We thus ran through the scale whereby "expansion" or "inflation" of bank credit forced liquidation or "deflation" of bank credit.

When there is sufficient loss of confidence in the quality of credit, this can generate doubt also as to the goodness of the currency itself, and we saw this on a great scale in 1931-32. Foreign fears regarding the goodness of the American dollar led to withdrawals of hundreds of millions of dollars in gold from us and further quantitative contraction in bank credit in the United States, even though the dollar itself stood sound and strong.

Paper Money

Whatever else we may have in the matter of currency and credit policy, we must at all hazards protect the *quality* both of our currency and of our credit.

Paper money is, after all, a credit instrument—a promissory note. I know of no case where a government has actually issued such paper with an announced intention of never redeeming it. The value of irredeemable paper money rises and falls with the prospect of redemption. There is no mathematical rule relating quantity of issue to the extent of depreciation. Unpredictable events may cause the value to slump or recover violently—as the Battle of Gettysburg, which caused a great rise in the value of the Greenbacks in three days. These fluctuations are disturbing to all business, and only a few reckless speculators gain.

The issue of new paper money currency is futile. If it is redeemable and confidence in the gold standard remains unshaken, the paper will not stay in circulation but will merely pile up in banks. If confidence, however, is shaken, the effect is either forced liquidation, or else the abandonment of the gold standard. In the latter case, you cannot multiply quantity fast enough to keep up with depreciation.

The gold value of the *trillions* in circulation in Central Europe in 1921 was a fraction of the value of the *billions* in circulation in 1913.

Debtors and Depreciation

Debtors are supposed to gain by currency depreciation. But Germany, 85% of whose mortgage debt was wiped out by the disappearance of the mark, showed no gains as a result. Following stabilization, it was compelled to pay such fantastic rates of interest for all new credit that its debt burden was soon very heavy again.

Debasing the Gold Content of the Dollar

With respect to the *quality* of credit and the efficiency of credit in accomplishing economic purposes, it is clear, of course, that there must be *confidence*. But confidence is not a vague general thing. It is a specific thing. Confidence in bank deposits means confidence that the bank will be able to pay cash on demand. Confidence in the currency means confidence that the government or bank of issue will pay gold on demand, and the full amount of gold specified.

Two factors are involved in both these things: (1) belief in the ability to pay and (2) belief in the intention and good will of the bank or government. The latter is of absolutely vital importance.

Good Faith the Foundation of Credit

The preservation of good faith, the keeping of contracts, even though they hurt, are absolutely vital. An honest man can go bankrupt and retain his reputation, if he has clearly done the best that he can and protected his creditors to the extent of his ability. Such a bankrupt can come back again and receive credit again in the future. But the man who has turned sharp corners, who has evaded obligations, whose word is not accepted because he has broken his word, must for the future either pay cash or offer excellent collateral with a big margin.

The proposal that our government should *deliberately debase the dollar by reducing its gold content*, if carried out, would shock credit throughout the world for a prolonged period.

The Good Faith of the American Government

The shock to confidence, at home and abroad, of a deliberate breach of faith of the United States Government with respect to the gold standard of the present standard of value (meaning the present standard of weight and fineness) would be something we could not get over in years. Our government has given its solemn promise on every Liberty bond to pay gold coin of the United States of the present standard of value. The same promise is on the Federal Reserve notes and the laws relating to them. The law defines the standard of value as 23.22 grains of fine gold, or 25.8 grains of standard gold nine-tenths fine. The same promise is printed on virtually all our privately issued bonds and State and municipal bonds, and in a multitude of mortgages. We are bound by every promise.

These gold clauses in the government bonds were put there because of the fears which had risen in investors' minds growing out of our Greenback period and growing out of the silver agitation of the '90s. They were put there to assure our investors that, even if the government should ever get into such a position that it could not redeem its paper money, it would still pay interest and principal on its public debt in gold, which the country did even in the years 1861-79. It could not redeem its Greenbacks in gold, but it could pay interest and principal on the public debt in gold and it did so. For the greatest government in the world, without compulsion, deliberately to break these solemn promises would be an incredible shock to good faith everywhere. Excuse can be made for embarrassed countries like England for going off the gold standard that they

ouldn't help it, but no excuse could be made if we did it deliberately.

Destroying Confidence Wrecks Buying Power

The result of an action of this kind on our part, from the standpoint of the volume of credit and revival of gold prices throughout the world in the future, would be demoralizing in the extreme. The actual quantity of circulating money in the world constitutes a very small part of the world's buying power. The great bulk of it is credit. If we should do this thing, creditors, investors and lenders everywhere would for years to come be timid and apprehensive. The experience of the French people with the depreciation of their own currency has already put them in this frame of mind. France with all her gold has done very little in the way of investing since the *de facto* stabilization in the winter of 1926-27, and when she has put out her cash she has done it for the most part on short term, constantly watching, frequently calling it back. The French people are continually apprehensive regarding currency. In the winter of 1931-32 they were hoarding gold. They could not get gold in small amounts from the Bank of France. The Bank pays out only large gold bars, and the French people were consequently paying a premium over the French franc for American gold coin, and were paying a premium on small slices cut from gold bars. If we should deliberately debase our currency, as an act of choice, we should make general this kind of fear. Instead of getting easy and automatic expansion of credit in the near future, we should have a world much more reduced to a cash basis than it is even today.

Effect on Prices of Debasing Dollar

This consideration should make it clear why those who would expect a doubling of commodity prices to follow a cutting in half of the gold dollar would be radically disap-

pointed. The weight of purchasing now carried by gold and credit together would, in that case, be thrown back to a disproportionate extent on gold alone, and the value of gold would consequently undergo a real rise. Prices in terms of gold would fall. Prices in terms of the new 50 per cent. dollar might rise a little, but not at all in proportion to the cut in its gold weight, and not *certainly* at all.

The prestige and the reputation for financial integrity of the American government, of the United States Treasury and of the Federal Reserve Banks, are two of the biggest capital values in the world and two of the most essential features of world financial organization. Wantonly to destroy them, quite apart from the question of morality, would be an act of economic destruction of fearful magnitude.

The worst of our whole trouble came from the end of September, 1931, into the middle of June, 1932. England's abandonment of the gold standard caused a great scare regarding the standard of value itself. Creditors and investors everywhere called loans, refused new credits and sold investments. In two immense waves, foreigners pulled hundreds of millions of dollars out of the United States. Fear and hysteria drove the New York Times index of production down from 75 to 52 within twelve months. With a demonstration in the middle of June, 1932 that we could meet the foreign drain of gold, and with the magnificent vote of the United States Senate on June 17 against the soldiers' bonus bill, an immense sigh of relief went up. Securities rallied, and then business had its first real upward move in three years. Whatever else we do, we must not invite a repetition of this panic regarding the standard of value itself.

Debasement Could Not Solve Farm Problem

I want to say one further thing with respect to those who would advocate cutting the gold content of the dollar as a

means of raising the farmer's prices. Quite apart from the moral and financial objections which seem to me so vital, I would observe that the plan would not do the farmer anything like enough good, even if it worked out perfectly. Suppose that the dollar were cut in two and suppose that all commodity prices should double. The farmer could then see his fat hogs rise from $3\frac{1}{4}$ cents a pound to $6\frac{1}{2}$ cents a pound; but at the same time the prices of everything he buys are doubled. This does not help the farmer much. I would like to see the farmer get nine cents or ten cents for his hogs, and I want the price of his cotton doubled or more than doubled, *without* a rise in the prices of the manufactured goods which he buys. The manufacturer does not need higher prices—what he needs is volume—but the farmer must have radically higher prices. We must get the balance restored between the manufacturer and the farmer. This means that the farmer must get his export market again. I would strike at the export trade—not at the currency.

Silver Inflation

Testimony before your committee, and the cross examinations, have raised questions regarding the possibility of using silver, either under a bimetallic system or in some other way, and I want to make some observations regarding that. First, let me say that, in my opinion, the suggestion that our foreign trade has been primarily damaged by a decline in the price of silver seems to me to have no merit. Our trade with the one great silver country, China, has kept up a great deal better than our trade with the world as a whole, as shown by the following figures:

U. S. EXPORTS, 11 MONTHS ENDING NOVEMBER

	Total	Index	To China	Index
1929	\$4,814,444,000	100	\$114,437,000	100
1930	3,568,494,000	74.1	82,157,000	71.8
1931	2,240,219,000	46.5	84,193,000	73.6
1932	1,481,750,000	30.8	52,165,000	45.6

Silver bimetallism at 16 to 1, or any other ratio than the commercial ratio, would mean the debasement of the currency and the abandonment of the gold standard, but the adoption of bimetallism at the current ratio would still involve breach of contract under the gold standard and undermine confidence and good faith, and, moreover, would accomplish none of the purposes that the silver people have in mind, because what they want to do is to raise the price of silver.

I see no reason to go any further with silver than is proposed by the economic experts who prepared the agenda for the coming World Economic Conference. They rule out the use of silver, even in moderate amounts, as part of the reserves in central banks, saying that silver is unsuitable for such use because there is no fixed price at which it would be received by other central banks in the settlement of balances on international account. They make a few minor concessions to the notion that certain countries might withdraw very small denominations of bank notes and substitute silver subsidiary coins for them, and that some other countries might enlarge the use of subsidiary silver coinage. But they accept none of the main proposals made by the silver advocates, and I think they are right. I recommend their view to your committee, and I submit for your records what appears to be a verbatim account of their recommendations, as prepared at Geneva, taken from the New York Herald Tribune of February 9, 1933:

"After keeping relatively stable from 1921 to 1929, the price of silver in gold currencies fell abruptly by more than one-half in less than three years. There is no doubt that this sudden decline must, in the main, be attributed to the same causes as have acted on the general level of prices, and may thus be said to illustrate in a particular case the incidence of the world depression. Some special factors can, however, be found which have accentuated the downward trend, and these were to some extent already operating before the depression set in. Such factors are the demonitization of silver, the

reduction of the silver content of token coins, and also the disposal of surplus stocks.

We have considered a series of proposals which have been discussed in recent years with a view to raising the price of silver, and we wish, in this connection, to make the following observations:

(I) It has been suggested that some form of bimetallism should be introduced.

We would point out that a bimetallic standard, which presupposes a fixed relation between the value of gold and that of silver, could be safely introduced only if the most important countries of the world agreed to such a measure. As the only international monetary standard which is at present likely to command universal acceptance is the gold standard, the idea of introducing bimetallism must be regarded as impracticable.

(II) It has been proposed that banks of issue should be allowed to hold increased quantities of silver in their legal reserves.

On the assumption that no form of bimetallism will prove acceptable, silver is unsuitable for extensive inclusion in the metallic reserves of a central bank; there being no fixed price at which it would be received by other central banks in the settlement of balances on the international account.

(III) It has also been suggested that governmental action should be taken for the purpose of improving the price of silver.

We would, in this connection, refer to the suggestion made in a previous part of this report, to the effect that, in countries where banknotes of small denominations are in circulation, these small notes might be withdrawn and replaced within proper limits by subsidiary coins, and we think that the conference should, in this connection, examine to what extent the use of silver in subsidiary coinage could be enlarged. Whatever sales of government stocks of silver may be deemed desirable it is important to conduct these in such a manner as to avoid any unnecessary disturbance of the market.

The conference should also consider whether, and if so by what methods, the marketing of the metal by producers and currency authorities is susceptible of improvement. The question of developing new and enlarged industrial uses for silver is, in our judgment, also worthy of careful consideration.

From the point of view of commercial relations with silver-using countries, particularly China, trade interests would best be served, not by a rise in the price of silver, as such, but by a rise in the general level of commodity prices. Any action which would tend to raise

that level and in due course achieve its stabilization may be expected to have a favorable effect on the price of silver, and would, on general grounds, be welcome."

"Inflation" by Government Borrowing

Among the many meanings of "inflation" is one that relates to public finance, and here there are many proposals ranging from moderate notions of necessary government borrowing, which I should favor, to extravagant notions regarding government borrowing which would be dangerous in the extreme. Excessive borrowing by the government can, of course, impair first the credit of the government and then, ultimately, as the government leans on the Federal Reserve Banks too heavily, threaten the currency.

Sound Public Finance

We must have sound public finance. This means: (a) reduced expenditures and increased Federal taxation. I personally do not like a sales tax applied at a uniform rate to all manufactures. A very moderate tax would bear very heavily on some lines where demand is highly elastic, and a heavy tax would not make much difference in certain lines where demand is very inelastic. Necessities could stand much heavier percentage taxes than can articles which people can easily do without. Taxes could be put on tea and coffee and on such things as spices, of which small amounts are used in the individual's daily consumption, at much higher rates than on articles which make up a substantial part of the day's consumption. I do not pretend to have worked this out with any detail, but I do believe that a series of special sales taxes at different rates, classified by commodities with reference to elasticity of demand, would be less burdensome by far than one uniform flat rate. Of course, taxes should not be pyramided; they should strike production only in one stage and not in successive sales.

I am very hopeful, too, quite apart from reasons of taxation, that you will soon be getting a good revenue from beer and from wines.

Let me add that more moderate tariffs, which will let goods in instead of keeping them out, will be of real help to this problem of raising the government's revenues. In pre-war days the tariff was in fact our main source of Federal revenue, down to the time when the income tax came in.

But, in addition, expenses must be cut drastically. The discussion which has already taken place at these hearings has indicated possibilities in connection with the government's outlay to veterans who have no disabilities connected with service in the war, and the possibility of cutting that item very drastically is one which we cannot afford, for political reasons, to ignore. It is my understanding that very great reductions of expenditure can result from reorganization and consolidation of government bureaus, and from the elimination of overlapping functions. The political difficulties of this are, of course, recognized, but, in a great fiscal difficulty, political difficulties must be overcome.

I think, too, that the reduction in prices which has taken place ought to make it possible for us to cut almost every item of government expense except the fixed interest on public debt, and even there something can be done by refunding.

What "Balancing the Budget" Means

The budget ought to be balanced, in the sense that all ordinary expenses are covered by current taxes, and that the borrowings for special and non-recurrent purposes should be covered by additional taxes to the extent of current interest.

The orthodox canons of sound public finance would require, under anything like ordinary conditions, further

taxes to cover current sinking fund on all new borrowing and also on existing debt. I have not consulted other bankers with respect to this point, but my personal view would be that, in a time of great depression such as the present, it is legitimate to borrow for contractual sinking fund requirements and to eliminate this item from the budget proper. Taxes which under existing conditions are adequate to balance the budget in the sense above described would with any considerable improvement in business, be very much more than adequate for sinking fund requirements. My personal view is that we need not count in the deficit any expenditure which does not actually increase public debt.

If the Congress and the Treasury give definite and convincing evidence of their intention of dealing with this problem with full responsibility, they will strengthen the credit of the government and, in my opinion, the government bond market will take what bonds are really necessary for the meeting of this emergency. If, on the other hand there is an evasion or failure to grapple with the problem earnestly and courageously, or light-hearted adoption of a borrowing programme without consideration of this point the government will speedily find its securities sinking in the market and the market wholly unreceptive to new issues except at very high rates. The credit of the government is basic to every other credit, and we must protect it unflinchingly.

Government borrowing is necessary for emergency credit relief and for loans to the States to give direct unemployment relief. I recognize and would emphasize the responsibility of the whole country to the suffering millions who through no fault of their own, are victims of this great depression.

But we must not overstrain the finances of the government and we must not jeopardize the credit of the govern-

ment by proposals of a great government-borrowing programme for new public works on the theory that this will start a business revival. The government's credit cannot stand a great deal of that in addition to its necessary borrowing.

Further, we do not need government borrowing for new public works to start a business revival. If we move promptly to restore our export market for farm products and raw materials, we shall get a business revival quickly, and such government borrowing will be unnecessary. If, on the other hand, we use government borrowing as a substitute for the restoration of the export market, in the hope that we can force a revival of business merely by spending borrowed money in a country whose industries are badly unbalanced, the borrowing and the spending will be ineffective.

"Inflation" by Forced Expansion of Bank Credit

I should avoid further artificial efforts to force an expansion of bank credit. It was forced expansion of bank credit from 1922 into 1928 that was responsible for a great part of the present trouble. The renewal of government security purchases by the Federal Reserve Banks following the break in 1929, and especially in early 1930, was responsible for the false stock market boom in early 1930, and the renewal of excessive security issues which complicated very much the difficulties in the period that followed.

I strongly sympathized with the Glass-Steagall Bill, and with the government security purchases of the Federal Reserve Banks in the panic of the Spring of 1932, especially when the foreign run on our gold was on, as a means of preventing further forced liquidation. But heavy excess reserves, in the absence of confidence, will not force bank expansion. On the other hand, in times when confidence is normal and when borrowers (especially speculators) are ready to borrow at low rates, and when banks trust the

security offered, excess reserves of 50 to 100 million dollars mean cheap money and rapid bank expansion. Excess reserves of 500 or 600 million dollars, in a period of reviving confidence, would be exceedingly dangerous.

The volume of bank credit in the country does not depend alone on the volume of bank reserves. It depends also on the temper of the business community, which is governed by the prospects of business, and on the movements of goods and on the prices at which goods move. Given the restoration of the export trade and revival of agriculture and raw material prices, credit will expand rapidly. There is no use trying further to force it from the other end by an artificial increase in bank reserves.

Nor is there any use in trying to increase the volume of currency in circulation by paying out more paper money. If the paper money is redeemable and confidence in the gold standard is not shaken by this, it will not stay in circulation but will merely pile up in banks. If the paper money is issued in such amount as to shake confidence in the gold standard, the effect would be forced liquidation and tightened credit.

State and Municipal Taxes and Expenditure

The Federal Government, even though reducing expenses sharply, will still need to have increased taxes in view of the present low returns from taxes and in view of the necessity of providing for interest for additional borrowing. The States and local governments, on the other hand, in many cases can reduce taxes, and this is particularly true of rural local governments, where the tax burden has grown so enormously in recent years, and where the farmer pays the bulk of his taxes. I am told of one farm in an upstate New York county where taxes in the last year have been reduced from \$380 to \$200, due to vigorous action by the county commissioners, who have cut salaries and sharply reduced the county expenses.

Our local government has been a haphazard growth rather than a businesslike adaptation of government to needs. Areas in many cases are altogether too small. They were set in horse and buggy days. There are many places where groups of small counties could be combined into one county, with the elimination of several sets of officers. There are many unnecessary road districts and school districts, each with independent sets of officers. There are immense possibilities for curtailing expenses in the cities. Even with the additional burden of direct unemployment relief which is thrown so heavily upon local government by this great depression, I am satisfied that the possibilities of saving are so enormous in the general field of local government that the total of the taxes can be radically cut. Much is being done in many States looking toward this development, and the Federal Government might very well use some of its existing instrumentalities for the study of what is going on, giving publicity to it, and acting as a clearing house for information regarding it.

International Goodwill

We should move as rapidly as possible and contribute as much as we can toward bringing about peaceful relations throughout the world, so that nations will be willing to go in for a thorough-going lightening of the burden of armament. I do not think that we shall contribute to this by peremptory demands that other nations disarm, because such demands may even intensify the fears that have led to the excessive armament. In general, it is far more fear than lust for dominion that accounts for excessive armament.

Tying Together Various Remedies

In connection with the programme which I have outlined, the desirable thing seems to me to be to accomplish all of the parts as rapidly as possible. When it comes to doing one thing conditioned upon some country doing another, I would

be thoroughly opportunistic, bringing them together if it facilitates the transaction, and separating them if the effort to tie them together creates difficulties. In connection with tariff revision, I think that there is a great advantage in tying our reductions and the reductions of other countries together by reciprocal tariff agreements. I believe the public opinion on both sides of the water will be much readier to move in this way.

I think it might be difficult to tie together the settlement of inter-allied debts with a disarmament programme. Disarmament will be much easier to achieve when business recovery is already under way and when nations with a new economic hope are forgetting their fears and hatreds. It is noteworthy, for example, that, as between France and Germany, the era of good feeling was also the era of business prosperity, from 1924-25 down toward the end of 1928.

When it comes to international negotiations, it must be remembered that public opinion in every country is sensitive, that there are many points of national pride involved that no country will accept dictation from any other country and that public opinion in every country needs to be educated to make the necessary concessions to national pride in other countries.

A CRITICAL ANALYSIS

of the Book by

LAUHLIN CURRIE, Ph.D.,

"THE SUPPLY AND CONTROL OF MONEY IN THE UNITED STATES"

An Address

by

BENJAMIN M. ANDERSON, Jr., Ph.D.,

Economist of THE CHASE NATIONAL BANK of the City of New York

before the

NEW YORK CHAPTER OF THE
AMERICAN STATISTICAL ASSOCIATION

at a Dinner on Friday, April 26, 1935

in New York City

THE IMPORTANCE OF DR. CURRIE'S BOOK GROWS OUT OF THE FACT THAT HE IS TECHNICAL ADVISOR OF THE FEDERAL RESERVE BOARD, AND THAT TITLE II OF THE PENDING BANKING LEGISLATION GIVES EVIDENCE THAT HIS THEORIES LIE BEHIND IT.

A Critical Analysis

of the Book by

LAUCHLIN CURRIE, Ph.D.,

"The Supply and Control of Money in the United States"

—

An Address

by

BENJAMIN M. ANDERSON, Jr., Ph.D.,

Economist of

THE CHASE NATIONAL BANK

of the City of New York

The importance of Dr. Currie's book grows out of the fact that he is technical advisor of the Federal Reserve Board, and that Title II of the pending banking legislation gives evidence that his theories lie behind it.

X6.73.N3
65

TABLE OF CONTENTS

	Page
Why Dr. Currie's Book is Important.....	5
Currie's Inaccuracies in Matters of Fact.....	5
<i>Real Estate Loans and Total Loans and Investments (table)</i>	6
Currie's Version of the Quantity Theory—the Basis of His Whole Argument	6
Currie Holds Federal Reserve Policy Should Control Volume of Demand Deposits, Not <i>Quality</i> of Bank Assets.....	8
Hold Federal Reserve System Should Not Try to Control Speculation	8
Currie Approves 1927 Federal Reserve Policy.....	8
Currie Condemns Banking Act of 1933.....	9
Condemns Efforts of Federal Reserve System to Control Speculation in 1929.....	9
Currie's Theory Runs Counter to All Accepted Principles of Banking—Holds Commercial Loans "Perverse," Liquid- ity Unimportant	9
Investments Held "Ideal" Type of Assets for Banks.....	10
Loans "for Account of Others" in 1929 Declared "Fortunate" by Currie	10
Currie's Complete Misunderstanding of 1927-29 Developments..	10
Currie Absolutely Wrong on Relation of Demand Deposits and Interest Rates	12
Demand Deposits and Brokers' Loans, 1928-29.....	12
<i>Security Issues (table)</i>	14
Other Factors Easing Tension in 1928-29.....	15
Any Simple Theory of Money and Credit is Wrong.....	16
Currie's Generalizations Based on Abnormal Period—Neglects Earlier Experience	16
And He Would Apply Same Policy to Normal and Abnormal Situations	17
Currie Ignores Industrial Equilibrium, Foreign Trade Equilib- rium, and Quality of Credit.....	17
Liquidation Never to be Permitted.....	18

TABLE OF CONTENTS—(Continued)

	Page
Currie Limits "Credit" to Demand Deposits.....	18
Currie's Fundamental Error Regarding Time Deposits—Time Deposits and Savings Deposits.....	18
<i>Comparative Growth of Savings Deposits and Time Deposits (table)</i>	20
Currie's Version of the Hundred Per Cent Reserve for Demand Deposits Plan—Absurdity of the Plan.....	21
Currie Would Drop Reserve Requirements Against Time Deposits and Interbank Deposits.....	22
Currie's Inadequate Knowledge of Actual Banking Practices....	23
Imaginary Difficulties in Control.....	23
Varying Member Bank Reserve Requirements as a Means of Control	24
The Fallacy of Cheap Money as a Substitute for Economic Readjustment	25
Commercial Loans and Bank Liquidity.....	26
<i>Loans and Investments of National Banks (table)</i>	27
<i>Loans and Investments of Reporting Member Banks (table)</i>	28
Criticism of Currie's Version of Quantity Theory.....	31
Currie's Quantity Theory Condemned by Keynes.....	32
Naïve Application of Simple Mathematical Formula to Complex Economic Life	32

A CRITICAL ANALYSIS

of the Book by

LAUCHLIN CURRIE, Ph.D.,

"The Supply and Control of Money in the United States"

by

BENJAMIN M. ANDERSON, JR., Ph.D.,

*Economist of THE CHASE NATIONAL BANK
of the City of New York*

WHY DR. CURRIE'S BOOK IS IMPORTANT

The importance of this book is to be found, not in its contribution to the scientific study of money and banking, but in the fact that the author is at present technical advisor of the Federal Reserve Board, and in the further fact that Title II of the pending banking legislation gives evidence that his theories lie behind it. It becomes, therefore, a matter of first importance that his book should receive rigorous critical analysis from students of money and banking.

The writer of the book is so intensely preoccupied with the application of a single highly simple theory, regarding the control of incomes and commodity prices by means of the control of the supply of money, that he disregards virtually everything else in the whole financial picture and in the general picture of economic life.

CURRIE'S INACCURACIES IN MATTERS OF FACT

The book contains, moreover, grave inaccuracies in matters of ascertainable fact. I regret the necessity for saying this. His statements regarding real estate loans will illustrate this inaccuracy. On page 118 he says: "Real estate loans of all member banks remained below 10 per cent of earning assets until 1932 when, owing to the relatively greater decline in other loans, they amounted to 10.5 per cent." On page 119 he speaks of "the smallness of the yearly fluctuations in real estate loans." These two statements, taken together, would completely mislead the reader with respect to the history of real estate loans in member bank assets. The facts are shown in the following table:

Real Estate Loans and Total Loans and Investments

(In millions of dollars)

End of June	Real Estate Loans of		Total Loans and Investments of All Member Banks
	National Banks	Member Banks	All Member Banks
1918	185	461	18,507
1919	184	577	22,240
1920	230	953	25,559
1921	280	1,135	24,121
1922	371	1,432	24,182
1923	463	1,749	26,507
1924	535	1,990	27,167
1925	637	2,338	29,518
1926	725	2,650	31,184
1927	1,062	2,926	32,756
1928	1,285	3,068	35,061
1929	1,413	3,164	35,711
1930	1,473	3,155	35,656
1931	1,585	3,218	33,923
1932	1,617	2,894	28,001
1933	1,327	2,372	24,786
1934	1,331	2,357	27,175
% Increase			
1918-1928	594.6	565.5	89.4
1918-1932	774.1	527.8	51.3

Sources: Annual Reports of the Federal Reserve Board, Comptroller's Reports, Statistical Abstract of the U. S. and Federal Reserve Bulletins.

The facts are that real estate loans increased very much more rapidly than total member bank earning assets¹ in the period from 1918 to 1928, the percentages being real estate loans 565 per cent, total loans and investments 89 per cent.

The rapid growth of real estate loans in banks was one of the most unwholesome of all the "New Era" developments. This error is particularly important in view of the provisions of Title II of the pending banking act regarding real estate loans.

CURRIE'S VERSION OF THE QUANTITY THEORY— THE BASIS OF HIS WHOLE ARGUMENT

Currie starts out with an apology for writing a book which may be damned "with the deadly accusation 'quantity theory,'" and speaks of the "almost universal abandonment of the quantity theory of money." He thinks that there is danger that the pendulum may swing too far in the opposite direction, and that the effect of variations in the supply of money may be unduly minimized. He pro-

¹ The word "fluctuations" in the passage quoted from Currie cannot have a technical statistical meaning related to the "trend line" for real estate loans considered separately, because the context (page 119) makes it clear that he is talking of the *proportion* of real estate loans in bank assets.

poses to repair, in part, the neglect of variations in the quantity of money and says that criticisms of his study on the ground that it does not give a full account of the forces affecting the value of money are irrelevant since this is not its purpose (page 3). By the time he reaches page 6, however, he has become the uncompromising advocate of an extremely tight and inflexible version of the quantity theory. I quote: "*** is not the really fundamental explanation of the rise in prices the increase in the supply of money?"

"Although the net annual increments to a country's supply of money appear small in relation to the aggregate money incomes *** still there are indications that they are of surprising importance in determining the secular trend of prices ***. Assume the quantity of money of a country to be 25 billion dollars and the monetary income to be 75 billion dollars so that the income velocity of money is 3. Then an addition of 1 billion new money, or 4 per cent, would, assuming no change in the income velocity, increase incomes by 3 billion dollars, or 4 per cent. *** The income velocity of money is subject to fluctuations from year to year, sometimes very wide, but apparently it does not increase sufficiently over a period of years to maintain prices." In a footnote (page 6) he gives figures regarding what he calls the "income velocity of money" and concludes (I quote): "Hence the major part of the increase in money incomes was attributable to the expansion of money." On page 15 he discusses the money market effects of the transfer of an individual time deposit to a demand deposit, and then says, "The effect on incomes and prices is clear." By page 53, he even refers to Irving Fisher, and gives Fisher's equation of exchange as ground for disregarding all forms of credit except demand deposits. By page 177 the doctrine has become very familiar and has been used many times as a basic assumption, the statement on page 177 being: "Since the expansion of adjusted demand deposits up to 1929 was just sufficient to maintain relative stability of commodity prices ***."

Currie would distinguish his own quantity theory from that of Irving Fisher. Currie reckons with what he calls "income velocity." He calculates this by dividing figures for the national income by his figure for "money," money being actual pocket cash in circulation plus "adjusted demand deposits."¹ Fisher, on the other hand, reaches his velocity by comparing the total expenditures of money for whatever purpose with the supply of money somewhat similarly defined. On pages 169-170 Currie discusses this difference. I reserve comment for a later point of this paper. The significant thing for present

¹Currie's "adjusted demand deposits" are demand deposits, minus inter-bank deposits, but plus Government deposits. Fisher keeps the velocity of money in circulation separate from the velocity of deposits in his calculations.

purposes is that Currie and Fisher, though reaching their conclusions by formally different mathematical schemata, both believe that regulation of the quantity of money, including demand deposits, will regulate the general average of commodity prices (not defined in the same way by both).

CURRIE HOLDS FEDERAL RESERVE POLICY SHOULD CONTROL VOLUME OF DEMAND DEPOSITS, NOT QUALITY OF BANK ASSETS

Currie is not always sure that he wants to make the control of commodity prices his objective. Sometimes he talks of regulating incomes and sometimes of other purposes. It is reasonably clear, however, that he thinks that, in regulating incomes one is also regulating commodity prices. But the whole thesis of the book is that the combined amount of money in the pockets of the people and "adjusted demand deposits" is to be regulated by the Federal Reserve authorities with reference to one of these objectives, and that everything else in legislative policy and Federal Reserve policy concerning money, credit and banking is to be subordinated to this.

The Federal Reserve Banks, he maintains, have allowed themselves to consider irrelevant matters, and particularly the matter of the quality of the assets of the commercial banks. He draws the line sharply between two objectives, (1) the control of the total of money, which he advocates, and (2) the policy directed toward control of the quality of the assets of the member banks, which he condemns.

HOLDS FEDERAL RESERVE SYSTEM SHOULD NOT TRY TO CONTROL SPECULATION

It is not the business of the Federal Reserve Banks to check or hold down stock market speculation if in so doing they are obliged to reduce the total of demand deposits, he holds. Federal Reserve policy in 1927, when they increased member bank reserves by their vast purchases of Government securities, was, he holds, "wholly admirable." I quote:

CURRIE APPROVES 1927 FEDERAL RESERVE POLICY

"The 1927 policy has been generally condemned on the ground that it was responsible for the 'speculative mania' of 1928-29, one of the members of the Federal Reserve Board having since gone so far as to say that it represents 'one of the most costly errors committed by any banking system in the last 75 years.' To the writer it appears wholly admirable,

rather to be characterized as one of the most successful policies ever pursued. Though one cannot positively say that it was responsible for arresting the downward trend of prices and production and for easing the pressure on foreign central banks, we are justified in claiming that it was the policy acceptable in theory for the attainment of those ends. Since we have argued that the call-money rate plays a minor rôle in the calculations of speculators and that the major part of the rise in stocks appeared reasonable and defensible on the basis of the then existing knowledge, it follows that the 1927 policy was responsible for the subsequent rise in stock prices only in the sense that it resulted in an upswing in business activity and profits."¹

CURRIE CONDEMNS BANKING ACT OF 1933

Currie says: " * * * the provisions in the Glass-Steagall Act of 1933, seeking to give the reserve administration greater control over the loans of member banks indicates a complete misreading of the 1928-29 episode and do not mark any advance in either central banking theory or practice."²

CONDEMNS EFFORTS OF FEDERAL RESERVE SYSTEM TO CONTROL SPECULATION IN 1929

The effort of the Federal Reserve System to tighten money and to hold down the stock market boom in 1928 Currie approves mildly on the ground that business had definitely turned the corner, with the qualification that "it perhaps need not have been quite so drastic." But the efforts of the Federal Reserve System in 1929 to check the speculation was "a grave blunder." What they should have done in 1929 was to reverse policy and to make money easier. "This course, which has never as yet been tried, appears at first sight so bold—almost foolhardy—that it was not even considered. To the writer, however, it appears to have been the only way out."³

CURRIE'S THEORY RUNS COUNTER TO ALL ACCEPTED PRINCIPLES OF BANKING— HOLDS COMMERCIAL LOANS "PER- VERSE," LIQUIDITY UNIMPORTANT

Currie's theory that everything is to be subordinated to the control of the quantity of money runs remorselessly against virtually

¹ Currie, "Monetary Policy and the Depression," from the *Journal of Political Economy*, Chicago, April, 1934, pages 168 and 169. This article is cited with approval in the book under discussion on pages 145 and 146.

² *Ibid.* Page 176, n.

³ *Ibid.* Pages 169-70.

every accepted principle of credit and banking. He regards liquidity of banks as unimportant. Loans that can be readily liquidated and that are liquidated when the borrowers no longer need them, as borrowers draw down their deposits at the banks in paying off their loans, are indeed "perverse," since such loans interfere with the control of the volume of demand deposits by the central authorities. Commercial loans in banks are particularly bad from this point of view, because they tend to expand with a resultant expansion of demand deposits at times when business is active and prices are rising, at which time the policy of control would call for holding down demand deposits, and because they contract when business is falling off.

INVESTMENTS HELD "IDEAL" TYPE OF ASSETS FOR BANKS

Investments by banks are far better from the standpoint of the kind of control Currie wants. Indeed, he uses the word "ideal" in connection with them—"From the viewpoint of control, investments are the ideal type of assets." (Page 122).

LOANS "FOR ACCOUNT OF OTHERS" IN 1929 DECLARED "FORTUNATE" BY CURRIE

In Currie's view, security loans stand in between. Like commercial loans, they tend to decline in the downswings of business, but "fortunately, in 1929, banks were not supplying the whole of this market."—Loans "for account of others" stood at a vast figure in 1929, and bank loans against securities and demand deposits increased as the "others" withdrew in panic from the loan market.—Currie continues, "Although, curiously enough, banks appear to resent what they call 'bootleg' loans, it is difficult to see how a serious contraction of money¹ would have been avoided in 1929 if they had not existed." In a footnote, Currie gives evidence of a little uneasiness about this absurd statement because he says, "Unless it is held that the height of loans on account of others was responsible for the liquidation." But he continues: "Despite the bad repute in which non-bank security loans are generally held * * * it is to be hoped that they will increase in the future. Their existence affords a much needed degree of elasticity to bank security loans." (Page 121).

CURRIE'S COMPLETE MISUNDERSTANDING OF 1927-29 DEVELOPMENTS

To one who lived through the crash in 1929, viewing the matter from the inside of a great bank, this view is so fantastic as to be

¹ "Money" in Currie's language means cash in the hands of the public plus "adjusted demand deposits."

incredible. I myself would hold the view that loans "for account of others" were often useful in the period preceding 1924. They came in times of tension and crisis, attracted by high rates of interest, from men who were well informed and who had steady nerves, men who knew the risks and knew how to protect themselves against them. The entrance of such lenders eased the burden on the banks in a crisis. As they came in, they reduced their deposit balances with the banks, at the same time that they took over loans which the banks would otherwise have to carry. This facilitated, without forced sales of securities in the market, a reduction both of bank loans and of bank deposits, with the result that the reserve ratios of the banks were improved and with the consequence that interest rates were held down or reduced. Interest rates on short bank loans are primarily governed by the question of whether reserves are excessive, adequate or deficient with relation to deposits, and a period of tight money is eased off either by a decline in deposits or by an increase in reserves or by both.

But the rôle of brokers' loans for account of others in the 1929 episode was a radically different thing. These loans were made, not in the crisis, but in the period of the boom, and when the crisis came there was a sudden panicky withdrawal of these loans "for account of others," with the result that there had to be an immense expansion of bank credit, loans and deposits, to take care of it. In the panic week of 1929, the total of loans for the reporting member banks in New York City increased by \$1,281,000,000, while the demand deposits of these same banks showed an increase of \$1,565,000,000. Of this increase in loans, 374 millions, or over 29 per cent, was in The Chase National Bank alone, where the present writer was in a position to know very definitely what was going on and what the money market consequences were.

The situation was studied closely as it developed through 1928 and 1929, and it became increasingly clear that a grave problem existed. The volume of brokers' loans for "the account of others" looked manageable in late 1928, but it grew by leaps and bounds through 1929, and it became increasingly clear that only heroic measures could meet the crash when it came. The New York banking community was increasingly preparing itself for this shock, and made an eminently creditable performance in meeting it by a gigantic expansion of loans and a corresponding expansion of deposits.

But the contention that it was a good thing that they should have had to do so, because otherwise demand deposits would have gone down, is one of the most fantastic things ever said by any writer on money and banking.

CURRIE ABSOLUTELY WRONG ON RELATION OF DEMAND DEPOSITS AND INTEREST RATES

The reason for this is partly to be found in a curious obsession of Currie's concerning the relation of demand deposits to interest rates. *Currie believes that an increase in demand deposits lowers the rate of interest.* I quote: "In the former case, the banks create deposits by increasing loans. This has a tendency to lower interest rates." (Page 20). Currie apparently believes that the existing volume of deposits can be loaned by banks, even their time deposits (page 152). He believes that the contraction of demand deposits of member banks in the first nine months of 1928 was "probably the major cause of the abnormal rise in interest rates in that period." (Page 145).

He apparently does not realize that banks do not own their existing deposits. Their existing deposits are liabilities of the banks. They are the debt of the banks to their customers. Their customers can lend them, if they wish, but the banks cannot. A bank can lend only if it has enough cash reserves to permit it to create a *new* demand deposit liability to a borrowing customer, or to pay out cash in making the loan—or, of course, if it has liquid assets other than cash reserves by the disposal of which it can promptly get more cash. The facts with reference to the relation of deposits and interest rates are precisely the reverse of Currie's assumption and belief. When a bank's deposits are low, in relation to a given volume of cash reserves, its ability to lend is great, its temptation to lend is great, and if other banks are similarly placed, the competition of banks for loans makes interest rates go low. As deposits increase with the same given volume of reserves, interest rates tend to go higher.

The fact is, further, that the decline in demand deposits in 1928, instead of raising interest rates, as Currie supposes, tended to ease off interest rates and tended to defeat the efforts of the Federal Reserve System to control the stock market speculation by tightening money. Moreover, the fact is that the sudden increase in demand deposits at the end of 1929, as the member banks were obliged to take over the loans "for account of others", operated to hold up interest rates and to retard the efforts made by the Federal Reserve Banks to ease off the money market.

DEMAND DEPOSITS AND BROKERS' LOANS, 1928-29

The main explanation of the decline in demand deposits in 1928 was the growth of brokers' loans "for account of others" and for the account of out-of-town banks, though other factors entered as

shown below. The present writer analyzed this while it was going on, in three numbers of the *Chase Economic Bulletin*.¹

Instructed by a customer with large demand deposits to make a loan for his account to stock exchange brokers, the bank might do one of two things. It might, most simply, turn over to the customer a loan which it had already made, debiting his deposit balance as it did so. Here, obviously, in the bank's figures, loans go down and deposits go down, and no change takes place in any other bank, so the total of loans and deposits in the banks is reduced, and pressure on the bank's reserve is reduced. The bank is in a better position to make a new loan than it was before. A more complicated case would be where the bank made a loan at the "money desk" in the Stock Exchange for the customer's account, and debited his deposit balance, giving a cashier's check to the broker who took the loan. The bank, in this case, assuming that its reserves were just adequate—and the reserves were under pressure in general throughout 1928—would be disposed to call a loan made for its own account on the same day, in order to avoid a deficit in its dealings with the clearing house and the Federal Reserve Bank the following day. In this case, also, deposits go down for the bank and for the banking system, and loans go down for the bank and for the banking system. This matter is analyzed fully in the Bulletin above referred to, "Brokers' Loans and Bank Credit."

The remarkable thing about loans "for account of others" in 1928-29 is the altogether unprecedented volume of money available for this use. It had never happened before in our history, and that it should have happened at that time calls for a very special explanation. The explanation is to be found in the preceding gigantic expansion of bank credit between 1922 and early 1928, amounting to 13½ billions of deposits, demand and time together, and to 14½ billions in loans and investments, for the commercial banks of the country, savings banks not included.

This bank expansion was based (a) on inflowing gold, and (b) on easy money policies of the Federal Reserve Banks, very especially on the great open market purchases of Government securities in 1924 and in 1927, the latter being the episode so highly praised by Dr. Currie. This expansion had put redundant liquid resources into a great many hands. Between the middle of 1927 and the middle of 1928, for example, as a result of the immense expansion of cheap money, some 1,800 millions of new foreign securities, refunding excluded, were placed in the United States, an amount

¹ (1) "An Analysis of the Money Market," June, 1928, pages 18-19; (2) "Brokers' Loans and Bank Credit," October 31, 1928, and (3) "Some Side Lights on the Money Situation," February 13, 1929.

far exceeding the needs of foreigners for meeting current interest and for offsetting our favorable merchandise trade balance, the proceeds of which they were in a position to lend to our securities market when the rates of interest there attracted them.

The growth of the issue of new securities of all kinds during this period of bank expansion was very great. 1923 was the one year during this period in which there was no bank expansion. The total of new securities publicly placed was 4,300 millions in that year, taken up by investors' money. In the calendar year 1927, on the other hand, with an expansion of bank credit of approximately 3 billion dollars, the total of new securities publicly placed was 7,790 millions, the increase over 1923 in investors' savings being 490 millions, but 3 billions of the excess being a resultant of bank expansion.

Security Issues

	Total Securities Publicly Placed (refund- ing excluded)	Total Corporate Securities Publicly Placed (refund- ing excluded)	Foreign Securities Publicly Placed in the United States (refund- ing excluded)
	(In millions of dollars)		
1922	4,304.4	2,335.7	634.5
1923	4,304.4	2,702.5	280.3
1924	5,593.2	3,322.3	996.6
1925	6,220.2	4,100.7	1,086.2
1926	6,344.1	4,357.0	1,145.1
1927	7,791.1	5,391.0	1,561.1
1928	8,114.4	6,079.6	1,319.2
1929	10,194.9	8,649.4	757.8
1930	7,023.4	4,944.4	1,009.2
1931	3,115.5	1,763.4	253.7
1932	1,192.2	325.4	26.0
1933	709.5	160.7	.1
1934	1,419.5	178.3	0

Source: Commercial and Financial Chronicle.

These new security issues not only gave foreigners excess liquid funds, but also placed the business corporations of the country in a position where they had a great excess of liquid funds. They very largely paid off their commercial loans at the banks, and still remained with excess liquid resources which came as loans to the securities market when interest rates grew attractive. Rapidly rising security prices and real estate prices through this period—the vast increase in real estate loans in the banks was a very important factor in the great rise in real estate prices during the period—put large liquid resources into the hands of those owners of real estate who were wise enough and fortunate enough to sell at the rising prices, and as many of them hesitated to reinvest in either securities or real estate in 1928 or 1929 at the high prices prevailing, they also had

funds available for loans to the securities market. And the same thing of course is true of the wise investors who sold their stocks and held themselves liquid in 1928 and 1929.

The vast volume, in other words, of brokers' loans "for account of others" was the product of the *prior expansion* of bank credit based on incoming gold and the cheap money policies of the Federal Reserve Banks.

Never before in our history has it happened that so vast a quantity of mobile liquid resources were available. When, in 1928 and 1929, the Federal Reserve authorities made their belated effort to check speculation and to reverse the policy of bank expansion, they found themselves confronted with many unexpected difficulties.

If the water is allowed to overflow in the tub of an upstairs bathroom for five minutes, it is a fairly simple matter to "mop up" when you turn off the tap. But, if you let it overflow for six years and then turn off the tap, you have a tremendous amount of pumping to do before you get the house dry again. And long after you have pumped enough to take up the water in sight, you find water pouring in from the interior of the walls and from other unexpected places—this is assuming a very strong house which doesn't collapse entirely.

OTHER FACTORS EASING TENSION IN 1928-29

With the tension of money in 1928 and 1929, accompanied by the excited securities market and the rapid rise in security prices, a wide variety of resources manifested themselves, all tending to ease off the strain on bank reserves and to prevent the measures which the Federal Reserve Banks were taking, which would ordinarily have been entirely effective, from reversing the movement. (1) As already explained, brokers' loans "for account of others" took brokers' loans out of the banks and reduced demand deposits. (2) On a substantial scale, new bank stocks were issued, with the result that the banking system as a whole changed deposit liabilities to depositors into capital liabilities to stockholders, reducing deposits and offsetting the pressure on reserves. (3) There was a very substantial growth in the substitution of acceptance credits for straight loans, the acceptances being very largely held by the Federal Reserve Banks and foreign banks. To the extent that this occurred, both bank loans and bank deposits were reduced, while, to the extent that the Federal Reserve Banks bought the acceptances, new reserve money was created. (4) There was an immense increase in rediscounting by the member banks—an increase which would not have come on anything like so great a scale had the Federal Reserve Banks held their redis-

count rates above the market in accordance with the orthodox rule. (By "the market," in the United States, I mean the rates on loans to prime borrowing customers in great city banks). (5) There was a reduction in the volume of "money in circulation" (i.e., actual currency outside the Treasury and outside the Federal Reserve Banks). This figure, on the average, stood at 110 million dollars less in 1928 than in 1927, making a net addition of that amount to the reserve deposits of the member banks.

For these various reasons the measures which the Federal Reserve System took, which, on the basis of their previous experience, they expected to be adequate, proved inadequate and ineffective, *though there never was a time when by really vigorous measures, including rediscount rates above the market, they could not have accomplished their purpose.*

Be it observed that the first three of these factors which operated to ease the money market had the effect of holding down or reducing demand deposits, directly contrary to Currie's theory that decreasing demand deposits raise interest rates. Again and again, the informed student of monetary matters is impressed with Currie's complete misunderstanding of important financial episodes because of his exclusive preoccupation with a highly simple and exceedingly unrealistic theory.

ANY SIMPLE THEORY OF MONEY AND CREDIT IS WRONG

In this connection, I venture the proposition that any simple theory purporting to explain money and credit is wrong. And any effort to recast our whole financial fabric on the basis of any simple theory must make incredible disturbances and disorders totally unanticipated by the men who believe in the simple theory.

CURRIE'S GENERALIZATIONS BASED ON ABNORMAL PERIOD—NEGLECTS EARLIER EXPERIENCE

A further very important thing to observe in this connection is that the period from 1922 to 1934 and, above all, the ten years from 1924 to 1934, represent highly abnormal phenomena in the field of money and banking, and an increasing pathology in the system. Currie's generalizations are almost entirely based upon this period and, very especially, upon the period from 1927 on. His generalization quoted above, for example, that speculators are very little influenced by interest rates, is based on their behavior in 1928 and 1929, though, if he had extended his study even into the autumn of 1927, he would have found good reason to believe the contrary. (See *Chase Economic Bulletin*, "An Analysis of the Money Market,"

June 4, 1928, page 18.) In ordinary times, low money rates encourage speculative borrowing and rising security prices, while firm money rates discourage them. The study made by Warren M. Persons¹, for example, covering the years 1903 to 1914, gives very abundant and exact evidence on this point. The extent to which Currie's generalizations are based on very recent years, lacking the perspective which earlier financial history would give, will be recognized, I think, if the reader will examine in his book pages 36, 117-125, 131, 133, the last paragraph of 135, 137, 172.

HE WOULD APPLY SAME POLICY TO NORMAL AND ABNORMAL SITUATIONS

The same general comment may be made with respect to the application of his theory. The only abnormality which apparently can exist, from the standpoint of Currie's analysis, is a deviation in the total of "adjusted demand deposits" and pocket cash from what his norm would require for the purpose of the regulation of incomes or prices, which apparently are his control for business activity. And he would apply the same reasoning to 1928-29 as he would apply to any other period with respect to these matters. (See his discussion, pages 49-50 and the bottom of 97.)

CURRIE IGNORES INDUSTRIAL EQUILIBRIUM, FOREIGN TRADE EQUILIBRIUM, AND QUALITY OF CREDIT

But these years were years which had been preceded by such a gigantic growth of credit that even that part of credit which he alone recognizes, namely, demand deposits, could still have been excessive. The world was, in fact, shot through with abnormalities in 1928-29. For one thing, we had been for years getting out an excess of exports over imports, giving credit to foreign countries in the process, with high tariff barriers which prevented their repaying these credits. Banks all over the world had had their liquidity impaired by the rapid expansion of credit going into illiquid uses (see *Chase Economic Bulletin*, "Some Major Forces in the International Money Market," October 29, 1927, pages 19-23, 26-29). A vast volume of debt had been created—and debt is the other name for credit—as a result of these tendencies. Credit expansion had been laboring for years against trade barriers and had been for years preventing necessary industrial readjustments, especially in England. Currie sees nothing of the growing industrial disequilibria, sees

¹ *Review of Economic Statistics*, April, 1919, pages 111-113. Persons generalizes for the period 1903-14: "Prices of securities reached a maximum at the same time the rate for capital was at a minimum."

nothing of the growing abnormalities in international trade relations, sees nothing of the increasing artificial controls of commodity prices, sees nothing of the growing inflexibilities created by Government policies. All that he can see and all that he can say is, apparently, the monotonous "tit-tat-to"—"money, credit, prices; money, credit, prices," and his formula is the same for an industrial situation desperately out of balance as it is for one well shaken down and ready to respond to an easy money market.

LIQUIDATION NEVER TO BE PERMITTED

One thing that appears quite clear from Currie's analysis is that never, under any circumstances, must a real liquidation of bank credit be allowed to take place. That we have got out of previous crises as we have liquidated credit, eliminating the insolvent and verifying the solvency of those who were good, so that confidence was restored in the credit situation, at the same time reducing commodity prices and wages and readjusting long term contracts where necessary, involving rentals and even bond interest, means nothing to him. He has found the necessary magic to prevent all this in the proper adjustment of the supply of money.

CURRIE LIMITS "CREDIT" TO DEMAND DEPOSITS

Currie limits the word "credit" to demand deposits and, strictly speaking, to his "adjusted demand deposits." Time deposits he identifies with savings (pages 16; 152). The fact that time deposits are owned by big corporations or others of wealth is "extraneous." "The savings of a number of people acting collectively, as in a corporation, should have no different economic effect than the same amount of savings of the people individually". (Page 16).

To Currie, loans are not credit and bank credit is not credit. Eliminating time deposits and eliminating loans and investments from his picture of credit and looking only at the demand deposits, he would make the expansion of credit in the period of 1922-28 much less than it evidently is when we look at the whole picture of deposits of both kinds, and loans and investments in the commercial banks.

CURRIE'S FUNDAMENTAL ERROR REGARDING TIME DEPOSITS—TIME DEPOSITS AND SAVINGS DEPOSITS

Time deposits, he says, (page 99) are "not affected to any great extent by inflows or outflows of reserve funds." He speaks of the steady secular growth of time deposits (page 132) and says

they "exhibited little cyclical movement from 1921 to 1929," though he admits the secular growth was arrested in 1928-29, and is apparently puzzled by it. The facts are that time deposits were immensely responsive to the inflow and outflow of reserve funds, that they expanded with great rapidity in periods when the Federal Reserve Banks were making reserves easy by cheap money policies, and that they slowed down their growth sharply or even ceased to grow when the Federal Reserve Banks tightened up. I have discussed this in great detail in the *Chase Economic Bulletin*, "Bank Expansion versus Savings," June 25, 1928, from which I quote the following passage:

"But the great growth of time deposits has been in the periods of monetary ease and rapid bank expansion, and not in the periods of relatively firmer money and retarded bank expansion. The year 1922 was a year of rapid expansion. The Federal Reserve Banks increased their open market purchases, gold came in, and deposits moved rapidly. From January 4, 1922, to January 3, 1923, the time deposits of the reporting member banks increased from \$3,011,000,000 to \$3,748,000,000, or 24.5 per cent. The year 1923 was one in which the Federal Reserve Banks reversed their policy and offset the incoming gold by reducing their open market purchases and raising their rates of rediscount. The time deposits of the reporting member banks in this year rose from the \$3,748,000,000 of January 3, 1923, to \$4,104,000,000, or 9.5 per cent, by January 2 of 1924. The year 1924 was one of very great Federal Reserve Bank expansion, great ease of money and very rapid bank expansion. Time deposits moved up in this year from \$4,104,000,000 on January 2 to \$4,849,000,000 on January 7 of 1925, or 18.2 per cent.

"The case is even more striking when we observe the behavior of time deposits in certain of the major cities. From April 12, 1922, to April 11, 1923, time deposits in New York City moved up from \$353,000,000 to \$627,000,000, or 77.6 per cent. In the following year, the period of restricted credit, the same time deposits moved up only from \$627,000,000 to \$649,000,000, or 3.5 per cent (by April 16, 1924). In the following year, coming down to April 15, 1925, a period of great monetary ease, time deposits moved up to \$816,000,000, or 25.7 per cent, whereas in the next year to April 14, 1926, there was an actual decrease of \$2,000,000, the 1926 figure being \$814,000,000.

"A similar story can be told for Chicago. From April 5, 1922, to April 11, 1923, time deposits increased from \$311,000,000 to \$372,000,000, but from April 11, 1923, to April 16, 1924, they increased only \$1,000,000 to \$373,000,000. This high variability in the growth of time deposits is very different from the steady growth which characterizes the figures of the savings banks.

"Again, the growth of time deposits has been very much more rapid than the growth of savings deposits, as shown by the following figures for the mutual savings banks, on the one hand, and the time deposits of the reporting member banks and National banks, on the other hand.

"Comparative Growth of Savings Deposits and Time Deposits

(In millions of dollars)

Date	Deposits of All Mutual Savings Banks	Time Deposits of National Banks	Time Deposits of Reporting Member Banks in N. Y. District ¹	Time Deposits of All Reporting Member Banks ²
June 30, 1922	5,780	4,112	666	3,380
June 30, 1923	6,289	4,755	901	4,000
June 30, 1924	6,693	5,260	972	4,418
June 30, 1925	7,147	5,925	1,174	5,172
June 30, 1926	7,578	6,314	1,263	5,650
June 30, 1927	8,077 ¹	7,316	1,472	6,212
Jan. 1, 1928	8,315	7,808 ²	1,622	6,611
% Increase over 1922	43.9	89.9	143.5	95.6 "

Surplus reserves generated time deposits more rapidly than demand deposits, in 1922-28, the reason being very simple. Business men and most other people tend to be economical in the use of money. They do not usually carry pocket cash or till money in great excess of their needs. Instead they deposit it in the banks. But they usually do not carry demand deposits with the banks at low interest or at no interest in great excess of their needs, when they can get a substantial rate of interest on time deposits. Consequently the immense expansion of credit, running far beyond any needs of trade from the middle of 1922 to early 1928, generated primarily an expansion of time deposits.

Some banks, and especially country banks, were lulled into a false sense of security by this, and used the funds which came to them through the growth of their time deposits in such a way as to tie them up in illiquid form, very especially in real estate loans. But most of the New York City banks were alert to the dangers, and realized that they needed to keep their assets against their time deposits quite as liquid as against their demand deposits. They knew that their time deposits were chiefly the temporarily idle funds of great business corporations or of foreign banks or of rich investors who had temporarily disposed of investments and were awaiting opportunities in the market. The most unfortunate case of all would be the case of the country bank which, by a time deposit rate above the city rate, attracted temporarily the idle funds of a great business

¹ Estimated.

² December 31, 1927.

³ Figures for reporting member banks are for dates nearest June 30.

corporation in such an amount as to represent an important percentage of the bank's total deposits. Many such banks had to appeal suddenly to city correspondents as these deposits were suddenly withdrawn. Currie is impervious to all of this. He is concerned with a schema, and the facts must fit the schema.

CURRIE'S VERSION OF THE HUNDRED PER CENT RESERVE FOR DEMAND DEPOSITS PLAN— ABSURDITY OF THE PLAN

The most obvious evidence of Currie's misunderstanding of the nature of time deposits and the general nature of bank credit comes in his proposal of an "ideal" system of control, not recommended for immediate application but offered to illustrate his principle, in Chapter XV. Here he proposes a device which he recognizes as essentially similar to the 100 per cent reserve for demand deposits plan (page 156, footnote), though he puts it in a somewhat different way. He would split up the existing banking institutions into two parts. He would have the Government take over the demand deposits of the banks and run-of-the-mine assets to correspond, and he would leave the banks their time deposits matched by the rest of their assets. He would divorce the supply of money from the loaning of money. Faced with the question then as to how commercial loans could be made, he says:

"While our interest in this study is centered in money and the conditions of its supply, nevertheless it remains true that the loans of banks to individuals who could not readily secure loans elsewhere have been of great importance in the past and still remain of importance. What would happen to such loans if all money were issued by the Government? The answer to this valid objection depends on the handling of savings deposits. The best solution would appear to be to leave them with existing banks. They are not money, and therefore, apart from laying down conditions for their safe investment, the state has not the same interest in them as in deposits subject to check. Savings deposits comprise some 60 per cent of all deposits. They would, therefore, if left with existing banks, permit continuance of loans to borrowers who cannot secure loans elsewhere. The volume of such loans is commonly overestimated. They belong to a past era * * * *."

This is a very remarkable proposition. The banks cannot lend their time deposits: Their time deposits do not belong to them. Their time deposits are their liabilities. Banks can lend only if (a) they have cash to lend or if (b) they are in a position to *create new demand deposits*. Banks thus placed, forbidden to create demand deposits, increasing their loans only as new time depositors bring

them cash or as they are able to get cash by reducing their existing loans or by selling existing assets, would be in no position whatever to expand loans in any emergency, in no position whatever to expand loans to meet seasonal needs, and would be able to meet the annual growth of industrial borrowings only if it should so happen by accident that their customers brought them in the right amount of cash. Pure savings banks very properly recognize no obligation to meet the borrowing needs of their depositing customers. They may lend to depositing customers if they have some extra cash. Primarily they invest—when and if it suits them.

Further, if the banks were thus cut in two, the difference between true savings deposits and time deposits held by corporations and large investors would speedily manifest itself. The banks which had only time deposit liabilities would speedily find themselves being drained as many of their customers withdrew their time deposits in order to turn them into working cash. A great lot of the existing time deposits are held by banks in connection with the total customer relation, which includes a borrowing equity on the customer's part. Very many customers with time deposits build them up at certain seasons of the year and let them turn, at due date, into demand deposits at other seasons of the year, so that they may use them, check against them. These customers, finding themselves suddenly dealing with savings banks rather than commercial banks, would very speedily pull out—and we should have an immense liquidation of the dismembered institutions, and of the people that owe them money.

CURRIE WOULD DROP RESERVE REQUIREMENTS AGAINST TIME DEPOSITS AND INTERBANK DEPOSITS

Currie's misunderstanding of the nature of time deposits and his identification of them with savings leads him to the extreme proposition (page 163) that with more stringent regulations insuring that time deposits cannot be checked against, all reserve requirements against time deposits could be removed. But the low 3 per cent reserve against time deposits (most of which could not be transferred by check) was a major factor in making the ruinous expansion of bank credit between 1922 and early 1928, and, had there been no reserves at all required against time deposits, the thing would have gone very much further. Throughout his book, Currie seems to be concerned to eliminate almost every possible restriction on every form of credit except his "adjusted demand deposits." Thus, on pages 165-166, he says: "If, however, the deposits of the non-member banks with member banks are not placed there as reserves

but rather as investments, and the bulk of them appear to be of this nature, the imposition of reserve requirements may tend to bring about a contraction of money when such balances are increasing and an expansion when they are decreasing * * * . There is, however, a clear case against the requirement of reserves against deposits of other member banks."

CURRIE'S INADEQUATE KNOWLEDGE OF ACTUAL BANKING PRACTICES

Incidentally, it may be remarked that the foregoing passage is an illustration of Currie's inadequate knowledge of what banks do. To a banker, the statement that the bulk of the deposits of non-member banks with member banks are investments rather than reserves is fantastic. In part, at least, they are necessary working funds for domestic exchange transactions. They are, in large part, primary reserves, usually part of legal reserve requirements, and for the rest they are secondary reserves, highly liquid resources, to meet seasonal needs or to meet crisis emergencies or to create "borrowing equities" for the purpose of meeting seasonal needs and crisis emergencies. The following figures, representing the behavior of deposits and loans of 59 small banks through a wide range of the country, chiefly non-member banks, with The Chase National Bank in 1920-21, will illustrate this. The banks were picked at random, except that larger places were avoided.

	Balances	Loans
January, 1920	\$1,426,400	\$ 459,200
September, 1920	1,215,800	1,057,500
October, 1920	1,221,200	1,677,800
November, 1920	1,091,800	1,346,400
December, 1920	754,200	801,500
January, 1921	759,200	951,300

IMAGINARY DIFFICULTIES IN CONTROL

Currie finds a good many difficulties in the present organization of banking when one is considering the problem of effective control of the volume of money. He says, on page 142: "One may indeed become discouraged when it is realized that the factor on which the reserve administration must place chief reliance in checking expansion—the repugnance of member banks to continuous indebtedness to the reserve banks—is itself subject to variations, becoming weaker in the upswing and stronger in the downswing of business."

This difficulty, of course, to the extent that it is a difficulty, would not exist if the Federal Reserve Banks made use of the orthodox principle of keeping rediscount rates above the market—mean-

ing by "the market" the "bottom" of the great city market, namely, the rates paid by prime borrowing commercial customers.¹

He sees a further obstacle to the effectiveness of Federal Reserve policy, namely, their special acceptance policy, which he correctly recognizes could easily be altered (page 143). But he manufactures an enormous number of difficulties in discussing the relations of commercial banks, the flow of funds between central reserve cities and interior institutions (with resultant changes in reserve requirements) and the like. (See especially Chapter VII.) It is perfectly true that when money is easy banks will be less economical with their reserve funds and their vault cash than they will be when money is tight, and that this change in bank policy will operate against effectiveness of Federal Reserve policy seeking to expand or to relax the money market. But this means merely that the Federal Reserve Banks need to do a little more than they would otherwise have to do in the matter of exerting control. They are in a position to have, at all times, a very close knowledge of the extent to which reserves of the member banks are excessive or are deficient, and if they are at all "close to the market" relatively moderate changes in discount rate or in open market holdings can meet the situation. The existing difficulties of control are not made by the organization of the banking system, but by the appalling plethora of member bank reserves, artificially created in large part.

VARYING MEMBER BANK RESERVE REQUIREMENTS AS A MEANS OF CONTROL

Currie is an advocate of the doctrine of varying reserve ratios of the member banks of the Federal Reserve System as an important instrumentality of control. The present writer is of the opinion that this is a resource which is very unlikely to be used in a boom when tightening up is called for. Its effect would be very unlike the effect of the more familiar methods of control such as raising discount rates and the selling of Government securities by the Federal Reserve Banks, or the failure of the Federal Reserve Banks to buy acceptances as their acceptance portfolios run off. These measures strike first at the great money centers, where the banks are most liquid and where they are in a position to stand it. The raising of reserve requirements hits both the banks that have excessive reserves and those that have reserve deficiencies. The method of

¹ This is an over simple statement of the principle of keeping above the market as applied to the American situation. See Hepburn and Anderson, *The Chase Economic Bulletin*, "The Gold and Rediscount Policy of the Federal Reserve Banks," Volume I, No. 5; reproduced in the revised edition of Hepburn's *A History of Currency in the United States*.

varying required reserve percentages is therefore most likely to be used in lowering reserves at a time when it is desired to bring about expansion. It would be eminently desirable if reserves against time deposits were forthwith raised—though even that at the present time might bring an outcry from certain parts of the country. Certainly all future increases in time deposits should have to carry a much higher reserve percentage than is at present required. The present writer is of the opinion that the general effect of the effort to vary reserve requirements frequently would be to make bankers constantly apprehensive, as it would give them a new incalculable variable to deal with, making times of uncertainty still more uncertain. It is far better to use familiar methods which bankers know how to reckon with.

THE FALLACY OF CHEAP MONEY AS A SUBSTITUTE FOR ECONOMIC READJUSTMENT

Experience prior to the present great depression had been that low interest rates were among the circumstances which preceded and facilitated the revival of business. Other attendant circumstances, however, were low prices of raw materials, reduced wages and other costs, the clearing up of the weak spots in the credit situation by insolvency or composition, and low commodity prices which attracted increased consumer buying. To these should be added the correction of maladjustments in the *proportions* of our industrial activities and the growing clarification of opinion as to which industries could most profitably expand. In general there was required such a readjustment in the relations among the industries and in the relations of costs and prices as to make it clear that profits could be made by increasing activity.

Certain writers preoccupied with money, credit and prices, ignoring the rest of the economic situation, have incorrectly generalized from this experience not merely that business could be made to revive in a time of depression by artificially easier money, but that active business could be indefinitely continued by the manipulation of interest rates. So far as this rests on the basis of experience rather than on monetary theories, it is obvious that the same reasoning would apply to the price of raw materials or to wages or to any other element in the situation. There have probably been times when a boom could have been prolonged for a time by the artificial holding down of the prices of raw materials—though the upshot would, of course, have been that at a later time the supply of raw materials would have grown acutely short and the reaction from the boom would have been even more violent. To take any one factor in such a situation and seek, by manipulating it artificially, to

make it unnecessary for the other factors in the situation to readjust and to get into proper relation to one another, is a very grave error.

COMMERCIAL LOANS AND BANK LIQUIDITY

Currie's book seems to rest upon a very narrow base of information, both as to the theory of money and banking and as to the general facts of money and banking. Evidence that he has practical banking knowledge is absent. His theoretical sources appear to be almost entirely such writers as Keynes, Hawtrey and Robertson. His statistical evidence is very largely drawn from the highly abnormal period 1922 to 1933. Money, credit and prices, moreover, are treated almost as if they operated in a vacuum. The organic interrelations of money, credit, banking and prices with industry and commerce, considerations of industrial equilibrium, considerations of international financial and trade equilibrium and similar things are almost entirely lacking.

Currie is definitely hostile to commercial paper in banks, regards investments as the ideal form of banking asset and declares that commercial paper is of declining importance (page 117) and even belongs to a "past era" (page 152). He emphasizes the growing importance of security loans and bank investments.

In this connection he says: "It will be obvious * * * that the restriction of bank loans to commercial borrowers would be a highly dangerous policy. The application of the Banking Principle, in other words, most assuredly would not secure business stability" (page 36), and in a footnote he says, "For a defense of the Banking Principle see B. M. Anderson, Jr., *Chase Economic Bulletin*, Volume X, No. 3."

It is certain that the present writer has never advocated the restriction of bank loans to commercial paper. On the contrary, he believes that he is one of the pioneers in pointing out the immense growth of bank investments in bonds and of stock exchange collateral loans as compared with commercial paper. (See *Value of Money*, New York, 1917, Chapter on "Bank Assets and Bank Reserves.") The present writer has been studying this problem, both theoretically and practically, for many years, and he finds Dr. Currie's observations with respect to the matter exceedingly superficial and misleading.

Commercial loans grow with the growth of the business of the country when money rates are not unduly easy and when bank credit is not expanding with undue rapidity. The rapid growth of stock market loans and bank investments in the period from 1896 to 1904, for example, was a phenomenon associated with the enormous increase in gold in the world, and, above all, in the United

States.¹ Even during this period, however, there was a rapid growth of commercial loans also. But the extreme rapidity with which security loans and bank investments grew, between 1922 and 1929, and

¹ Currie gives figures (page 117) to indicate a steady long time downward trend in the percentage of commercial loans to total earning assets of banks. Our best long statistical series here is, of course, our figures for national banks, and the item chosen to represent commercial loans is the so-called "all other loans," as distinguished from secured loans. Currie recognizes, of course, that the "all other loans" contain certain non-commercial loans. Moreover, some of the secured loans are true commercial loans, e.g., loans secured by commodities, loans secured by crop liens, and part of the livestock paper are also self-liquidating loans which really belong in the commercial loan category. (See my *Value of Money*, Chapter XXIV.)

Currie gives the following figures:

*Percentage of "other loans" to total earning assets
of national banks*

1890	61%
1914	47%
1929	36%

This looks like a pronounced and emphatic long-time downward trend. Let the reader, however, look at the following table in more detail:

Loans and Investments of National Banks

Number of Banks	(In millions of dollars)					Ratio of All Other Loans to Total Loans and Investments	
	Total Loans and Investments	Total Loans	Secured Loans (1)	All Other Loans	Total Investments		
1890	3,540	2,256	1,970	566	1,404	286	62.2
1893	3,781	2,204	1,831	575	1,256	373	57.0
1894	3,755	2,411	1,992	675	1,317	419	54.6
1896	3,676	2,328	1,877	627	1,250	451	53.7
1898	3,585	2,750	2,156	799	1,357	594	49.3
1900	3,871	3,463	2,687	1,103	1,584	776	45.7
1903	5,042	4,544	3,481	1,373	2,108	1,063	46.4
1904	5,412	4,867	3,726	1,519	2,207	1,141	45.3
1907	6,544	6,108	4,679	1,702	2,977	1,429	48.7
1908	6,853	6,307	4,751	1,920	2,831	1,556	44.9
1909	6,977	6,776	5,129	2,017	3,112	1,647	45.9
1910	7,173	7,073	5,467	2,032	3,435	1,606	48.6
1911	7,277	7,363	5,611	2,006	3,605	1,752	49.0
1912	7,372	7,808	5,954	2,136	3,818	1,854	48.9
1913	7,473	8,026	6,143	2,168	3,975	1,883	49.5
1914	7,525	8,284	6,430	2,410	4,020	1,854	48.5
1915	7,506	8,635	6,660	2,633	4,027	1,975	46.6
1916	7,579	9,977	7,679	3,074	4,605	2,298	46.2
1917	7,604	11,706	8,958	3,400	5,558	2,748	47.5
1918	7,705	14,036	10,136	3,838	6,298	3,900	44.9
1919	7,785	16,003	11,010	4,770	6,240	4,993	39.0
1920	8,030	17,732	13,611	4,900	8,711	4,121	49.1

Source: Comptroller's Report for 1920, pages 774-777.

(1) Includes loans on demand secured by stocks, bonds, and other personal securities and loans on time secured by stocks and bonds; also loans on time secured by other personal securities, etc., from 1915 on.

This table would show that, while the trend from 1890 to 1900 was strongly downward in the percentage of "other loans" to total earning assets, from 1900 through 1917 there was a clear upward trend. It would also show an upward trend as between 1900 and 1914. For the period 1919 to 1932, I use the series of the reporting member banks, which can be

very especially between 1924 and 1929, was primarily due to the fact that money was so excessively easy and the issue of new securities, especially stocks at high prices, was so excessively easy, that virtually every corporation in the country which had any kind of credit standing put out new securities, paid off or reduced its bank loans, and accumulated cash.

Currie, in common with not a few others who observed the phenomenon while it was going on, thinks of it as due to changed corporate policy. The present writer is quite sure that it was due rather to money market ease. The following figures for the composition of the earning assets of the reporting member banks of the Federal Reserve System illustrate this strikingly:

Loans and Investments of Reporting Member Banks

(In millions of dollars)

	(Monthly averages of weekly figures)	Total Loans and Investments	Total Loans	Loans on Securities	All Other Loans	Investments	Ratio of All Other Loans to Total Loans and Investments
1919	Dec.	16,387	12,412	4,703	7,710	3,975	47.0
1920	Mar.	16,853	13,242	4,454	8,788	3,611	52.1
1921	Mar.	16,066	12,785	3,921	8,864	3,281	55.2
1922	Mar.	14,617	11,034	3,641	7,393	3,583	50.6
1923	Mar.	16,368	11,796	4,116	7,680	4,572	46.9
1924	Mar.	16,443	12,138	4,181	7,956	4,306	48.4
1925	Mar.	18,523	13,320	5,122	8,198	5,204	44.3
1926	Mar.	19,420	14,172	5,652	8,521	5,248	43.9
1927	Mar.	19,989	14,536	5,867	8,670	5,453	43.4
1928	Mar.	21,502	15,370	6,586	8,784	6,133	40.9
1929	Mar.	22,472	16,491	7,580	8,911	5,981	39.7
1930	Mar.	22,352	16,746	7,964	8,781	5,607	39.3
1931	Mar.	22,839	15,452	7,302	8,150	7,387	35.7
1932	Mar.	19,434	12,375	5,388	6,987	7,059	36.0

Source: Statistical Abstract of the United States.

obtained weekly, whereas the national bank figures are available only three to five times a year. This table appears in the text above. On the basis of this table, I have discussed the trend since 1920.

Since 1924 the development has been definitely pathological. Moreover, from 1924 to 1928, the "all other loans" of the reporting member banks contain a rapidly growing proportion of real estate loans and instalment finance paper, so that the decline in the percentage of commercial paper was more marked even than the figures themselves would indicate.

Currie gives also, on page 117, figures starting with 1926 to show the decline of commercial paper eligible at the Federal Reserve Banks, for the member banks of the Federal Reserve System.

It so happens that the present writer, in early 1927, in the *Chase Economic Bulletin*, took occasion to comment on the dangerously low percentage of such paper in the assets of member banks, and gave figures showing how rapidly this percentage had dropped in the three preceding years. (*Chase Economic Bulletin*, April 8, 1927, pages 17-20.) Currie takes as his base figure, in other words, a year when the pathology was already far advanced. It is impossible to draw standards for banking practice from the figures after 1924.

The period from March, 1922, to March, 1923, was characterized, on the whole, by a great expansion of bank credit, due to the fact that the Federal Reserve Banks had bought Government securities and acceptances easing the money market, a policy which they began to reverse in January of 1923. During this period, security loans and bank investments grew rapidly in relation to commercial loans. March, 1923, to March, 1924, was a period when the Federal Reserve Banks were holding back and bank expansion was not taking place. Commercial loans grew during this period at virtually the same rate as the year before. Security loans increased hardly at all and bank investments actually declined.

The following year, March, 1924, to March, 1925, was characterized by an immense expansion of bank credit based on Federal Reserve purchases of Government securities and inflowing gold, and in this year there began the great increase in the proportion of bank investments and security loans to commercial loans. For the rest of the period, down to 1929, this tendency went on, accelerated sharply by the great expansion of credit in 1927.

No radical change in corporate policy took place in this short period. The significant variable was the money market itself.

Currie is not at all concerned about the quality of bank credit and, indeed, makes a sharp issue between his theory, which calls for policy directed toward the control of the *quantity* of demand deposits, and the antagonistic policy of protection of the *quality* of bank loans and investments. I stand emphatically for the other point of view. I am concerned about the quality of money and credit. I trust a situation in which no new credit or debt is created without due consideration of the sources from which repayment can come, in which adequate margins exist to provide against risks and in which the general situation is adequately liquid. In this connection I concern myself very especially with considerations of the underlying industrial and trade equilibrium as well as with the technical position of particular borrowers.

I would emphasize, and did emphasize in my 1917 study, that modern corporate organization and the development of the great stock market have made bank loans against securities safe and desirable when held within proper limits and when properly handled. But such a radical change as that which took place between 1923 and 1929 in the proportions of commercial loans, security loans and investments was a source of great disquiet to me, as the situation developed, and was a circumstance which led me to give repeated warnings.

One of the finest developments in American banking in the last two or three decades has been the improvement in credit technique in connection with commercial loans. The bank credit men of the

United States have done, outside of academic walls, an altogether superior piece of scientific work in studying the conditions under which commercial loans may properly be extended and in developing a tradition and a code with respect to this matter—as well as a very fine system of interchange of information. Further, when business men get an important part of their working funds from the banks, they come and sit with the banker once a year or more, to discuss their plans, and especially to consider how much money they may wisely use. Industrial policy is very much improved by these conferences. When, however, the business community, as was true from 1923 to late 1929, can go instead to the securities market and freely obtain money it may or may not need, adequate for its guessed-at needs for the next several years, a very different situation is created. The careful and exact and fine calculation disappears. The amount borrowed, or the amount secured by stock issues, becomes a matter of the accidents of the money market rather than a matter of the actual industrial outlook. The volume of credit is much less closely apportioned to the general needs of the commercial and industrial situation, and has nothing like so fine an adjustment in quality and in detail to the actual processes of industry and trade. The commercial loan should be encouraged and not discouraged.

To substitute for the fine scientific job which the bank credit men of the country have done, which can deal in detail with the credit needs of the country, the vague speculations of the “modern monetary theorists” like Messrs. Keynes and Currie, concerned with the total amount of money and credit which the whole country needs from the standpoint of regulating incomes and prices and the “relation of savings to investment,” does not seem to be scientific progress or reform.

The old view that only short-term commercial loans are self-liquidating the present writer himself has objected to, and he has emphasized the liquidity—not merely the “*shiftability*” but the actual liquidity—of loans to the stock market. Brokers' loans, for example, at the beginning of 1920, stood in New York at 1,750 millions, and were reduced to under 700 millions by the end of 1920 at a time when commercial loans were being rapidly increased as the banks took care of the borrowing needs of their commercial customers in the crisis. And even the vast and unwholesome total of 8½ billions of brokers' loans in the stock market in late 1929 was actually reduced by liquidation to under 300 millions by the summer of 1932 (offset in minor part by a shift to bank customers' loans against securities). But the principle of liquidity the writer would insist upon, and the same reasons which led Adam Smith to reject the real estate loan as a proper banking asset persists in the mind of the present writer as good and valid grounds for rejecting real

estate loans. The present writer has emphasized that not all of the so-called commercial loans are truly liquid. An important part of them are. Loans to local customers often are not. The bank must take care of them. The British bankers make a sharp distinction between their advances to commercial and manufacturing customers and their commercial bills, the latter being highly liquid. American bankers have long made sharp distinctions among their customers from the standpoint of liquidity, certain of them being highly liquid, certain loans being definitely seasonal, and also between their holdings of customers' paper on the one hand and of outside commercial paper and acceptances on the other hand.

Currie (page 38) holds that neither security loans nor commercial loans are liquid *en masse*. This is not true. At the very worst of an extreme strangling crisis it tends to be true, but, in general, it is not true. You can't liquidate all loans at one time, but you can, barring an extreme panic, liquidate enough to correct an unsatisfactory situation. If, however, you neglect the *quality* of your credit through a period of years, and, by *overdoing quantity*, bring about a general qualitative deterioration, as we did from 1922 to 1929, the problems of liquidation become extremely difficult. The desirable thing is to hold a firm grip on the situation at all times and to watch both quality and quantity at all times.

CRITICISM OF CURRIE'S VERSION OF QUANTITY THEORY

Where Irving Fisher builds his quantity theory on the notion of quantity of money going through all kinds of payments, using a "velocity" concept that tries to take account of all of the turnovers of money, Currie uses a different velocity concept, namely what he calls "income-velocity." This is obtained by dividing the figures for the total income of the country in any one year by the average quantity of money for that year, money being the actual hand to hand circulation outside of banks, plus "adjusted demand deposits." He thinks of the money and income velocity in combination as the factors governing the volume of income, and volume of income apparently is what governs the price level.

No doubt a man can make the arithmetical calculation required to estimate an income velocity. But that a causal theory can be erected upon this simple mathematical operation is an extraordinary notion. Why could it not be equally said that the national income and the money together govern the income velocity, or why could it not be equally said that the income velocity and the incomes together govern the quantity of money? Why should anybody suppose that all of the money and credit actually goes through *incomes*

in the course of a year? Why may not large parts of it be limited entirely to capital transactions and other business transactions? If so, ought not the figure for money that goes into the computation be reduced (how much one does not know) with a resulting increase (by how much one does not know) in the velocity figure?

And why should one be sure that income always governs prices? It appears equally obvious that prices govern income! And the truth about the matter, in the present writer's opinion, is that no single, simple formula can possibly be correct. There is a complicated interplay of forces, and a sound theory of prices must be integrated with the whole body of economic theory.¹

CURRIE'S QUANTITY THEORY CONDEMNED BY KEYNES

Mr. Keynes (to whose views Dr. Currie in general adheres) himself repudiates vigorously the quantity theory concept that Dr. Currie employs. Mr. Keynes not only separates income velocity from the "velocity of business deposits," but he also separates "income deposits" and "business deposits." Of the concept employed by Dr. Currie he says: "But the relationship between the total annual receipts of income-receivers and the average stock of money held for all purposes is a hybrid conception having no particular significance."² I concur fully with Mr. Keynes in this one point.

NAÏVE APPLICATION OF SIMPLE MATHEMATICAL FORMULA TO COMPLEX ECONOMIC LIFE

To the economist accustomed to the study of the general factors governing incomes and volume of production, to the economist accustomed to the general theory of value (of which the theory of the value of money ought to be a special case) and to any man who has studied economic problems enough to be impressed with their intricacy and complexity, this simple piece of mathematical computation, offered as the basis for the determination of public policy with respect to money, credit and banking in a great complex modern economy, appears incredibly naïve.

¹ I have tried to do this in my *Value of Money*.

² Keynes' *Treatise on Money*, Volume II, page 24. In general, it must be said that the concepts of Mr. Keynes' *Treatise on Money* deal with unknown and unknowable quantities on so extensive a scale that it would be almost impossible to base policy on them. Mr. Keynes is sometimes realistic enough to recognize this when he goes to make estimates. Thus, with respect to one important variable in his scheme, he says that it is probably more than 5 per cent and less than 12 per cent but he places it provisionally at 8 per cent—a range of uncertainty of 140 per cent, with no certainty as far as the present writer can see that even the upper and lower limits have validity. (*Treatise on Money*, Volume I, page 46, Volume II, pages 25-30.)

*Business Revival
and Government Policy*

12

WINTHROP W. ALDRICH

Chairman Board of Directors

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK

*Business Revival
and Government Policy*

An Address by

WINTHROP W. ALDRICH
Chairman Board of Directors

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK

before

THE CHAMBER OF COMMERCE
OF
HOUSTON, TEXAS

on December 11, 1935

X.73.N34

G5

Business Revival and Government Policy

MR. CHAIRMAN, LADIES AND GENTLEMEN:

It was almost exactly a year ago today that I last had the pleasure of visiting Houston. At that time I had the opportunity of presenting informally to a number of gentlemen who are here tonight my impressions of general business conditions, and also the opinions which I had come to hold with regard to certain great problems which were then facing the country. Looking back upon what I then said I do not feel that I need apologize for my analysis of business conditions. But, if any of you who remember what I said with regard to what I considered to be sound governmental policy had assumed that I was attempting to prognosticate the course of events in Washington during the past year, you would be justified in feeling that I was not a good prophet.

THE CAUSES OF CURRENT BUSINESS IMPROVEMENT

A year ago today the acute pessimism which had existed during the summer of 1934 had just begun to be dissipated by an upturn in the trend of business. This upward trend carried through with some vigor into February of 1935. Then there was a moderate reaction which lasted from February through May of 1935, but last June the upward swing commenced again, and since early July business has moved steadily forward with increasing impetus, giving by all odds the most impressive display of economic strength which has been seen in this country since the great depression began. This improvement has recently caused many people to wonder whether we have not at last

reached the point where the end of our difficulties is in sight. Unfortunately the current upward trend in the indices of business does not necessarily mean that we have been able to correct the adverse fundamental conditions which created the depression from which we are suffering. Until these conditions have been corrected we cannot be certain that the symptoms of recovery which we are now enjoying will continue to the re-establishment of normal business.

The Banking Problem Solved

It is true that one major problem has been solved. The weak points in our banking system have been cleared up; unsound banks have been eliminated; public confidence in the banks has been restored; and the Banking Act of 1935, as rewritten in the United States Senate under the leadership of Senator Carter Glass, constitutes a definite improvement in our banking laws.

Outside of the solution of the banking problem, however, the adverse fundamental conditions have either not been dealt with at all or have been temporarily concealed. I shall later go into more detail with regard to certain of these adverse fundamentals, but before doing so I wish to say a few words with regard to the reasons why, in my opinion, business has recently been improving and continues to improve in spite of the fact that so little has been accomplished in correcting the underlying difficulties.

Political Fears Abated

The first important factor in the current business revival is the lessening of fear. From the late summer of 1933 to the summer of 1935 business was depressed far below the point which was justified by the existing economic facts. This situation, I feel certain, was created to a large extent by fear. This fear emanated from the plans and policies of the so-called "New Deal". It was fear which existed not only in the minds of business men and financiers, but was widespread throughout the population, that the very nature of our Government was about to be changed. It was fear that we were to have imposed upon

us a system in which edicts from Washington promulgated on the initiative of the Executive and representing the personal will of the President, would replace the system of laws of general and definite application to which we had become accustomed. It was feared that governmental fiat would replace the decisions of business men and farmers with respect to their productive and marketing activities; that governmental boards would replace free competition in the markets in determining prices at which goods should be sold; that new enterprises could be started, if at all, only by governmental permission; and that banking and finance generally would be subjected to political control. There was also fear that the liberties guaranteed to the people under the Constitution of the United States and the powers reserved under the Constitution by the States would be gravely impaired. All of these fears were widespread. The political tendencies which created these fears seemed overwhelmingly strong, and there was a feeling almost of hopelessness with regard to the possibility of successfully combating them. Today these fears have been greatly abated.

In the first place, we know that the Supreme Court of the United States, interpreting the Constitution of the United States, commands the overwhelming respect and support of the American people. Few things have given more courage to American business and finance than the decision of the Supreme Court regarding the N.R.A. and the magnificent rallying of American public opinion to the defense of the Court when its decision was challenged.

In the second place, we now know that the Congress will no longer accept uncritically all measures which have or are supposed to have the sanction of the Executive, but that, on the contrary, if given the time to do so, it will study these measures, listen to informed criticism of them, and will modify them.

The Banking Bill of 1935, as finally passed by the Congress, represents, as I have already said, a definite improvement in the existing law, and is an entirely different bill from that originally presented by Mr. Eccles.

The Public Utilities Bill, bad as it is, is a much improved measure as compared with the first draft prepared by Messrs. Cohen and Corcoran. The House Committee conducted hearings at which informed criticism of the measure was presented and struck out some of its worst provisions. I venture to express the doubt whether the Bill ever would have become law if the time had been sufficient for the actual effect of the bill as passed to be fully understood by all of the members of Congress.

The hastily improvised Tax Bill of 1935 has raised rates in the higher brackets to levels that must very greatly discourage enterprise and the accumulation of capital for productive purposes, and must drive a great deal of capital into tax-exempt securities, which means into non-productive uses. Moreover, it could not in any way be regarded as meeting the fiscal necessities of the Government for taxes. But the Tax Bill also in the form in which it was first presented was a much worse measure than the bill finally passed.

The courts have spoken and have been supported by an overwhelming popular opinion in their defense of the Constitution, and the Congress has begun to reassert itself.

It is possible to fight, therefore, with growing hope against the tendencies which have threatened the American system of States' rights and free enterprise, against the forces that have attempted to substitute a government by unpredictable and uncertain *executive decree* for a *government of laws* of general and definite application. The battle is not won, but we know now that many of the things we feared from the summer of 1933 to the summer of 1935 will not happen.

The Disappearance of the N.R.A.

The second important factor in the current business revival I believe to be the disappearance of the N.R.A. This has freed business and markets from all sorts of restrictions, and has ended the necessity for every business man constantly to consider what changes in N.R.A. policy he might have to adapt himself to. Certain it is that what-

ever the causation involved, the coming into operation of the N.R.A. coincided in time with the sharp downturn in business in 1933, and the disappearance of the N.R.A. in 1935 preceded a sharp improvement in business.

For a short time after the Supreme Court decision holding the National Industrial Recovery Act unconstitutional, certain business men were apprehensive that without the codes, fixing prices, they might encounter difficulties. But there should be no price fixing. What we need is flexible prices reached in the open market to tell us the truth about the conditions of supply and demand, and in the general field of manufacturing and commerce there should be no restriction of output by agreements among producers, with or without government sanction. The best general policy for industry and commerce, as well as for the consuming public, is competition, with free markets and flexible prices.

Replacement Demand

A third important factor in the current business revival is the tremendous replacement demand. This demand exists not only among consumers, as in the case of worn-out or obsolete automobiles, radios and other things used by the public, but also among producers. During the past six years unprecedented arrearages in maintenance of industrial plants and equipment have developed, and, with reviving business and new demand for products, an urgent necessity for the replacement of used up, worn-out or obsolescent equipment has arisen, all of which means an increased demand for the products of the heavier industries.

These three great causes of the current business improvement are all sound, wholesome and encouraging, and unless checked by adverse political developments at home or abroad, justify confidence that the coming months will see continued strength and probable further improvement. But I would not present to you a complete picture of the situation if I did not refer in more detail to the adverse factors of the present situation.

AGRICULTURAL EXPORT PROBLEM UNSOLVED

When I talked to you last year I gave special attention to the problem of cotton. The great problem of the export trade for American cotton and other commodities, which we produce in amounts greater than the domestic market can possibly absorb even in good times, has not been solved. As I listened a year ago to what many of you here present had to say about the American cotton trade, I think I got a clearer picture of the situation than I ever had before. The fears which Houston men expressed to me at that time of loss of the foreign market for cotton, declining exports, dwindling activities in the Port of Houston, diminishing activities in the cotton trade, lessening railroad traffic in cotton, with the prospective accumulation in the hands of the Government of many millions of bales of cotton which should have been exported, all had melancholy verification in the course of the cotton year which ended August 1 last. You gentlemen know that the fundamental solution of the problem depends almost entirely on the restoration of a large foreign trade in which imports pay for exports. It is easy to see here in Houston that an artificial price for cotton maintained above world levels by Government loans to cotton growers at arbitrary loan values is not an acceptable substitute for strong foreign demand.

The modification of the Government's cotton loan policy in the current crop year has meant improvement in volume, but not to the levels of the same months in 1933, to say nothing of earlier years. The following figures for Houston itself are significant:

*Receipts of Cotton at Houston
For the Four Months' Period Ending with November*

1930.....	2,182,510 bales
1931.....	2,094,680
1932.....	1,677,400
1933.....	1,623,273
1934.....	819,923
1935.....	1,080,159

You gentlemen know that the program of restricting agricultural production and retiring land from cultivation simply adds to unemployment. But I do not propose to talk at length tonight about cotton and agriculture, especially as there are among you men who know far more than I about this problem. It is sufficient to point out that the great fundamental agricultural problem has merely been deferred through the outpouring of a vast sum of public money. It has not been solved.

And other great problems have not been solved. First and foremost among these is that of balancing the Federal budget.

BALANCING THE BUDGET

When we live beyond our financial means, spending more than our incomes, we have unbalanced budgets. And when we persist in a course of this sort, year after year, we ruin ourselves. This simple truth holds of the individual, of the village, of the large city, of the State and of the Federal Government. The man living on a moderate salary and with no investments can't go very far on this course. To spend more than his salary means that he must go into debt, and to go into debt means that he must find people willing to give him credit, and when he gets a substantial accumulation of unpaid bills, with creditors pressing for collection and the word going around that he isn't paying his bills, he has to stop.

The man reputed to have a substantial invested fortune can go further, but he too easily reaches a time when creditors are reluctant and uneasy. An extravagant village government will speedily be pulled up. The credit of the village is limited, and, if the village is to continue in extravagance, it must increase its taxes. In villages and agricultural communities, the real estate tax, which is ordinarily the main reliance of local government, strikes a large proportion of the people, and rising rates of taxes on real estate lead to taxpayer resistance at a fairly early stage.

In great cities, filled with apartment houses, the direct burden of real estate taxes does not fall so obviously on the

masses of the people, although, of course, an increased burden of real estate taxes does show itself, in time, in the rents that the people pay. But the municipality and even the State, pushing extravagant expenditure too far, quickly meet with resistance both from taxpayers and from creditors. Real estate taxes have to be supplemented by other taxes, as we are seeing today, notably sales taxes, which the mass of the citizens very definitely recognizes.

The Federal Government, by virtue of its greater prestige, can go more rapidly into extravagant expenditure and can persist longer without being checked by taxpayer resistance or by creditor resistance. When the Federal Government spends more than it takes in as revenue, it must do it with borrowed money. Its borrowing capacity is limited by its taxing capacity. There is no magic in Federal Government credit. It rests on the same principles that any other credit rests on. Its credit rests on its taxing power, and its taxing power rests on the productive power of the taxpayers.

Public Spending and National Income

In this connection, we must consider, of course, the demands made on taxpayers by all grades of government. For the year 1934, the National Industrial Conference Board estimates the income of the people of the United States as \$47,600,000,000. For the same year, they estimate the total expenditures of all governments, Federal, State and municipal, as \$15,500,000,000—approximately one-third of the income of the people. For the same year, their estimate for total tax collections of all grades of government is \$9,500,000,000, approximately one dollar out of every five dollars of all incomes, large and small together. But heavy as this tax burden is, it falls far short of what is spent—the 9½ billions of taxes stand 6 billions less than the 15½ billions of public spending. And every year that these deficits continue adds a great sum to the tax burdens of the next twenty-five years, at least, for interest and amortization charges on the added public debt.

Moral Elements in Government Credit

The government of a great country like ours, with a long record of upright dealing with creditors, does not easily destroy its credit. Even when policies are very unsound, the hope and the belief remain that they will be reversed. But, for governments which wish to borrow, as for individuals who wish to borrow, the same general rules hold. The credit rests both on material and on moral elements. An individual with a substantial fortune who is spending money recklessly and borrowing heedlessly for consumption purposes finds creditors reluctant long before he has passed the material margin of safety. And the greatest government itself cannot escape this same law of credit. The disposition, the attitude, the intention of the Government are quite as important elements in the credit problem as are the material resources on which the Government can draw through its taxing power.

The Abuse of Paper Money

The Federal Government has a resource which States and municipalities lack, in its power—for a time—to manipulate interest rates through artificial money market policy. And a thoroughly profligate Federal Government would have one other resource which the individual and the municipalities and the States do not have, namely, it could print legal tender irredeemable paper money which it could force its creditors to accept and which it could use in current expenditures. But the limits on this likewise exist, and exist in the inexorable laws of credit. Paper money is, after all, a credit instrument. It is an expressed or implied promise of the Government to pay real money, namely, gold of a fixed weight and fineness. If the promise is not kept, this credit instrument goes to a discount. If these dishonored credit instruments are multiplied in great numbers, the discount becomes enormous. The Government is faced with an immense increase in the prices of the things it must buy, and a constant clamor for increasing pay from Government employees. If the process is kept up long enough, complete collapse comes. The paper money becomes worthless. The Government is financially helpless.

Popular Resistance to Unsound Government Finance

Long before a situation of this sort arises, a free people will ordinarily manifest such great resistance that the process is reversed. The United States Government, during the Civil War, started, in early 1862, to pay the expenses of the War through issuing Greenbacks, instead of taxing the people and instead of issuing funding loans, the Government being afraid of taxpayer resistance and afraid that it could not borrow. But, with the evidence of danger to the credit of the Government, and the evident depreciation of the currency and the rising cost of living, there came from the people themselves a strong demand for a vigorous taxing policy and for funding loans, which heartened and encouraged the Treasury and led to the use of these sounder methods of paying for the Civil War.

In France, in 1926, after the franc had dropped in less than a year from five cents to two cents a franc, and when the cost of living was mounting with extraordinary rapidity, the people of Paris swarmed about the Palais Bourbon, demanding of the Deputies that they give their support to the conservative old lawyer, Poincaré, who, backed by the people of France, was able to bring about a radical reduction of public expenditure, a radical increase in taxation, the balancing of the budget, and, ultimately, the stabilization of the franc at just under four cents. In a free country, resistance to governmental extravagance will come, sooner or later. Let us hope that, in this country of ours, it will come vigorously, adequately and soon.

"Priming the Pump"

One argument which has been offered in justification of vast Federal expenditures of borrowed money is the theory of "priming the pump." It is perhaps unfortunate that the figure of speech, "priming the pump," has been used in this connection. In the horse and buggy days our people would have understood it better, because there would have been enough of those among us who had wrestled with a refractory pump to know what it meant. Nowadays, so many of us get our water merely by turning on a faucet that we don't exactly know what priming a pump means.

But priming a pump meant pouring down a few pints or a few quarts into the top of a pump in the morning in the expectation of getting back a strong flow of water measured by many, many gallons for the rest of the day. If it were a good pump, we primed it only once in many months. Put into terms of dollars, pump priming would never have meant Government expenditure of $3\frac{1}{2}$ or 4 billion dollars a year of borrowed money.

There can be little doubt, I think, that the net effect of continued Government spending upon private enterprise and private investment, and on the volume of business and the volume of employment, is definitely adverse.

This comes from two main considerations. In the first place, it generates fears regarding the future of the Government credit and the future value of our money itself, which makes men unwilling to risk their funds in long-time investments payable in dollars or to make long-time contracts of any sort in which dollars constitute the standard of future payments. In the second place, when the Government expenditure takes the form of Government business ventures, competitive with private enterprise, it puts a great fear into the management of the private enterprises with which the Government competes, and leads them to withhold from the market several dollars for every dollar that the Government puts in.

Work Relief and Morale

So much for the justification of vast Federal expenditures for public works on the theory of "priming the pump." The argument has also been advanced in justification of these great expenditures that they are necessary in order to give work to the unemployed rather than direct relief, and that these expenditures are justified by the increased morale of the unemployed.

Men, women, and children must not starve in this country of ours, and the government bodies, municipal, State and Federal, must spend what is necessary to give necessary relief to the unemployed. But this can be done

with a vastly smaller expenditure than the so-called work relief programme involves.

I am not unsympathetic to the view of the Government that work relief is better for morale than direct relief. I have had occasion, for many years, to talk with social service workers, both as one active in the management of the State Charities Aid Association of the State of New York, and, for many years, as the Treasurer of the Welfare Council of New York City and I realize that a great problem of morale is involved in the giving of relief. But I have also had the responsibility as a banker of studying the comparative costs of work relief and direct home relief, and the problem of where the money is to come from.

I know that the financial burden of adequate direct relief is one which the municipalities, States and Federal Government, in combination, can stand without bankruptcy, and know, on the other hand, that the additional cost of vast public works and work relief programmes is so great that, if long continued, it must jeopardize public credit. And, when you put public credit into jeopardy, you undermine the foundation on which private business must build and you increase unemployment instead of decreasing it. After all, the only permanent solution of the problem of the unemployed is their reabsorption into private industry.

THE PRESIDENT'S STATEMENT REGARDING BANKERS AND THE FEDERAL GOVERNMENT'S DEBT

The statement recently made by the President of the United States that great bankers had told him in the spring of 1933 that the public debt of the United States Government could rise to a maximum of from \$55,000,000,000 to \$70,000,000,000, without serious danger to the national credit, created, I believe, universal surprise and bewilderment among bankers. I do not myself know of any banker who has expressed the opinion that the debt of the United States Government could safely rise to \$55,000,000,000, to say nothing of \$70,000,000,000.

My own opinion in early 1933 as to how much debt our Government could safely incur was stated in testimony before the Senate Finance Committee on February 22 of that year, when I said in answer to a question by Senator Shortridge:

"Apropos of that, Mr. Chairman, here is my answer to the question which Senator Couzens was raising as to how far the Government can go in borrowing. It can go a good deal farther if it cuts expenditures and increases revenues than it can if it does not. To say more than that is difficult. The market will tell you by its own behavior as you proceed. If you overdo it you will have to pay higher rates of interest and you will find the markets increasingly reluctant to take new issues even at higher rates of interest.

"Government borrowing is necessary for emergency credit relief, and for loans to the States, to give direct unemployment relief. I recognize and would emphasize the responsibility of the whole country for the suffering millions who, through no fault of their own, are victims of this great depression.

"But we must not overstrain the finances of the Government and we must not jeopardize the credit of the Government by proposals of a great Government borrowing program for new public works on the theory that this will start a business revival. The Government's credit cannot stand a great deal of that in addition to its necessary borrowing."

The question of how much debt the United States Government could safely incur is not one which any banker should venture to answer with definite figures. As I have already indicated, the answer would depend both on moral and on material considerations. A government which has repudiated its obligations cannot safely incur debt to the same extent as a government which has always faithfully met its obligations. A government which is willing and able to tax the great body of the people will have far better credit than a government which tries to delude itself and its people into the belief that only the wealthy need to pay taxes, despite the fact that the estimates of its own treasury

reveal that confiscatory taxes on large inheritances and large incomes will bring in relatively little additional revenue. A government which is using borrowed money for vitally necessary purposes, prudently and carefully, and which clearly intends to borrow only what it absolutely must have, can safely borrow more than a government which is spending borrowed money recklessly.

CURRENCY DEBASEMENT AND PRICES

In addition to our failure to solve the problem of balancing the Federal budget, we have created new and even greater problems by the currency policies adopted in the past three years.

We have done violent things to our currency and still more violent things to our currency laws. We have debased our dollar by 41 per cent, breaking our solemn covenant with the people. We have repudiated the gold clause in our Government bonds. The notion that we should forthwith get a proportionate, or a 69 per cent, rise in commodity prices from doing this has proved sadly disappointing. The reason is that, as we did it, we shook men's faith in the promises of governments and banks of issue everywhere in the world. As men throughout the world could no longer trust the promises of governments they turned to the one thing they could trust, namely, gold, and the value of gold rose throughout the world. A given weight of gold will buy 27 per cent more goods today in the United States than it would before we abandoned the gold standard.

Prices have risen 33 per cent in the 33 month period since January and February of 1933, our last gold standard months. But this has been due only in minor part to the actual debasement of the dollar. A very substantial part of it was due to the recoil from the unprecedented depression and the restoration of confidence with the reopening of the banks. This would have come anyhow, had we stayed on the gold standard. Commodity prices rose 14 per cent from the lows of the much less severe depression of 1921 in the 14 months following, and commodity prices rose in the United States 23 per cent in the rally which followed the restoration of the gold standard on January 1,

1879 in the course of 15 months. When we take into account, further, the immense activities of our Government in the artificial raising of prices through the scarcities created by A.A.A., including the taking over by the Government of six million bales of cotton, the scarcities created by drought and flood and the forced raising of prices under N.R.A., I think it is clear that at most a very minor part of the rise in commodity prices can be attributed to the debasement of the dollar.

But the debasement is there, and in the longer future it creates grave problems as to what our commodity prices will do. Surely we know now, however, that this is no quick and easy road out of financial difficulties. But we have done more. We have authorized, in the Thomas Amendment, the direct purchase of three billions of Government securities by the Federal Reserve Banks from the Treasury—a provision fortunately repealed by the Banking Act of 1935—and, as an alternative to that, or as an independent measure, the issue of three billion dollars worth of Greenbacks, the direct printing of paper money, a provision which remains in the law, and which should be repealed as speedily as possible. Fortunately, this has not been used, and, fortunately, there seems no disposition on the part of the Government to make use of it. But the existence of the power remains as a menace.

The Silver Policy

We have introduced the fantastic notion that silver has a proper place in our currency beyond that of convenient small change. We have purchased silver in large amounts, raising the price of silver throughout the world, demoralizing the currencies of the silver using countries, particularly China, and forcing widespread bankruptcies in that unfortunate country, pretending, as we did it, that it was to help the trade of the Orient! We have accumulated great stocks of useless silver to decorate the vaults of our Treasury, silver which can never be useful as a reserve, because if we

tried to employ it to protect our currency we should forthwith break the price of silver drastically. The silver certificates issued against this newly purchased silver have added to the already terribly swollen excess reserves of our member banks something over 350 million dollars.

These are strong medicines. If abuse of the currency could have solved our economic problems, surely they would already be solved. The inflationists have had their day. The extremists among them were proposing these measures as alternative measures early in 1933, apparently with the conviction that any one of them alone would solve all our economic problems. They have succeeded in getting all of them, and they have solved no problems. They have left us, however, with many grave and embarrassing new ones.

THE EXCESS RESERVES

There is one of these problems which I shall discuss in conclusion, namely, the problem of the excess reserves of the member banks of the Federal Reserve System. In our experience prior to 1930, an excess of reserves over legal requirements of one to two hundred millions in the hands of the member banks of the Federal Reserve System meant very low interest rates and rapid expansion of bank credit. Reserves increased 305 million dollars between February 13, 1924 and December 31, 1924. During the same period loans and investments of commercial banks in the country expanded by over 4 billion 600 million dollars, and deposits of commercial banks expanded by over 5 billion dollars. The increase in reserves of 600 million dollars between the middle of 1922 and April of 1928 was accompanied by an expansion of commercial bank credit of 13½ billion dollars of deposits and 14½ billion dollars of loans and investments.¹

Bank credit does not always expand with excess reserves. Reserves alone will not do it. It is necessary

¹ These figures are estimated on the basis of the figures of weekly reporting member banks of the Federal Reserve System.

also that there should be confidence in the business outlook. But, given confidence and surplus reserves, bank credit can expand with great rapidity and in a multiple ratio on the basis of excess reserves. And even when business men are conservative in their borrowings, speculators will be eager to use the money if they are confident and if money is cheap and plentiful.

I said a few moments ago that our silver policy has added over 350 million dollars to our excess reserves. In a normal money market that would have had a very great effect. In our existing wholly extraordinary money market situation, it is responsible for not much more than a tenth of the existing surplus reserves, and its effect has been almost nil. The first few hundred millions of excess reserves made a water-logged money market and beat money rates to the ground, giving every opportunity for a dangerous expansion if only general confidence had existed. The last billion and a half of the three billions of excess reserves has had no measurable effect. But there it is, spread out, explosive material awaiting the match. It invites a far wilder speculative abuse of credit than that which culminated in 1929. The individual banks, no matter how prudent, cannot control it. The Stock Exchange, through its President, has served notice that it cannot control it, and the Chairman of the Securities and Exchange Commission, the regulator of the Stock Exchange, has apparently recognized that he cannot control it nor can his Commission. If it takes the form of real estate speculation, the institutions lending on real estate mortgages cannot protect themselves against the general collapse of real estate values which would follow a violent speculation in real estate.

Control Lies with the Federal Reserve Authorities

The control of it lies with the Federal Reserve System. If the Federal Reserve Banks should sell their government securities now, amounting to \$2,430,000,000, they could reduce the excess from \$3,000,000,000 to \$570,000,000. But the Federal Reserve System has a

further resource. Under the Banking Act of 1935, it has the power to raise reserve requirements until they are double the existing reserve requirements. If it used this power to the limit, it could take up approximately \$2,700,000,000 of the excess reserves, since existing reserve requirements are about \$2,700,000,000. The combination of these two measures clearly gives us much more than adequate control, even if we should, in the ensuing months, gain a great deal more gold from Europe.

(Parenthetically, let me say here that the best and surest check on the flow of gold from Europe to the United States is for Great Britain to stabilize the pound definitely at a fixed rate to gold, to accept gold definitely at that rate for pounds sterling, and to give an unqualified promise that the gold will be paid back on demand at the same fixed rate. Then gold will go to London rather than come to the United States. Gold goes to those countries where it can be exchanged for paper money at a fixed rate, and from which it can be withdrawn upon surrender of paper money at approximately the same fixed rate. Gold goes away from countries where there is uncertainty about these matters. If there is general uncertainty, gold goes away from the countries where the uncertainty is greatest to the countries where the uncertainties are least. If the main money markets of the world can all give practical certainty with regard to these matters, then gold goes to those money markets where money rates are highest and where gold is most needed for commercial and business uses.)

Reserve Requirements Should Be Raised

I believe that measures should immediately be taken to reduce these excess reserves, and I believe that the first measure that should be taken is to raise reserve requirements very substantially. It seems to me that this should be done in any case, because it is clear to me that the reserve requirements were put far

too low in 1917. Both the over-expansion of credit in 1922-28 and the over-rapid liquidation of credit between the middle of 1931 and early 1932 were greatly intensified by the unduly low reserve requirements. The higher reserve requirements which we had in days before the Federal Reserve System came in gave us much greater safety both on the upswing and on the downswing.

I do not believe that it is desirable that reserve requirements should be frequently changed. I believe in fixed reserve requirements and dependable reserve requirements. I would raise them adequately now, while the excess reserves are very great, and then I would let them alone.

I would like to see this measure used first in any case, because I am very doubtful that it will be used at all if we wait until a time when speculative excitement is great and when a good many individual banks have allowed their individual excess reserves to disappear, even though the general system still has large excess reserves. The method of raising reserve requirements puts pressure on all banks. The measure of selling Government securities puts pressure primarily upon the liquid central money markets.

In the course of recent discussion, timid fears have been expressed that raising the existing reserve requirements would put certain pressure on some individual banks which might lead them to sell some Government securities or which would have, in other ways, an adverse effect on financial sentiment. But there is no argument which could possibly apply at the present time which would not apply with redoubled force to action at a later time. If we can ever use the method of increasing reserve requirements, we can do it now.

Chairman Eccles' View

Chairman Eccles of the Board of Governors of the Federal Reserve System, in a statement on November

22, which appeared in *The New York Times* of November 23, is quoted as follows:

"As for the general business and credit situation and the volume of member bank reserves, it is clear that there is no excessive expansion in any field at this time. There is no evidence of accumulation of inventories or of frantic bidding for a limited amount of goods, or of an expansion of bank credit, save through the purchase of government securities. The turnover of deposits is still relatively low."

I agree that the general volume of business is not over-extended. It is abnormally low. I agree that there is no evidence of excessive inventories or frantic bidding for goods, and that the expansion of bank credit, apart from the purchase of Government securities, is not in evidence. But I cannot concur in Mr. Eccles' view that there is no excessive expansion in member bank reserves. I am not here arguing about that part of the excess of member bank reserves which was created as a matter of Federal Reserve policy. The Federal Reserve System ceased to buy Government securities when excess reserves reached something under \$800,000,000, late in 1933. The rest of the increase, amounting to well over two billion dollars, has come without intention on the part of the Federal Reserve System primarily through the great inflow of gold to the United States since early 1934. The operations that I am proposing relate to this *excess over the planned excess*. I would like to see them get rid of this in the present relatively quiet time.

Whether one takes my old-fashioned view that the purpose of credit control is to regulate the money market and protect the quality of credit, or whether one takes the view of Chairman Eccles (which the Congress, by the way, refused to write into the law) that credit control is for the purpose of stabilizing the volume of business, volume of employment, level of commodity prices and so on, in any case one should wish to have the thing under control or to be at least within striking distance of control. The Federal Reserve System should not wish to have as much as three

billion dollars between it and the power of controlling the volume of credit.

With regard to the effect of reducing surplus reserves upon the prices of Government bonds, let me say this: the Treasury cannot indefinitely borrow cheaply, the Treasury cannot permanently maintain an artificial money market through cheap money policies, and the Treasury would do far better to face realities now than to wait until later. I am satisfied that if the thing is handled properly it is readily manageable now. I can see the possibilities of the gravest sort of difficulties for the Treasury and for everybody if dealing with the problem is long deferred.

CONCLUSION

Gentlemen, I have come here to say old-fashioned things, things which a few years ago would have seemed so indisputable that my saying them would have sounded like the recital of the alphabet or the multiplication table. I have come here to say that we should live within our means, that even this richest of all countries in the world cannot spend billions of dollars a year more than its income without disaster, that we should not delude ourselves with the notion that the expansion of bank credit can be endlessly a substitute for investors' savings, and that the Federal Reserve authorities should perform their obvious duty in controlling the money market. And, finally, let me say that whatever the theory of the objectives of Federal Reserve policy, the Federal Reserve authorities should at least want to be in a position to control the volume of reserve money in the country. Even those who believe that bank credit has the magical power of controlling commodity prices and the volume of business still should wish to be able to keep their hand upon the throttle. Not even they can wish to have the throttle chained wide open and the airbrake system removed from the train.

*An Appraisal of the
Federal Social Security Act*

An Address by

13

WINTHROP W. ALDRICH
Chairman Board of Directors

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK

before the

INSTITUTE OF PUBLIC AFFAIRS
UNIVERSITY OF VIRGINIA
Charlottesville, Virginia

on the Evening of July 10, 1936

CONTENTS

	Page
Unemployment Insurance in Europe.....	4
Social Advantages Gained Through Unemployment Insurance.....	5
The Unemployment Insurance System of The Federal Social Security Act—a Federal-State Plan.....	6
The New York State Plan.....	6
<i>Contributions by Workers Would Benefit the Plan.....</i>	7
<i>Employers Providing Steady Work Should be Given Recognition.....</i>	8
<i>The Merit-Rating System.....</i>	10
<i>An Inconsistency in Taxes Collected and Workers Included.....</i>	11
Problems Created by Unemployment Insurance.....	13
(a) <i>Slowing Up Re-employment.....</i>	13
(b) <i>The Problem of "Suitable" Work and Wages.....</i>	13
(c) <i>Insurance and Relief.....</i>	14
(d) <i>Need for Defining Objectives of Unemployment Insurance.....</i>	16
(e) <i>Work Relief.....</i>	17
(f) <i>Politics and Work Relief.....</i>	19
(g) <i>Administration of Relief Funds.....</i>	20
States' Rights and Constitutionality.....	21
The Old-Age Insurance Plan of the Federal Social Security Act.....	23
Younger Workers and Those Better Paid Carry Larger Portion of Burden.....	24
Receipts and Reserve Fund.....	26
<i>The Fallacy of the "Self-sustaining" Concept.....</i>	27
<i>A Country Cannot Insure Itself.....</i>	28
<i>Fictitious Reserves.....</i>	29
<i>Moving Funds from Left-Hand Pocket to Right-Hand Pocket.....</i>	30
<i>The "Reserve"—A Temptation to Extravagance.....</i>	31
Private versus Public Old-Age Pension Plans.....	33
Obligatory Retirement.....	36
The Problem of Those Workers Not Included in the Plan.....	37
Contributory and Non-Contributory Old-Age Pensions.....	37
Current Cost Plan Facilitates Sound Compromise.....	39
Cost of the Security Program May Reach Four Billions Annually.....	40
Incidence of the Payroll Tax.....	42
"Higher Incomes" Already Drained by Other Taxes.....	44
Saving the Good in the Federal Social Security Act.....	44
We Do Not Gain Individual Security If We Undermine Aggregate Security.....	45

X:958:(773) 1

66

*An Appraisal of the
Federal Social Security Act*

In the last seven years, millions of our people have known what it is to be unemployed, to tramp the streets daily in search of work, to watch their savings melt away, to lose faith in themselves, to succumb to despondency and despair. One of the main consequences of this condition has been the growth of a demand for what is called social security. In the minds of most reformers, the phrase has a special meaning. It means systems of unemployment compensation and old-age pensions. The Federal Social Security Act of 1935 is no doubt one of the results of this demand. But social security has a much wider meaning, which we cannot afford to forget. It means not merely security for certain individuals or groups, however needy or worthy, but security for the productive system as a whole. We cannot have piecemeal security at the cost of aggregate insecurity. We must not aim solely at the security of special groups and neglect the security of all.

It is very important, therefore, that we should never lose sight of the wider bearings of the problem, as our more impatient reformers are so likely to do. We desire to effect insurance as far as possible against the disasters and dislocations incident to economic advance, but we do not wish to weaken the forces of advance themselves. We wish to mitigate for individuals the penalties for failure or misfortune, but we do not wish to weaken the incentives to production and success. The problem, in short, is two-sided. If in our social policies we have unduly neg-

lected one side of it in the past, let us not make the mistake of neglecting the other side in the present.

I shall emphasize this point in its larger aspects in a later point in this paper. One of its special aspects appears acutely in the case of relief.

How are we to help those who are out of work through no fault of their own, without removing the pressure upon them to find work as soon as possible? The very statement of the question calls attention to its difficulties. Indeed, to provide outside help without discouraging self-help is the central problem of relief in all its forms—not merely in what are now known as “home relief” and “work relief,” but in unemployment insurance and in the various forms of help in old age. These are all aspects of the general effort of the more fortunate members of the community to aid the less fortunate. Because these are all parts of a larger issue, I propose to consider them, not merely in isolation, but in their relations to each other.

Unemployment Insurance in Europe

Let us look first at the question of unemployment insurance. As you know, this device already has a long history in Europe. Its origin can be traced as far back as the middle of the Nineteenth Century, when certain trade unions in Great Britain and Belgium arranged to pay regular allowances to members out of work. The next step was taken in Switzerland, when, beginning in 1893, certain municipalities undertook to supplement from their own revenues the benefits paid by trade unions or voluntary unemployment funds to their members. This system is still used in France. In 1911, however, there was introduced in Great Britain, for the first time in any country, a compulsory scheme of unemployment insurance on a national basis. In the twenty-five years since then, experience has shown both the merits and defects of this plan,

and some of the latter have been either eradicated or minimized. At present (in terms of American money at a rate of \$5 to the pound) there is contributed 62½ cents a week for each adult male worker, the worker, his employer and the state each supplying a third. When he has been out of work a week, his benefit payments begin. They amount to \$4.25 a week for a single man, and to \$7 a week for a married man with one child. These payments may run for as long as twenty-six weeks in any year. The British plan has been taken as the model for most subsequent systems.

Social Advantages Gained Through Unemployment Insurance

The social gains through unemployment insurance are numerous. Its first effect is to diminish in the mind of the worker the fear of insecurity. He knows that if he should lose his job he would not immediately face a total loss of income. There will be at least some income during a few weeks or months while he is looking for new work. This relief, though temporary, will not be fluctuating and uncertain; it will be an amount that he can count on. There will be no humiliation in accepting it, nor will the worker have to prove that he has exhausted his other resources before he is able to get it. It will be an earned right.

There is something to be said, also, for the effect of unemployment insurance on business. It helps to stabilize the buying power of the workers. A great many fallacies are current regarding this question of "purchasing power": one of the most common is that purchasing power is "created" when it is merely transferred from employers or taxpayers to workers. I am speaking, not of such theories, but merely of the fact that unemployment insurance helps over short periods to keep buying in its accustomed channels. In a town in which there have been extensive layoffs,

it helps to prevent a sudden contraction in the business or income of local tradesmen or landlords; it reduces economic dislocations. Finally, in a moderate depression or in the early stages of a severe depression, it provides relief out of a special built-up fund without involving a strain on the public treasury. In short, while unemployment insurance is not the panacea or unqualified blessing which some of its advocates believe it to be, it is better than either of the alternatives to it—callous public neglect of the plight of the jobless or unsystematic doles.

The Unemployment Insurance System of The Federal Social Security Act—a Federal-State Plan

The Federal Social Security Act, as you know, does not itself set up any unemployment insurance plan. What it does is to impose a tax on employers of eight or more persons of 1 per cent of their total payrolls in 1936, 2 per cent in 1937 and 3 per cent for every year after that. It then permits a credit of not exceeding 90 per cent to employers in those States adopting acceptable unemployment insurance plans. The tax covers employers of all workers except those in agriculture, those in government service and in non-profit-making institutions, domestic servants, and a few others.

The New York State Plan

The conditions laid down in the Federal Act for acceptable State plans are so general that, in fact, a large variety of such plans are possible. I should like to say a few words about the plan adopted in New York State. The problems it raises are typical of those in all the States. In many ways the New York plan follows sound precedent. It provides for benefit payments to the unemployed, beginning on January 1, 1938, of 50 per cent of the employee's former full-time weekly wages, though the weekly payments

are not to go above \$15 nor fall below \$5. In no case are they to be paid for more than sixteen weeks in any one year, and there is to be a "waiting period" of three weeks after the employee has lost his job before any payments are made. All these provisions—the limitations of benefit payments to not more than 50 per cent of the weekly wage except on the very lowest wages, the limitation of the number of payments, and the substantial waiting period before payments begin—are safeguards against efforts to exploit the insurance funds by the deliberate quitting of old jobs or dilatoriness in looking for new ones.

Contributions by Workers Would Benefit the Plan

But there are two features of the New York plan that seem to me especially undesirable. All contributions under the Act are paid through a payroll tax on employers. In exempting workers from the payment of any contribution to their own insurance the New York law goes contrary to the practice adopted in half the States³ that have so far set up plans and in every European system except that of Russia. The advantages of having the workers contribute are several. It insures more adequate benefit payments. It gives the workers more voice in the administration of the system. It secures their coöperation in the reduction of malingering, and of false claims and wasteful expenditures.

We shall find a further powerful reason for direct contribution by the workers when we discuss the incidence of the payroll tax. We shall conclude that this tax is, in the long run, shifted to labor and that the idea that the workman can get something for nothing in employment insurance financed by the payroll tax is illusory.

³ Eleven States and the District of Columbia adopted plans up to April 1, 1936: Alabama, California, Massachusetts, New Hampshire, New York, Oregon, Washington, Wisconsin, Indiana, Mississippi, Utah. Of these, six provide for employee contribution.

We might add another consideration. We have seen that the unemployment insurance likely to be adopted in most States as a result of the Federal tax provisions will exclude large sections of the workers. In most States those in establishments with less than eight persons are not likely to be included, nor are domestic servants, nor those in agriculture or non-profit-making institutions. Most of these exclusions are made for administrative reasons, but the workers excluded will feel that the others are receiving more favorable treatment. If the included workers are asked to make contributions toward their insurance those not covered may at least feel that while they are denied the right to benefits they are also freed from the necessity of making contributions.

***Employers Providing Steady Work Should
be Given Recognition***

The other undesirable feature of the New York law is its provision for a flat rate of tax on all employers regardless of their employment record. The bad effect of this is twofold. It offers no encouragement to the individual firm or industry to attempt to regularize its employment, and it penalizes the employer who provides steady work to atone for those who do not. It is true that the New York law makes special provision for the seasonal trades, and as recently amended entitles a seasonal employee to benefits only if he suffers unemployment "within the longest seasonal period or periods during which, by the best practice of the occupation or industry in which he is engaged, operations are conducted." The duration of benefits, also, is to be modified for seasonal employees in proportion to this "longest seasonal period." But great inequities may still occur, not merely for administrative reasons (such as an excessive estimation by the Industrial Commissioner of the "longest seasonal period," or neglect

to include an industry in the seasonal classification which should be included), but because of the wide differences in the employment records of different firms in the same industry.

There are two ways in which this inequity may be avoided. The first is by the adoption of what is commonly known as the Wisconsin or individual plant reserve plan. Under this the taxes paid by each employer are kept in a separate account or reserve. Once an employer has accumulated a reserve of a certain level, he is permitted to pay lower taxes or he may stop paying taxes altogether. In Wisconsin, for example, employers cease to pay the State tax when their reserve is more than 10 per cent of the annual payroll. Whenever his reserve falls below the limit prescribed in the law, the employer must again begin to pay taxes. The benefits to a worker laid off come solely out of the reserve fund of his particular employer.

The merits of this system are that each employer is called upon to take care only of the unemployment incidental to his own operations. A good employer is not asked to subsidize the unemployment of a bad or careless employer. There is a direct incentive for each firm to stabilize employment in its own plant. Another advantage claimed for the plan is that it enlists the vigorous protest of each employer, in a way in which it would not be enlisted if he contributed toward a common pool, against careless or wasteful dissipation of the accumulated funds. The chief criticism of the plan has been that it is not in harmony with the insurance principle of mutual assistance, because it makes the worker too dependent upon the size of the reserve of his particular employer. If this reserve is exhausted, for example, before the unemployed worker has received the full amount of benefit permitted him under his State law, he is "out of luck." Defenders

of the plan, however, urge that a similar criticism applies to the plan of pooled reserves. Under the pool system, the first to be unemployed will, after their waiting period, use up the reserves and the late comers will likewise be "out of luck."

The Merit-Rating System

If the pool system is to be used, it should surely be modified by the so-called merit-rating system. Under this all reserves are put into a common pool, and all the unemployment benefit payments are paid out of this common pool. But instead of a flat rate of tax, each employer pays a rate of contribution graded according to his employment record. This is merely in accordance with the universal practice of private insurance companies, which grade their premiums according to different classes of risks—charging higher rates for life insurance for older persons, higher rates for automobile accident insurance for cars owned in populous cities than for those in suburban or rural districts, and so on.

Doubtless it would not be possible to grade the compulsory premiums for unemployment insurance in strict accordance with ascertainable risks, because there must be a limit on the contributions that could be asked from the seasonal employers with the poorest employment records. (I am assuming here that the grading will be of employers and not of workers, that the workers in all industries will make the same contributions if they contribute at all, and that the "merit" or "demerit" of particular firms is the responsibility of the employer rather than of the laborer.) But, obviously, instead of imposing a flat tax on payrolls, it would be better if, after the present system were in operation for several years, employers were graded into several classes in accordance

with their employment record and their contributions to the fund then arranged from a minimum to a maximum, the precise figures for which the same experience would aid us greatly in determining. In this way all workers would have access to the common pool, while firms with good employment records would not be unduly penalized for firms with poor employment records.

The system would also act, as the flat rate system does not, as an incentive to the individual firm or industry to stabilize its employment. This incentive would come not merely from the monetary saving that a lower rate of contribution would involve; it would also become a matter of pride for employers to have their firms classified among those entitled to lower rates. And at the very least such a system, even if it were unable to grade contributions strictly according to risks, would serve constantly to call attention to the spots where the unemployment problem was most serious. Of the twelve States that have so far passed unemployment insurance laws, only those of New York and Mississippi make no provision for a merit-rating plan. The New York State law does provide, however, that an Advisory Council is to study the problem and report by March 1, 1939, and that no rate is to be less than 1 per cent.

An Inconsistency in Taxes Collected and Workers Included

Before leaving this subject I should like to speak of another defect of the Federal unemployment insurance plan as it works out under present laws. In order virtually to compel the States to adopt such insurance, the Federal Government imposes an annual tax of 3 per cent on the

entire payroll of employers with more than eight employees. It then allows a credit of up to 90 per cent of this amount for contributions made by employers to State funds. But the New York State law, which is typical in this respect of the State unemployment insurance laws so far enacted, does not cover all workers, but only manual workers, and other workers receiving \$50 a week or less. The 3 per cent contribution which the New York employer eventually makes to the State is based only on the payroll of the workers actually covered. The result of this is that the Federal Government will retain not only 10 per cent of the payroll tax it collects, but, in addition, the entire tax on that part of the payroll which goes to workers not covered by the insurance. If, let us say, 70 per cent of a New York employer's payroll went to workers getting less than \$50 a week, and the remaining 30 per cent to non-manual workers getting more than \$50 a week, the employer would pay a total tax of 3 per cent, not merely on the 70 per cent of his payroll going to workers covered by the insurance, but on the 30 per cent going to persons not covered at all. It might even happen, if the whole of an employer's payroll went to non-manual workers all getting more than \$50 a week, that he would pay a tax of 3 per cent on that payroll though not a single worker was covered by the insurance benefits. This is an injustice so patent and pointless that it is difficult to regard it as anything but an oversight. That it was unintended seems all the more probable in the light of the payroll tax in the Federal Act for old-age pensions, which allows employers in computing payrolls subject to tax to deduct anything in excess of \$3,000 a year paid to any individual. The tax in that case does not go beyond the insurance coverage. There is no reason why it should do so in the case of the unemployment tax.

Problems Created by Unemployment Insurance

(a) *Slowing Up Re-employment*

I am in favor of carefully worked out unemployment insurance. But we must recognize that it has important drawbacks, and involves some serious problems. The payroll tax (to which I shall return later) at its inception will raise costs of production, though ultimately I think that the laws of the incidence of taxation will shift it to labor; it will make it more difficult for marginal firms to make ends meet; it will act, by just so much, to slow down re-employment. Unemployment insurance itself will also tend to encourage longer periods of unemployment, by removing, for a time, the severest penalties of joblessness. I have already spoken of some of the provisions which a well-conceived insurance plan will include to safeguard against this tendency—employee contributions; a definite limitation, known beforehand, to the period during which benefits are to be paid; the device of a “waiting period” to reduce the number of employees who might use the plan to “take a little vacation”; and the limitation of employment benefits to not more than 50 per cent of the worker’s regular wages so that work may not seem unprofitable. The British, in addition, have provided central offices at which workers are compelled to report if they desire to claim benefits, and the attempt is made to test regularly the willingness of workers to take available jobs. Possible jobs are sought, and an effort is made to throw the burden of proof of valid reason for not accepting a job upon the worker.

(b) *The Problem of “Suitable” Work and Wages*

Yet the net effect of British administrative decisions, in determining “suitable” work, whether an employee was justified in quitting a job, and the like, has been to create rigidity in wage rates and other specific working condi-

tions, and has reduced the mobility of labor. There is strong ground for the view that the British insurance scheme raises the rate of unemployment and prolongs the average period of idleness. This it does primarily because the insurance administration becomes inevitably the arbiter of wages and working conditions. In a sense our highly centralized Federal relief administration has done the same thing, and has thereby made the unemployment problem much vaster than it would otherwise have been. There is always a danger that a centralized, elaborate and formal scheme of unemployment relief or insurance will work to aggravate the unemployment problem. In the English system political officials exercise a great influence over wages through their power to determine the suitability of employment. In this country, since our civil service standards are much lower, the dangers in this direction are even greater.

These dangers compel the conclusion that the power of the insurance administration to fix wages and working conditions should be severely limited. Unless this is done, the scheme may become a considerable barrier to re-employment. The most efficacious method of limiting this power is to decentralize the insurance administration, so that its principles and rules may be closely adapted to local conditions.

(c) Insurance and Relief

A much more serious problem arises when the unemployment insurance benefits to which a particular worker is entitled have run out. What are we to do for him then? Here, it will be seen, we have passed from the field of what is called "insurance" to the field of what is called "relief." It is true that these are both parts of a single

problem: how to help the unemployed without reducing their incentive to seek new employment. It is true, also, that in practice it is extremely difficult to separate insurance and relief and to keep them separate. The State almost inevitably becomes a contributor to the insurance fund whether it starts by doing so or not. This is not a condemnation of unemployment insurance. In fact, the State may very properly contribute to the cost of insurance out of the general tax fund. The British plan recognizes this directly, by providing equal contributions from the worker, the employer and the State. The dozen or more State plans that we have so far set up either provide that the burden shall be placed solely on the employer, or be shared by him only with the insured workers. Now there are several important objections to payroll taxes. Their first tendency is to come out of profits: hence they injure marginal firms and may unsettle production. By making labor more expensive they retard employment and artificially stimulate labor-displacing machinery. In the long run, I believe, they tend to be shifted to labor itself. Meanwhile an insurance system which relies exclusively on payroll taxes penalizes those who provide employment while it fails to compel those members of society not directly concerned to contribute their quota. The responsibility for unemployment is not the employer's alone; it is shared by the worker and by the general public. A system to which only employers and workers contributed in normal periods, but which was supplemented by public funds in periods of unusual unemployment, would be preferable at least in its tax incidence to a system financed solely by payroll taxes. But it would seem still more desirable to follow the British system, and to put less burden normally on payrolls.

(d) Need for Defining Objectives of Unemployment Insurance

We need to define our objectives in connection with unemployment insurance. If we undertake to pay for seasonal and ordinary unemployment, we shall have very little left for the unemployment of depressions and the unemployed will either be thrown on relief as they are now or the Government will pay relief through the insurance machinery. Is it not wiser to assume that most workmen safeguard themselves against normal periods of seasonal unemployment and short periods of idleness and let the insurance plan be invoked only against prolonged unemployment? This result can be accomplished by appreciably lengthening the waiting period. Most of the State laws fix a waiting period of three weeks, but 49 weeks a year of employment is very satisfactory employment, and little hardship would be worked by lengthening the waiting period. Doing so would certainly add enormously to the solvency of the insurance fund.

There would be no point in our establishing a carefully worked out contributory unemployment insurance plan and then, as soon as the worker was no longer entitled to its benefits, turning him over to a permanent relief plan without safeguards. Permanent relief should certainly not be made more desirable for the unemployed than the relief given by the insurance plan. There should be at least the same safeguards, for example, with regard to the relation of the relief payment to an unemployed man's usual or prospective wage, as under the insurance plan. If the insurance plan gives him only 50 per cent of his usual earnings in private business, the relief plan ought not to give 75 or 80 per cent. The relief plan, indeed, should not make any payments at all until the applicant

who has exhausted his insurance benefits has proved that he is without other means of support.

Sir Josiah Stamp, on his last visit to this country, remarked that America was now confronting a problem that had been a long standing one in England. He told of a man contrasting \$15 in dole payments with \$18 for private work, and figuring: "What's the use of working for \$3?" From the standpoint of many persons on relief this way of looking at the matter seems not only natural, but inevitable. They come to think of the sums obtainable in private jobs, not in terms of their absolute amount, but merely of the difference between them and their present relief payments. When we fix the relief payments, therefore, we are bound to keep this widespread attitude in mind. In addition we should, of course, attempt through a public employment service to check on such matters by denying relief to any person who has refused "suitable" work at "reasonable" wages; but as we have seen, the results from this practice by itself are likely to be disappointing. Our real safeguard is in not making relief payments so high in the first place that they undermine the incentive to seek work.

(e) Work Relief

I have been speaking so far of the principles of "home" relief. But we do not solve this problem, we enormously increase it, when we try to substitute for this an extensive program of work relief. The two chief arguments for work relief are that it is less demoralizing than the dole, and that the community receives "something to show for its money." But when men are put to tasks which they know would not be undertaken except to furnish them with work, when these tasks have often a very questionable value, when the weekly hours are only a fraction of

those that are customary in private work, one may question whether the result is not more demoralizing in some respects than that of home relief.

It is true that as a result of work relief the Government has "something to show for its money", but it is very improbable that, on the average, this something will turn out to be worth the added cost of work relief over home relief. We must remember, to begin with, that the various projects are undertaken not primarily because they are needed, but to give work, and that they must fill other requirements irrelevant to need, such as being where the unemployment is and involving a high percentage of labor as compared with materials. Further, the work itself is necessarily inefficient. It is not merely that the men employed in such work cannot be held to the same strict standards of efficiency and application as in private work, and that only the more flagrant cases of malingering can be dealt with. The men on work relief cannot be selected, in the first place, in the sense that they can be for private jobs, because work-relief exists to give jobs to as many men as possible, regardless of their special suitability and training. The program has consisted largely of "public works" of various sorts. If we consult the 1930 census, and take the total number of brick and stone masons, carpenters, electricians, painters, paperhangers, plasterers, plumbers, stone-cutters, general building workers of other sorts, and road and street laborers, we get a total of less than 3,700,000 workers out of a "gainfully employed" population of nearly 49,000,000. In other words, normally only about 7 per cent of the workers are employed directly on projects of this type, and therefore if unemployment were evenly distributed through all occupations, only 7 per cent of the unemployed would be trained for projects of this type. The attempt, on the other hand, to

expand the field of work relief beyond that of public works and public services, when it does not result in mere "boondoggling" or pastime jobs, brings it into direct competition with normal production and so tends to obstruct and unbalance that production rather than to encourage it.

In addition to all this, a work relief program threatens to perpetuate itself. The President recognized this danger in his message to Congress of January 4, 1935, when he recommended that compensation for work relief "should be larger than the amount now received as a relief dole, but at the same time not so large as to encourage the rejection of opportunities for private employment or the leaving of private employment to engage in government work." But what the President did not foresee was the strength of the opposition of organized labor to this proposal. As a consequence of this opposition, while the actual monthly payments made to relief workers are often not unduly high in themselves, the hours have commonly been reduced to a very low point to bring up the "hourly wage rate" to the so-called "prevailing" level. The effect is not only to increase the expensiveness and dilatoriness of work relief, but to make it so pleasant for a substantial number of men that they prefer it to private work at higher monthly earnings.

The greatest single objection to work relief, however, is its prohibitive cost. Estimates vary as to how great this is compared with home relief. If substantial public works are undertaken, involving important materials, the cost is very much greater, and even the cheapest "boondoggling" is very substantially more expensive.

(f) Politics and Work Relief

It is not merely the work-relief policy that has made our relief burden so ominously large, however, but the

whole system of administering relief from Washington. Almost daily we read of charges that the relief funds are being spent with an eye to political advantage. Such charges are inevitable, for two reasons. A work relief program, unlike a home relief program, usually involves selection from among applicants, either for particular projects, or for particular positions on those projects. Some men get higher pay than other men, or are put in authority over them. The impression is bound to be widespread, particularly among the unsuccessful or less successful applicants, that the best jobs were given out on the basis of favoritism or "pull." But even apart from work relief, unless the funds from Washington are distributed on the basis of some definite and clearly stated formula, and not at the discretion of some official, there are certain to be sectional pressures and sectional suspicions that other communities are being unduly favored. Even if these suspicions were never justified, a central administration cannot have that intimate knowledge of local conditions necessary to exercise intelligent and effective control.

(g) Administration of Relief Funds

On the other hand, we cannot allow the Federal Government to supply all or nearly all the funds while leaving administration to the localities. Such a system permits the local officials to distribute benefits liberally without having to raise the funds for these favors directly from their own electorates. It is a system that puts a great temptation on the local officials to allow as many of their local voters on the relief rolls as possible, while it puts very little pressure on them to weed out of the relief rolls those who should not be there.

The conclusions we must draw are that Federal Administration of relief should end, and that local adminis-

tration should be accompanied by as large a measure as possible of local financial responsibility. Both objects, I believe, could be attained by a grant-in-aid system similar to those already embodied in the Federal Social Security Act. It is not necessary that the Federal Government should require each State to match, dollar for dollar, what the Federal Government contributes. Under such a system the poorer States or the States where unemployment is heaviest, might justifiably expect a larger proportion of Federal aid than other States. Indeed, the desirable thing would be that, as rapidly as possible, as many States as possible should cease to get Federal aid. But the Federal Government should require of every State which received grants-in-aid that very substantial State or local contributions be made—contributions heavy enough to assure adequate local concern for efficient and economical administration. Such a system would put prompt pressure on the local communities to purge their relief rolls of impostors, and it would immediately end a system under which, in more than a dozen States, the State and local governments together have not contributed 10 per cent of the relief funds being spent in them.

The question of work relief versus home relief takes on a different aspect when the decisions regarding it are made locally and when, in case work relief is undertaken, the local community itself must bear the increased cost or, at all events, a very substantial part of it. The States and communities may often wisely conclude to undertake specific work relief projects.

States' Rights and Constitutionality

I shall say little about the question of constitutionality of the Federal Social Security Act, preferring to discuss the Act at this time primarily on the basis of its economic merits. The constitutionality of the Act, as a whole, ap-

pears doubtful. Particularly doubtful are the provisions involved in Titles III and IX of the Act. Title III is concerned with the grants to States for unemployment compensation administration, if the State complies with the requirements of Congress and the Federal Social Security Board. Title IX is concerned with the tax on employers of eight or more, with credits up to ninety per cent of the tax for employers in those States which adopt laws for unemployment compensation which are approved by the Federal Social Security Board as meeting the six specifications laid down. These provisions of the Act definitely involve coercion of the States, and raise a grave constitutional question. I believe it is far better that the States should work this thing out for themselves, with interstate compacts where it seems necessary. The whole question of unemployment insurance is involved and difficult. A great deal of experimentation is going to be necessary before we get it well worked out. The movement is popular, the movement is under way, and the States which have large industrial populations are under heavy pressure to proceed with it quite apart from Federal coercion.

If we analyze the provisions of the Federal Social Security Act from the standpoint of determining how far they are designed to help the States and how far they are designed merely to regulate them, an interesting conclusion emerges. A State can be helped by financial relations with the Federal Government only if it receives funds drawn from some wealthier part of the country, or if it receives funds from sources of Federal taxation which are not also sources of State taxation, or if it receives funds from the proceeds of Federal borrowings. Of the three divisions of the law which I discuss in this paper, namely, unemployment insurance, old-age insurance and grants-in-aid for the needy aged, only the third can really in-

crease the funds available to the poorest State. Under the system of old-age insurance, the funds collected by the Federal Government go back to the States from which they come, except in so far as workers may move from State to State. There is no Federal aid given to State unemployment insurance funds, and the Federal grants to a State for administration of unemployment insurance are very much less than the 10 per cent or more of the payroll tax collected in the States and retained by the Federal Government. There is merely Federal coercion of the States to compel them to establish unemployment insurance. Particularly irritating, in this connection, is the requirement that the State unemployment funds be turned over to the United States Treasury. The constitutionality of this seems very doubtful, and I think that it is wrong as a matter of policy.

The Old-Age Insurance Plan of the Federal Social Security Act

We come, finally, to the question of public old-age insurance. Like unemployment insurance, this is not new outside of this country. France has had a system of contributory old-age insurance since 1928, England since 1925, Germany since 1891. The arguments for this rest on somewhat different grounds from those for unemployment insurance. Large numbers of men and women who have reached 65 or 70, particularly if they have been mainly engaged in manual work, are no longer fit for it. Those who still have the energy, the will or the need to go on are frequently dropped and cannot find new work because employers feel that they will not be as efficient or as adaptable as younger workers. These old people are then thrown upon the mercies of their families or become a charge upon the state. Even those who have saved often lose their savings in ill-advised investments or, as recently,

because of a general economic depression. Contributory old-age insurance, therefore, is advocated on the ground that we must compel everyone we can to provide for his own old age, and that a government plan will be most likely to make this provision safe. For humanitarian reasons, and on the ground, too, that by doing this the state is saved a burden that might otherwise devolve upon it, it is usually provided in such plans that employers or the state contribute to the insurance thus set up.

The plan set up under the Federal Social Security Act is to be financed by taxes on payrolls and wages. These taxes, shared equally by the employer and the employee, will total 2 per cent a year from 1937 to 1939 inclusive, and then rise by 1 per cent steps at three-year intervals to 6 per cent in 1949 and thereafter. In calculating these taxes—and also in calculating the benefits to which each individual will finally be entitled—no account is taken of any sum earned by anyone in excess of \$3,000 in any one year.

From the fund thus created, old-age annuities are to be provided ranging from a minimum of \$10 to a maximum of \$85 a month. These annuities are calculated according to the following formula: they are to be $\frac{1}{2}$ of 1 per cent a month of the first \$3,000 the worker has earned during the period he has been making contributions, plus $\frac{1}{12}$ of 1 per cent a month on the amount between \$3,000 and \$45,000, plus $\frac{1}{24}$ of 1 per cent a month on any amount over \$45,000.

Younger Workers and Those Better Paid Carry Larger Portion of Burden

It will be seen immediately that these annuities are not calculated according to ordinary actuarial principles. Their result is to make the better paid workers carry part

of the burden that would otherwise fall on the poorer paid, and to make the younger workers carry part of the burden that would otherwise fall on the older. For example, after the worker has earned a total of \$3,000, he must earn \$18,000 additional before he can double his pension, and \$54,000 additional before he can triple it. The discrepancy is even greater than this, for after the worker has earned a sum entitling him to an annuity of \$85 a month, any earnings above that do not increase his pension at all, though he continues to pay taxes on them. (It is also true, of course, that anything he earns above \$3,000 in any one year does not help him at all in the size of his pension, but neither does he or his employer pay any tax on this.)

It is interesting to see how this plan works out as between younger and older workers on the same income. Workers who begin paying taxes on earnings of \$100 a month from January 1, 1937 until retirement at the age of 65 will receive pensions of \$17.50 a month if their retirement falls on January 1 of 1942, of \$27.50 a month if it falls in 1952; of \$37.50 a month if it falls in 1962, and of \$53.75 if it falls in 1982. In other words, their pension will be only 57 per cent higher when they have paid taxes for three times as many years, only 114 per cent higher when they have paid taxes for five times as long, and only 207 per cent higher when they have paid taxes for nine times as long.

It is not difficult to see the theory behind this. The framers of the bill did not want to wait too long before paying annuities. They felt that the older workers should not be unduly penalized because there had not previously been a plan to which they could contribute. They felt that the annuities should not be allowed to fall below a certain minimum monthly amount. All these considerations were

weighty, though it may be questioned whether it was wise to finance the payments to the older workers in just this way.

It is true that the older or poorer paid workers' annuities are not *directly* subsidized by the taxes on the younger or better-paid workers. This is made impossible by one provision in the law. If a worker dies before reaching the age of 65, his estate receives a lump payment equal to 3½ per cent of the total wages on which he has paid taxes. If he dies after the age of 65, his estate receives the same amount less any benefits paid to him during his lifetime. He is also to receive this 3½ per cent of his total wages if he fails to qualify for the plan upon reaching 65. Now as, at the highest rate of tax (which is not reached until 1949) he will have paid only 3 per cent of his earnings into the fund, he will obviously be getting back at least the amount he has contributed plus some interest.

As each worker, therefore, is certain to take out more than he pays in, no worker can be directly subsidizing any of the annuities paid to the others. This subsidy, therefore, must all come from the employers' contributions. As we shall later see, what the employer pays in the form of a payroll tax will ultimately be absorbed by the contributing workers. The younger and the better paid workers will thus be indirectly subsidizing the older and the lower paid workers.

Receipts and Reserve Fund

Let us consider once more the total taxes by which it is proposed that the old-age insurance plan will be financed. As they will amount to 2 per cent of total payrolls beginning next year, and mount 1 per cent every three years until they reach 6 per cent, it is obvious that the revenues will soon be formidable. The Senate Finance Committee estimated that these would be running

annually in excess of a billion dollars by 1944, and would reach nearly two billions by 1950. For many years nothing corresponding to this would be going out in benefit payments. In 1950, for example, according to the estimates of the Senate Finance Committee, when the annual revenues are \$1,783,300,000, benefit payments will come to only \$505,500,000. Revenues will continue to exceed benefit payments, on these estimates, for nearly thirty years, or at least until 1965. Meanwhile a huge reserve balance will be piling up, which in that year will have reached some \$36,000,000,000. But though benefit payments will then begin to exceed the revenues, this reserve will continue to grow by virtue of its own interest. The Senate Committee's table comes to an end in 1980 showing a reserve, still growing, of \$47,000,000,000.

The Fallacy of the "Self-sustaining" Concept

Now the theory behind all this was well-intentioned. It was to make the old-age insurance plan "self-sustaining," to prevent it from going bankrupt, to save posterity from too great a burden. The plan was adopted following the insistence of the Secretary of the Treasury, who urged higher taxes than originally contemplated in order to "facilitate the continued operation of the system on an adequate and sound financial basis, without imposing heavy burdens upon future generations." In other words, Congress, in adopting the plan, followed the analogy of a private insurance company, which must build up a reserve against the probable future demands to be made upon it. Further, it was trying to lighten the burden on future taxpayers by building up a reserve which would earn sufficient interest to make it unnecessary to draw upon the Treasury.

A Country Cannot Insure Itself

The reasoning behind this plan, however, is fallacious. The enormous reserve contemplated by the Federal Social Security Act is altogether unnecessary. We may recognize this most clearly by reminding ourselves of the basic principle of insurance itself. That principle may be variously described as the pooling, the sharing, the diffusion, the equalization of risks. This end is automatically secured for the citizens of a country when their central government does the insuring, for that government can not only compel those citizens to pay the "premiums" regularly in the form of taxes, but it can do what a private company cannot do; it can raise or otherwise alter the premiums at will. But while a country can insure its citizens individually out of a common tax fund, it cannot insure itself as a whole against the future. It cannot do so, that is, by any mere financial arrangement. Only if the Federal Government used the surplus tax funds to build up the tangible or intangible capital equipment of the country could it be said to be lightening the burden on posterity or increasing its ability to carry the old-age pension burden.

We may make the matter clearer by considering the contrasting case of a private insurance company. Such an insurance company contracts with policyholders to pay them annuities. If, after a few years it finds that the payments it must make are growing, it cannot increase its premiums, because they are contractual. It must therefore, from the beginning, build up a reserve. It does this by providing adequate premiums in the original contracts, and by investing the premiums in the securities of *other* institutions—of other private corporations, or of municipalities and States and the Federal Government. In other words, it in effect lends its accumulated funds to other

institutions, and, when it needs to draw upon these funds, it in effect calls the loans or transfers them to someone else.

Fictitious Reserves

When the Government itself sets up an old-age insurance plan like the present one its position differs in several crucial respects from that of the private insurance company. As we have just seen, it can make participation in the plan obligatory; it can alter the "premiums" at will; and it can make up any deficiency out of the general tax fund. These three powers together make reserves in the ordinary sense unnecessary. And when the Government, notwithstanding this, attempts to set up a reserve anyway, that reserve—at least in the form contemplated by the Federal Social Security Act—becomes a fictitious one.

The reason for this is that the reserve is to be invested only in the Government's *own* securities. Either these securities may be bought by the Old-Age Reserve Account in the open market, or special United States obligations may be issued to it bearing 3 per cent interest. In other words, one bookkeeping account of the Government will be borrowing from another; the Government will be borrowing from itself. The purpose of this reserve, it must be remembered, is not to be a capital fund to be drawn down as benefits begin to exceed taxes; its sole function is to produce interest. The theory behind it is that this interest at 3 per cent will make the plan "self-sustaining," by making it unnecessary to put future pension taxes too high at the same time as it makes it necessary for the Treasury to contribute. For example, it is estimated that by 1980 the benefit payments will have reached an annual rate of \$3,500,000,000. Of this amount, only about \$2,200,000,000 will come from the payroll taxes. But the interest on the fund at that time will have

reached \$1,400,000,000 annually, or more than enough to make up the difference. In other words, by that year 40 per cent of the benefit payments is to be supplied by interest on the reserve fund.

Yet from the standpoint of relieving the burden on anybody, this gigantic reserve fund will be simply a gigantic delusion. The Old Age Reserve Account would, of course, get its interest from the government securities. But where would the Government obtain the interest that it paid on the securities? From the only place it could obtain it—the general taxpayer. The whole elaborate reserve fund set-up would not relieve him of any burden whatever. Would it not be much better, therefore, if Congress did not mystify the voters of the country, or deceive itself, by establishing this financial fiction in the first place?

Moving Funds from Left-Hand Pocket to Right-Hand Pocket

The mental confusion which this arrangement would almost certainly cause might have some very unfortunate results. If the Old-Age Reserve Account invested its funds in outstanding United States bonds the effect would be equivalent in some respects to a retirement of that amount of the Federal debt. The funds would be returned to the general capital market. But suppose that, after these bonds were all purchased—or long before this happened—the Government began to issue the special 3 per cent bonds to the Old-Age Account as authorized by the new law? Then we should have the appearance of investment without real investment. It would be as if an individual, not knowing what to do with his idle funds after he had bought up his own promissory notes in the hands of others, were to issue new promissory notes to himself for them. The Government, crediting taxes to its left-hand pocket, the Old-Age Reserve Account, would then turn

them over to its right-hand pocket, the general fund, in exchange for crisp new bonds that it had itself issued. The purpose of the law in providing for these special bonds is supposedly to make sure that the old-age taxes will be invested in case it is not feasible to buy other government securities. As the reserve fund in 1980 is expected to be 50 per cent greater than the total present national debt it is easy to see how the framers of the law thought they might eventually run short of outstanding government bonds for investment. But the device of having the Government issue new bonds to a branch of itself would not invest the money. The Government would still have the old-age tax money in its general fund, and the problem of investment would remain.

The "Reserve"—A Temptation to Extravagance

It is difficult to imagine how a greater temptation to continually growing government extravagance could be created. So far from their being any incentive to reduce the government debt under such a plan, there would exist a widespread impression that it was actually necessary to increase the public debt 50 per cent above even its present level in order to make certain of having enough bonds in which to invest the old-age fund. Indeed, this is precisely what would be necessary if this particular plan were to be carried out. Meanwhile, what will happen to the moneys the Treasury gets each year in exchange for the special 3 per cent bonds? If the money were left idle, withdrawn from the channels of trade, it would merely reduce the nation's buying power and breed depression. But what is much more likely is that future Congresses would find all sorts of extravagant appropriations for it.

The attitude not only of Congress but of the voter who is paying for the old-age insurance must also be considered. The plan is supposed to be based on "sound actuarial

principles." But after it has been in operation five years, the fund will be taking in each year sixteen times as much as it is paying out. At the end of ten years, it will still be taking in five times as much each year as it is paying out, and meanwhile the fund will be piling up. Is it probable that all those paying the taxes will understand actuarial theory, and that future Congresses will attach great weight to actuarial theory? Is it not, on the contrary, far more probable that the workers will begin to resent having these taxes deducted from their incomes, while they see so little being paid out, and this huge, idle and untouched fund growing ever larger and larger? Is it not far more probable that this will lead to demands either to reduce the taxes or to liberalize the benefits, by reducing the age of eligibility and increasing the monthly allowances? The success of the latter demands would put an economic load upon the country far greater than it could hope to bear.

The only solution is to abandon entirely the whole plan for a reserve fund of this sort. Neither Germany, with nearly half a century's experience in public old-age pensions, nor Great Britain, with ten years' experience, has ever planned or attempted to build up any comparable reserve fund. In Great Britain the maximum rates of pension went into effect at once. The result was that British workers enjoyed the benefits of the old-age pension immediately. There was no plan for building up reserves; the government simply added substantial grants to the contributions of workers and employers. Such an arrangement tends to be held within reasonable bounds, because the taxpayer feels its full weight immediately. Mr. M. A. Linton, President of the Provident Mutual Life Insurance Company of Philadelphia, who was one of the actuaries associated with the Committee on Economic Security, asserts that the actuaries felt the reserve plan to be out of place, and recommended a current-cost plan which would

practically balance current taxes and current pension outgo, and provide for no more than a reasonable contingency reserve, the principal of which could be used in years when adverse business conditions might cause current tax receipts to fall off and be insufficient to meet pension payments. There is no doubt that this advice was sound.¹

A current cost plan, which started paying benefits as soon as taxes were levied for it, is clearly the best solution. The workers would see old-age benefits being paid out as soon as old-age taxes began. The country as a whole would know much sooner what old-age annuities were costing it, and would therefore be likely to assume a less excessive future burden. I shall later suggest the complete abandonment of the old-age insurance for special classes of workers, and the concentration of our efforts on an adequate handling of the problem of pensions for the needy aged of all classes of the population on a current cost basis.

Private versus Public Old-Age Pension Plans

When the Social Security Bill was before Congress, Senator Clark of Missouri introduced a series of amendments to permit exemptions from the old-age payroll taxes of companies that had private old-age pension plans "not less favorable" to the beneficiaries than the Government's plan. These amendments were incorporated in the Senate bill, but the House rejected them, and after prolonged conferences the Senate receded from them. A gentlemen's agreement, however, was reached for the appointment of an interim joint Congressional committee to investigate the question and to report to the next session.

¹Mr. Linton's discussions of this whole problem have been very illuminating and helpful.

If no special provision is to be made in the law regarding existing private pension plans, it is clear that a great injustice will be done either to the companies that have such plans or to the older workers that have built up rights under them. All companies that have contractual plans will necessarily be subjected to a double burden, while many of their employees would get two pensions. Other companies, though they have no contractual obligation, will assume this double burden at least to provide for their older workers. But some, undoubtedly, will find the double burden too great to carry, and in these cases the Federal Social Security Act as it stands will mean less rather than more security for many of their workers. Those who reach 65 before 1942, for example, will be completely disqualified from benefits under the new Act, while those who reach 65 only a few years after that date will be entitled only to small pensions under it, where they might have been entitled to much more substantial pensions under their private system.

The attempt, however, to keep a public system and innumerable private systems going side by side is admittedly full of difficulties. Congress would want to be assured that any private system for which it made special provision would be at least as favorable to the worker, in the benefits it provided, as the public system. It would probably want the worker to have complete freedom of choice as between systems. It would want the private systems to assure adequate reserves, and it would not want the worker to be dependent for his pension on the fortunes of a particular firm. It would want the worker to be as well off after leaving a private system, as if he had been, during the same period, under the public system. It would want the worker to have complete rights of transfer, without loss to himself, from a private to the public system.

Such requirements create a problem of the utmost intricacy. It seems next to impossible, except with the most elaborate individual bookkeeping records and detailed administrative oversight, to work out a system that would be fair at once to the worker, to the government plan, and to the private companies. A detailed discussion of the difficulties presented would carry us too far afield. It is worth pointing out, however, that the main difficulty appears to arise out of the nature of the government plan itself. The benefits under the private annuity plans usually vary directly in proportion to annual wage or salary and the number of years of service or premium payment. The government plan, as we have seen, pays the older workers in the early years much more proportionately to taxes paid in than it will later pay the now younger workers; it also pays the lower-paid workers much more proportionately than the higher-paid. Thus, for example, a worker who has been earning an average of \$50 a month for the twenty-five years preceding retirement receives a pension equal to 50 per cent of his average earnings; a worker who has been earning an average of \$250 a month for the same period is entitled to a pension of only 25 per cent of his average earnings. It is discrepancies like these which make it so difficult to decide just what exemption or allowance the Government is to make a private company for workers carried under the private plan, or just what the private company should be asked to pay over to the Government when one or a large number of its workers transfer to the public plan.

What seems likely in the absence of special provisions for private plans in the law is a gradual tapering off of most existing plans so as to do as little injury to older loyal workers as possible. This may be done by a discontinuance of private plans as applied to new employers or

younger workers, while provision is made to pay older workers the difference between what the government plan will pay them and what the private plan would otherwise have paid them. It would surely seem reasonable for the Government to make some partial tax exemption or grant-in-aid to private plans already existing that undertake to provide for their older workers in this way. Any private plans that are set up in future will then take the government plan for granted, and attempt to provide only supplemental benefits.

Obligatory Retirement

One odd provision of the old-age insurance plan set up in the Federal Social Security Act is that which not only makes it impossible for a worker to build up his possible pension after the age of 65 but which compels him to retire from active work then or later before he is entitled to a pension at all. The first part of this provision would bear unfairly on those workers who will reach 65 shortly after 1942. They will receive quite small pensions, and it seems only just that those who wish should be allowed to continue to build up their potential pension in the early years of the plan. The second part of this provision—making retirement obligatory in order to receive a pension at all—seems to imply an acceptance of the fallacy of a fixed number of jobs, so that it is necessary for the old to retire before the young can be employed. The primary intention was apparently to reduce the demand for benefits, as it was supposed that if this provision were inserted pensions would be called for, not immediately at 65, but at an average age of 67½. No doubt the idea that those who have regular jobs are not in need of annuities also played a part. The provision, however, indicates a confusion of the idea of insurance with the idea of relief. These workers will have contributed to their insurance

and will have earned a right to it that ought not to be impaired by a requirement of this sort—a requirement which, in any case, would prove difficult to enforce.

The Problem of Those Workers Not Included in the Plan

The old-age insurance plan does not, of course, cover the entire population. Workers in agriculture, in domestic service, in Federal or State Governments, in charitable and other non-profit-making organizations, casual laborers and the crews of ships are specifically excluded. The self-employed and the non-employed are naturally not included. It is generally estimated that only a little more than half of the gainfully occupied, and only about one-third of the total adult population, will be covered. What of those who fall outside the plan?

For these the Federal Social Security Act makes provision in the form of grants-in-aid to States which provide plans of their own. This is a form of poor relief, extended only to those who can prove need. The Federal Government undertakes to share half the burden with the States and localities up to a total of \$30 a month per person. The States and localities may provide as much more as they like, but the Federal Government will not contribute more than \$15 a month to the support of any individual.

Contributory and Non-Contributory Old-Age Pensions

It must be remembered that this system, which is now in operation, and under which payments have already been made in many States (thirty-four State plans having received the approval of the Social Security Board up to June 20) is expected to operate side by side with the contributory insurance plan. But this will lead to some strange anomalies. Here is an aged couple, both of whom can prove need, so they will receive a combined pension

of \$60 a month. But here, in 1966, will be a worker who has earned an average of \$100 a month for thirty years, and regularly paid his contribution on it. Reaching the age of 65 in 1966, he will be entitled to a monthly pension of only \$42.50. What will he think of the plan when he meets his non-contributing neighbors with their \$60? If his wife has not been in an insured employment herself this \$42.50 may be their total income. Certainly they will consider themselves entitled at least to a supplementary pension of \$17.50 to bring their total income also to \$60. If such a supplementary pension is refused, or even if they have to take the equivalent of a pauper's oath to get it, what will they think of the plan to which the husband has been contributing for thirty years? We must remember that this discrepancy is more likely to be common than infrequent. No one earning \$125 a month or less will receive an earned pension as large as \$60 a month even if he works and contributes for forty-five years, no one at no matter what salary will receive such a pension until 1960.

Certainly more thought should have been given to the relationship between these contributory and non-contributory pensions. The question may well be raised whether the system of contributory pensions or annuities should not be dropped altogether. On the one hand, it is too inclusive, because it pays annuities to people who will not need them. On the other hand, it is too exclusive, because, as stated above, it leaves out nearly half of the gainfully employed, and about two-thirds of the total adult population. The minimum annuities it pays are very low, and, as we have just seen, may have to be supplemented by the old-age assistance plan in any case. I believe that the whole system would be put on a much more rational basis if it were confined to grants-in-aid to the States for

assistance to the needy aged. Enforced contributions from workers and payroll taxes could then be abolished.

Current Cost Plan Facilitates Sound Compromise

The current cost plan as against the reserve plan in providing for old-age pensions exhibits additional advantages when considered in this connection. For one thing, we may begin at once to do what we can afford to do for those of our own immediate time who are over sixty-five and are in need. Again, as we do not tie this up to previous work and previous earnings, we need not confine it to the classes listed in the law, but may extend it to all. Again, there is no need for the keeping of elaborate records of the life history of all workers in the United States by the Federal Government. These are costly records whose keeping may well be welcome to the political dispensers of patronage, but which the taxpayer might as well not have to pay for. Further, all conflict between the government plan and private plans disappears.

Moreover, I think that our wage-earning citizens, when they realize what is planned, may well resent a system of surveillance in which every individual among them is kept under the eye of the Federal Government and either required to account for all of his time or else lose the benefit of pension for parts of the time not accounted for. Our people have been accustomed to privacy and freedom of movement. I doubt very much if, when the plan is really in operation, they are going to welcome forced participation in an old-age insurance scheme which takes 3 per cent of their wages directly and another 3 per cent indirectly, and which makes them account for their time to agents of the Federal Government for a benefit to be received twenty, thirty or forty years later. I think it far more likely, when they understand the issue, that they

will prefer to join everybody else in the population in contributing a much smaller percentage of their incomes (above \$500) to taking care of all the needy aged of the whole population, reserving the right to use their own discretion as to whether they wish to buy annuities from insurance companies or whether they wish to make savings in other ways.

Cost of the Security Program May Reach Four Billions Annually

I have reserved a question of the first importance. What is our social security program going to cost us? The initial amounts seem comparatively small, but they will grow rapidly and surely. For the first year \$50,000,000 was appropriated for the Federal Government's contribution toward the State old-age assistance plans. For the 1937 fiscal year the President has already asked for an appropriation for this purpose of \$85,000,000. Mr. Linton reports that the actuaries associated with the work of the Committee on Economic Security believe, on the basis of the Canadian experience, that in a decade from now these pensions will be costing a billion a year—\$500,000,000 from the Federal Government and an equal amount from the States. Ten years from now the old-age payroll taxes will amount to \$1,291,000,000. It has been estimated that all together these old-age assistance taxes, the old-age payroll taxes and the unemployment payroll taxes will probably amount in ten years to \$3,000,000,000 annually, and to \$4,000,000,000 annually within twenty years. Even this does not indicate the probable total cost of social insurance for it does not count the other forms of aid provided for in the Federal Social Security Act—the assistance to the blind, to dependent and crippled children, for maternal and public health. For these all together there is already being appropriated almost as much as for

the old-age assistance program. In addition, there is the question of general health insurance. This is not provided for in the present act, but there can be little doubt that an active effort will be made within the next few years to secure it. It would seem conservative, therefore, to assume that within ten years from now our total social security burden will amount to not less than \$4,000,000,000 annually. It might reach nearly that without counting the possibility of health insurance.

The prospect brings us back to the considerations with which we began. We shall be spending this money ostensibly to increase the economic security of individuals. But what will this program and these expenditures do for the economic security of the nation considered collectively? What effect will they have, for example, on our total volume of production? Our present system provides economic penalties for failure and incentives for success. It is the proper function of social insurance to reduce those penalties that are excessive. But where it reduces those penalties too much, or removes them altogether, it may have the unintended effect of demoralizing those that it seeks to help, and of making them permanent burdens on the community where they might ultimately have become energetic contributors to the general well-being. There is also the danger of too greatly reducing the incentives to success, which may follow from excessive taxation either upon individuals or upon business firms to support the security program. And there is the further danger that the nature and incidence of the payroll tax, apart from the total amount of revenue it yields, may so disrupt or dislocate the processes of production that, instead of taking from A to help B, it will directly or indirectly hurt both A and B and help no one.

Incidence of the Payroll Tax

Certain of the proponents of the payroll tax have assumed that it is essentially a sales tax which the business will pass on to the consumer in the form of higher prices. But there are surely some very important distinctions to be drawn. The sales tax, paid by the seller, is a tax on the *supply* of goods. The more goods produced and sold, the larger the sales tax paid. The payroll tax, paid by the employer, on the other hand, is a tax on the *demand* for labor. The calculation of this tax comes when men are being hired or promoted—or dismissed. The smaller the payroll, the less the tax. The smaller the wages, the less the tax. The fewer the employees, the less the tax. A high tax on payrolls must retard wage increases and retard re-employment, and must accelerate unemployment in periods of crisis and depression, especially for the hard pressed marginal firms, which are reaching out desperately in every direction to reduce costs. A 6 per cent tax on payrolls is, in my judgment, dangerously high. And the combined taxes on payrolls for unemployment insurance and old-age insurance amount to 6 per cent payable by the employer, in addition to the 3 per cent tax on wages paid by the worker.

Complications always arise in concrete practice. Resistance by labor to actual reductions of wages could mean that the main effect would be on volume of employment rather than on actual wage rates. This would probably be the first tendency if such a tax came into effect in a period of receding business. If the tax should come into effect in a period of advancing business, increasing employment and rising wages, the tendency would be merely to retard the increase in wages and slow down the movement of re-employment. The initial impact of the tax would, in any case, be on the profits of the business—or

on the capital of the business if there were no profits. Sooner or later, I am convinced, economic law would shift the tax almost entirely to labor.

Assuming the correctness of this view, it seems clearly wiser to me to use a different tax from the payroll tax for old age pensions. Let us abolish both the three per cent tax on payrolls and the three per cent tax on wages directly paid by labor, in getting funds for old-age pensions. Let us limit the old-age pensions to cases of need, and raise the funds for them by a widely distributed tax on all classes of the population, say a tax at a low rate on all incomes, including corporate incomes, above five hundred dollars, making large use of the principle of collection at the source on small incomes from wages, to simplify administration.

In the second place, if this view regarding the incidence of the payroll tax is correct, we have a further powerful argument for dividing the cost of unemployment insurance between employer and employee. Instead of a 3 per cent tax on employer for the unemployment insurance fund, it would seem to me better to have the tax divided between laborer and employer, $1\frac{1}{2}$ per cent for each. This secures the advantage of that direct participation of both employer and employee and the direct interest of both in the working of the system which is necessary for the sound working of the system. In the long run, it is not less advantageous to labor, because the whole of the cost will fall on labor ultimately in any case.

A third corollary from this conclusion regarding the incidence of the payroll tax would be that it is definitely wrong for the Federal Government to use for general purposes 10 per cent (often more) of the payroll tax designed to produce the unemployment insurance funds. Whatever is collected from employers for this purpose

should go to the unemployment fund. The Federal Government should not use a tax for revenue purposes which retards employment in good times and accelerates unemployment in bad times.

“Higher Incomes” Already Drained by Other Taxes

These criticisms of payroll taxes have led in some quarters to the glib suggestion that the costs of the social security program should be met by “taxes on the higher incomes.” If the higher incomes were now free from taxation, the suggestion would have merit. But with the Federal Government already taking up to 75 per cent of incomes, not to speak of what the various States take in addition, the proposal seems a trifle unreal. Those who blandly reply, therefore, to every question of where the money is coming from to finance this or that ambitious or grandiose project, that we can “tax the higher incomes,” are guilty either of ignorance or of insincerity. It is not merely wrong, it is a cruel deception to tell the great masses of this country that a few rich persons can pay the bills for every new “reform,” and that the burden will not fall mainly on themselves. When it is wrongly assumed that the burden for any new plan involving large expenditures can be placed on the 4 or 5 per cent of the voters of the country who pay income taxes, there is little political restraint on the proposal and passage of such a plan. As soon as it is realized that we must all pay for it, such plans are certain to be examined with more care.

Saving the Good in the Federal Social Security Act

In saving the good of the Federal Social Security Act (I am not here considering the minor features of the Act but merely the three that I have named) let us drop the coercion of the States in the matter of unemployment insurance, though we should encourage the States to develop

the system of unemployment insurance. Let us drop the old-age insurance based on payroll taxes and taxes on wages for special classes of workers, and let us concentrate on the system of grants-in-aid to the States for the assistance of all the needy aged in such a way and on such a scale that we shall do this thing adequately in our own time and generation to the extent that we can afford to do it. And let us do it on a current cost basis, so that we shall know what it costs and shall know whether we can afford it.

I may add that in testing need we should ignore the question of whether sons and daughters or other kinsmen are well enough off so that they can take care of their aged relatives. I have been told of a county court in a southern State which, forty years ago, emptied the local poorhouse by giving small monthly stipends to its inmates which made them welcome members of the families of their children, and gave them a sense of dignity in the homes of their children, because they were able to contribute to the common family expenses. I think that experience will show that we can afford, on a current cost basis, to eliminate both dire poverty and dependency for that part of our population which is over sixty-five, and I am in favor of making the attempt to do it. In this connection, I may say that it will be very much easier for us to afford to take care of our aged properly if we can curtail radically the existing appalling wastes of government.

We Do Not Gain Individual Security If We Undermine Aggregate Security

I have emphasized the dangers to aggregate security from the Federal Social Security Act which is aimed at individual security: the dangers to Federal finances from the vast funds flowing through the Federal Treasury, cre-

ating constant temptation to Congressional extravagance, the vast increase in national debt contemplated by the Act, the 6 per cent tax on payrolls. If there were time, I should like to discuss also the indefensible tax on corporate thrift passed last month in the closing days of Congress. It is not pleasant to contemplate the Federal Treasury drawing into its hands both the savings of business and the savings of labor and placing them at the mercy of Congressional appropriations. And there is no time to discuss the numerous unsound developments in the field of money and bank credit, to say nothing of the gigantic deficits of the Federal Government.

Incidentally, it may be observed that it is a strange proceeding to make plans running through fifty years creating insurance obligations and rights which run in terms of dollars and which are calculated with respect to present wages and present living costs, when so much has recently been done to make uncertain the future value of the dollar, and when the very plan itself increases that uncertainty. It may prove to be a cruel and pitiful jest to compel by law the great body of our working people to save for their old age dollars which our existing public policies could so easily rob of most of their value long before the time came when the worker was to get them back. When we have a twenty-four hour policy with respect to our money, it is surely best to have a current cost policy with respect to pensions for our aged.

It is unfortunate that the social security program should have been discussed and inaugurated in a period when the Federal Government is operating at a heavy deficit, when it is meeting less than half of its current expenditures out of current income. Money is not real in such a period. It is not real to the Congress that discusses such a program or to the taxpayers who will ultimately have to pay for it.

The added burden of the program will not be fully realized until taxes equal expenditures. The prospective weight of new plans is recognized only when existing taxes already balance expenditures and when there is insistence that any new program for distributing benefits to special groups must be accompanied by a tax bill to raise the necessary revenue. Legislators can be made to restrain their generosity in spending other people's money only when, at the same time as they devise a scheme for helping one special group, they are compelled to tell the rest of the country how much the scheme is going to cost it, and just who is going to receive the bill.

I think my attitude toward the general problem of social security is sufficiently plain from what I have already said. I am deeply sympathetic toward the efforts to mitigate the chief economic hazards to which great masses of people are subject, particularly the hazards of unemployment and of poverty in old age. But I wish also to emphasize the side of the problem that is now being overlooked by many of us—the hazards of a hastily conceived program for accomplishing this. We must not forget the incentives that move men in their economic actions, the dangers of an overburdensome program that, by promising too much, may collapse of its own weight, meanwhile retarding or disrupting the very processes of production itself, on which we must ultimately depend for such a program. It would be not merely ironic but tragic if, in too sanguine efforts to insure the economic security of some of our citizens, we imperilled the economic security of all of them.

*Foreign Trade
and Our National Interests*

—
An Address by

14
WINTHROP W. ALDRICH
Chairman Board of Directors

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK

at the

WORLD TRADE LUNCHEON
ASTOR HOTEL

Under the Auspices of the

MERCHANTS ASSOCIATION OF NEW YORK
in cooperation with other organizations

May 22, 1936

X: 54.73. N3

G6

Foreign Trade and Our National Interests

*Mr. Chairman and Members of the Merchants Association
of New York:*

The problem of foreign trade is very much confused and oversimplified when it is presented, as it sometimes is, as an issue between nationalism and internationalism. I know of no responsible man in the United States—or, indeed, in any other country—who is not essentially a nationalist, that is to say, one who thinks first of the interests of his own country rather than those of foreign countries. The real issue, as I see it, is between nationalism and sectionalism, or between national interests and special interests. In considering the issue as so defined, I believe that the national interest should be controlling, and it seems to me clear that the interests of the nation as a whole are best served by a large measure of foreign trade.

In the fifteen minutes which I am privileged to use of the limited radio time, I cannot do more than call your attention to three or four main questions which have a bearing on our foreign trade, and in presenting these questions to you I can merely attempt to indicate certain points which bear upon their solution rather than to try to give confident or specific answers to any of them.

Foreign Trade, Peace and War

In a world where fears of war are growing and in which patient and devoted men, working for peace, find so much that is discouraging, there are those who believe it is best for this country to become economically self-sufficient in the hope that we may be immune to the effects of wars which may occur between other countries. Unfortunately it is extremely difficult, even for this vast country of ours to become self-sufficient. Tin, nickel, manganese, rubber and a great many other essential commodities must be brought in from abroad, and we must look to foreign markets to give employment to millions of our people whose surplus cotton, tobacco, lard and other products we cannot consume at home. But if it is difficult for us, with our infinitely varied conditions of soil and climate, our tremendous resources, and our manifold industrial activities, to be economically self-sufficient, it is impossible for many countries, both in Europe and Asia, with dense populations and limited resources, to achieve this goal. These countries, if they are able to export the products of their manufacturing industries and trade them for foods and raw materials, can achieve national well-being, but if they cannot do this they are tempted to engage in wars of conquest to get new territories from which they can obtain the foods and raw materials they so sorely need. There could be no surer way to bring about a generation of war and misery throughout the world than for the policy of national economic self-sufficiency to be pressed to its logical conclusion.

In view of this fact let us ask ourselves whether we could make any greater contribution towards world peace than by so opening up the channels of trade that every country would be permitted to *work* for its foods and raw materials instead of *fighting* for them. And let us ask our-

selves further whether anyone seriously believes that this country could remain unaffected if another world war should come.

Foreign Trade and the Volume of Employment

A country like ours, which, ever since the Civil War, has had high protective tariffs, and which, under such tariffs, has achieved an economic development equalled nowhere else in the world, has many fears regarding any lowering of trade barriers. During all these years those who have advocated the continuance of high protective tariffs have argued that such tariffs are essential to maintain our high standard of living through high wages and widespread employment. Those who have been opposed to such tariffs have urged that goods going out of a country can only be paid for by goods coming in; that foreign trade, both import and export, increases rather than decreases employment, not only in foreign countries but at home; that this increase in employment from a domestic point of view not only takes place in connection with the actual production of goods for export but also in connection with railroad transportation, harbor activities, shipping, in wholesale and retail houses, and in banking and insurance activities all connected with both the export and import trade; and that such trade continues to make more trade whether it originates in foreign or domestic production.

Obviously this question of the wisdom of lowering trade barriers cannot be settled by looking only at the tariff schedule of some one industry which is obliged to face foreign competition and which is fearful of the import of foreign goods. We must look at the whole situation from a national point of view. We must recognize that exports can, in the last analysis, only be paid for by imports.

Realizing this, we must consider, for example, the millions of people in this country who have produced and are producing cotton for export, the ten or more different workers who stand between the growing cotton and the final shipment of every bale of cotton out of the country—picking it, ginning it, baling it, grading it, loading it into freight cars, transporting it over railroads, handling it in the export harbor and carrying it overseas, and the clerical workers who keep the records and handle the documents. We must consider this same situation with regard to the thousands of other commodities which we export, including products of the mines as well as of the farms, and manufactured products such as automobiles, sewing machines and typewriters. And we must think of the unemployment created when we are forced even partially to reduce our export trade and curtail our agricultural, mining and manufacturing production of export commodities. This reduction of our export trade sets adrift countless numbers of people who have no place to go except to the relief rolls, and such people now constitute, I believe, one of the major factors of our relief problem.

I am myself a firm believer in the principle of the protective tariff. As I have already stated, I consider that the protective tariff has been the cornerstone upon which has been erected the prosperity which this country has enjoyed since the Civil War and until recent years. Moreover, I know of no one who at this time would think of substituting for it the doctrine of free trade. But I try to be a reasonable protectionist. A good policy carried to extremes becomes a bad policy—and we have carried protectionism to extremes. The question is simply this: Should we relax our virtually prohibitive restrictions on the imports of a widely diversified list of manufactured goods sufficiently to permit the importation of a volume of com-

modities which will pay for an adequate export of those goods which we cannot consume at home, thereby restoring employment to the domestic workers who produce such goods?

Foreign Trade and the Federal Budget

One highly important point to take into account in deciding between the policy of economic self-sufficiency and the policy of the restoration of foreign trade is that the policy of economic self-sufficiency, even to the extent that we are now practicing it, imposes an immense burden upon the Federal budget. In view of the unbalance as between agriculture on the one hand and manufacturing on the other, the Government is undertaking to give to the farmers as compensation for their lost export trade many hundreds of millions of dollars a year, and additional vast sums are being spent by the Government in relief for the displaced tenant farmers, share croppers and farm laborers.

An adequate restoration of foreign trade would make a bigger contribution to the balance of the Federal budget than any other single measure. Let us consider the following important items on both sides of the income and outgo ledger. (1) The tariff used to be our most important source of Federal revenue. We received in the fiscal year 1935 only 8½ per cent of our revenues from it. In that fiscal year customs receipts were 343 millions of dollars. Most of the goods that come in today come in on the free list. A great number of our tariff rates are so high as to be virtually, if not absolutely, prohibitive rates, stopping imports. The Government, however, collects customs duties only on goods that come in, not on those that are kept out. Lower tariff rates on many items would bring in very much more revenue and still leave a great deal of

protection. We could easily get \$300,000,000 a year additional revenue from the tariff by lowering rates. (2) Further, if we allow foreign countries to send goods to us instead of requiring gold, we should be able to collect something on interallied debts; not the three hundred odd millions of dollars a year that the contracts call for, but, let us say, 75 to 125 millions a year. (3) On the side of outgo, we could save the vast sums which we have been paying the farmers in benefits and other payments, since, if they had their foreign market restored, the reason for these payments would be gone. In the fiscal year 1935 these payments, including administrative expenses, totaled \$712,000,000 not counting the advances of the Farm Credit Administration, which were \$125,000,000, or the relief expenditures of the Department of Agriculture amounting to \$81,000,000. (4) And if we had a normal market for agricultural goods and full production in agriculture, the Federal Government would no longer need to spend vast sums in relief among the now idle tenant farmers and the farm laborers.

I raise the question as to whether there is any other way in which we could so painlessly contribute far over a billion dollars to the Federal budget. The confiscatory taxes imposed last summer on large estates and large incomes, as estimated in this year's budget report, will produce only \$222,000,000 of additional revenue, and the pending tax bill is aimed at only \$620,000,000 of additional revenue.

The International Balance

I have previously mentioned the fact that any revival of foreign trade must rest upon the principle that imports pay for exports. The banker's experience in matching

debits and credits at the clearing house every day makes it easy for him to understand the necessity of balancing inflow and outflow in international trade. It is sound and safe to finance a round trip. It would be folly to try to repeat what we did from 1922 to 1929; that is, to finance a one-way passage with long-term bonds. Foreign bonds are good investments only if we are willing to permit payments to be made in goods and services.

Gold Standard and Foreign Trade

There is one other factor which is extremely important to the restoration of our foreign trade, and that is the stabilization of the currencies of the world on a gold basis. No barrier to foreign trade is more disturbing than frequent and violent fluctuations, indeterminate in amount, in the rates of exchange among the currencies of the different countries.

I will not of course attempt at this time to analyze the usefulness of the gold standard in settling balances of international trade. It is sufficient to say that I believe that it is extremely important that the major countries of the world should be brought into agreement to re-establish the gold standard at the earliest possible date. I realize, however, that there are many obstacles in the way. I will mention only two of them—the unsettled question of war debts and the difficulties which so many countries face in connection with the balancing of their budgets. In the meantime, if the dollar is definitely fixed and firmly maintained at its present parity on a gold basis, it will mean that our own international business will be done increasingly on a dollar basis, and that the dollar will become more and more a refuge where men in other countries may find shelter from the fluctuations of their local currencies.

The gold pound sterling did this service for the world in the nineteenth century and down to the time of the World War. I hope that we shall see a gold pound sterling again in the near future, resuming much of its old-time prestige and its function in stabilizing weaker currencies, but even if this should not happen, the dollar alone can perform this function if need be. We must not forget that with our unshaken gold standard in the immense world disorder of 1914-1924 we had the quickest revival of any country in the world from the crisis of 1920, and that prior to 1925 the dollar was increasingly becoming the currency in which the world did business.

*The Reciprocity Agreements and the
Most Favored Nation Clause*

In conclusion, I wish to express my conviction that the policy of our distinguished Secretary of State of negotiating agreements for reciprocal tariff reductions, with the generalization of the benefits of those reductions through the inclusion of the most favored nation clause, is a wise policy and a sound policy. Without this most favored nation clause, such agreements could do more harm than good, by intensifying national jealousies, and splitting the world into small trade groups, each cut off from the others. I would express the hope that public opinion will so support this policy that it can be carried through adequately.

**THE CHIEF CAUSE
OF THIS AND OTHER
DEPRESSIONS**

15

BY
LEONARD P. AYRES
VICE PRESIDENT, THE CLEVELAND TRUST COMPANY

**The
Cleveland
Trust Company**

X: 742.73.N3

GS

NOTE

This discussion of business cycles has been prepared in response to a request from Senator Josiah W. Bailey, of North Carolina, who is the chairman of a Senate committee charged with the duty of studying the causes of the present depression.

L.P.A.

April, 1935.

Published April, 1935

5000 Copies Printed April, 1935

5000 Copies Printed April, 1935

5000 Copies Printed May, 1935

5000 Copies Printed May, 1935

Copyright, 1935, by
The Cleveland Trust Company

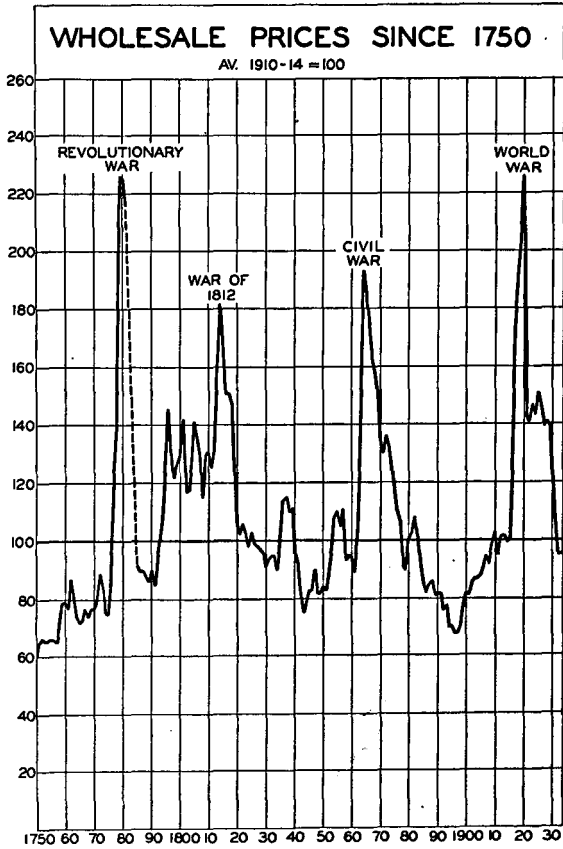
ORIGINS OF THIS DEPRESSION

I. A SECONDARY POST-WAR DEPRESSION

This is the sixth year of this depression, but it is the 22nd year of the causes of the depression, for this most serious of modern periods of hard times has its roots in the World War, and so its true origins reach back into 1914. It is not possible to trace within the limits of this brief essay even the more important of the numerous disruptions and maladjustments caused by the war in the economic relationships between and within nations. It will suffice for the purpose of illustrating the powerful influence of major wars on business conditions to note how the general level of commodity prices at wholesale has risen in each of the more important wars in which this country has engaged, and how it has declined after the wars have terminated.

On page 4 there is a diagram showing the course of American wholesale prices during the past 185 years since 1750. The series of data was compiled by Professors Warren and Pearson, of Cornell University. The four sharp peaks of war prices constitute the most striking feature of the diagram. A great war always lifts commodity prices far above their pre-war levels, and the return of peace always starts them on long declines. The war advances are sudden, and the post-war declines, while rapid, are much more gradual. The sharp advances are always accompanied by the feverish business activity that we know as war-time prosperity, and the long post-war declines always involve protracted periods of depression.

The influence of great wars in lifting commodity prices is felt in countries other than those actually engaged in the hostilities. This is well illustrated in the diagram which shows that high prices prevailed in this country during the Napoleonic Wars from 1793 to 1815, a period of some 23 years, in which we were engaged in war only during the last three years. Similarly during the World War

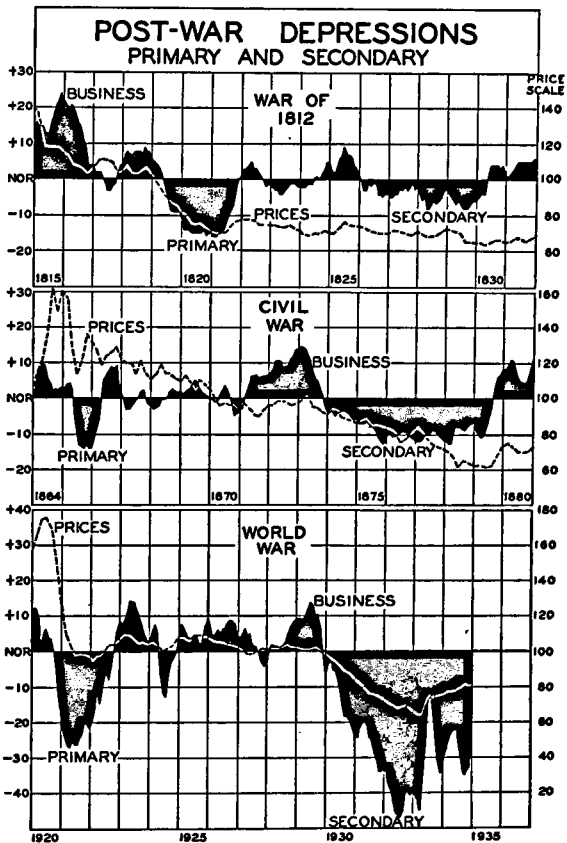


our prices rose rapidly during 1915 and 1916, although we did not enter the war until 1917.

During the World War high prices prevailed in countries all over the world, whether the nations were engaged in hostilities or not, and in many instances the price increases were more violent than they were here. If we take the pre-war price levels of 1913 as being equal to 100, the records show that by 1920 our prices had risen to about 250, those of England to more than 300, prices in France to almost 600, and those in Italy to nearly 700. Such great and sudden price changes as those caused by the war were bound to result in great business stimulation while the advances were continuing, and in wide-spread business distress during the subsequent collapses. These results were inevitable, and took place almost without regard to the timing and the influences of the economic changes that usually accompany those swings from good times to bad ones and back again that are known as business cycles. The depression which followed the war in 1921 was world-wide in its effects. In this connection it is interesting to note that John Adams, the second President of the United States, wrote on this general subject as follows: "I am old enough to remember the war of 1745 and its end, the war of 1755 and its close, the war of 1775 and its termination, the war of 1812 and its pacification. Every one of these wars has been followed by general distress, embarrassments of commerce, destruction of manufactures, and a fall in the prices of produce and of lands."

SEQUENCES

The World War stimulated almost universal business activity while it was under way and for a short subsequent period, and then brought world-wide depression. It also created the conditions of ardent nationalism, venturesome enterprise, expanded credit facilities, and world shortages that were to combine to bring a general post-war boom, and then the collapse into this depression. Recent studies of the history of business cycles show us that all these developments conformed to the well defined sequences that



appear to have governed economic movements during and following nearly all important modern wars.

The simple rule is that the war is accompanied by a period of exceptional business activity and prosperity. It is followed by a sharp and usually short period of hard times which we may designate as the primary post-war depression. This gives way to a rapid recovery and a period of active business expansion, which in turn is displaced by a long and severe period of sub-normal activity which we may term the secondary post-war depression. The great depression of the 30's is the secondary post-war depression following the World War.

We may trace these sequences in the economic history of a good many nations, and over long periods of years, but they are particularly well defined in the business annals of our own country. A consideration of their causes will aid us to gain insight and understanding as to the nature of this depression. We may start with the historical fact that we had a primary and a secondary post-war depression following the War of 1812, again a primary and a secondary post-war depression following the Civil War, and now once more a primary and a secondary post-war depression following the World War. Moreover these pairs of post-war depressions have had certain characteristics in common that appear to indicate that they have formed parts of a specialized pattern that business activity follows after all great wars.

The diagram on page 6 shows the monthly changes in business activity, and in wholesale commodity prices, during three sets of post-war depressions. The diagram is based on data compiled by the author, and taken from a long diagram showing changes in business activity in the United States since 1790, and published by The Cleveland Trust Company, of Cleveland, Ohio. In each section of the diagram the black silhouette shows the percentages by which business activity rose above the computed normal level, or fell below it. Business activity in this instance really means industrial activity, and in the section relating to the years since 1900 it means the physical volume of industrial production. The line showing the fluctuations of commodity prices has been so

computed that the average for 1929 is taken as being equal to 100. This choice is an arbitrary one, and does not indicate that the price levels of 1929 were normal ones.

It is not the event of war that shapes the patterns, but rather the fact that great wars cause sudden and extreme advances in commodity prices. It is this sudden price advance which largely determines the nature and sequence of the business cycles of the following 20 years or so. Since sudden and great advances in the general levels of commodity prices have seldom come in most modern nations except in time of war, the special patterns of business movements that we are considering may be thought of as restricted to war and post-war periods.

In broad general terms we may think of all the people in the world as being divided into two great classes. In the first class are the people who live in the country and earn their livelihoods by extracting valuable things from the earth through agriculture, mining, lumbering, and fishing. In the second class are those who live in towns and cities, and support themselves by taking the things produced by the country dwellers, and fabricating them, and trading in them.

When war comes, and commodity prices mount, the prompt result is a great wave of prosperity for the farmers. For some time their production costs increase but little, and so the advances in the prices they receive for their crops are almost all profit. Under such conditions the doubling of the amount received for a crop of given size may well result in a tenfold increase in the profit to the farmer. The next development is a great speculation in farm lands, the plowing of additional fields, the use of profits to buy more land, and a large increase in farm mortgages. Production is sharply stepped up, and every effort of government is used to encourage and stimulate the process, for war is an insatiable consumer. The other extractive industries of mining, forestry, and even fishing, are similarly stimulated.

This period proves rather difficult for the city dwellers, for while industry and trade are brisk, and everyone can find work, the cost of living rises rapidly, wages do not advance nearly as rapidly as

prices, and industrial disputes multiply as pay increases are demanded. However, toward the end of the war, or shortly thereafter, commodity prices reach their peak and turn down. With the price deflation comes business depression for the rural and urban dwellers alike. After the Civil War this primary post-war depression came in 1865, as soon as hostilities ceased, but after the War of 1812 it did not come until 1819, and although the World War was terminated in 1918 the depression did not come until 1921. With the depression comes a collapse of the farm-land boom, and the farmers find themselves burdened with the heavy mortgages placed at the earlier high land prices. Even those without mortgages find themselves faced with the dreary task of reverting to standards of living lower than those to which they have just become accustomed.

When this primary post-war deflation, and primary post-war depression, have run their course there ensues a period of urban prosperity. Food is now relatively cheap in the cities, for production has increased so that supply is definitely greater than peacetime demand. Food constitutes a large part of the cost of living of the industrial workers, and when food prices decline more rapidly than urban wages the result is a period of hard times for the country dwellers, but of prosperity for city people. The world was moving through such a period from the depression of 1921 to the end of the prosperity in 1929.

Two characteristic developments mark a period of that sort. The first is a boom in city real estate, with great activity in building construction, stimulated not merely by the prevailing economic prosperity of the city dwellers, but also by the making up of the building shortages that accumulated during the previous war period of inflated prices. After the World War the real estate boom was further stimulated by the creation of far-flung suburban extensions made possible by the advent of the automobile. The second of the two characteristic developments is a period of general speculation in almost everything except commodities.

A post-war period of prosperity of this sort can last a long time but eventually it destroys itself. The real estate boom and the

construction boom run to excesses. General speculation creates fictitious values. There comes a time when the speculative boom collapses. Then comes the secondary decline in commodity prices, the drop in security quotations, and the rapid deflation of city real estate values. The result is the secondary post-war depression, afflicting urban and rural communities alike.

The distinguishing characteristic of this secondary depression is that business and government are burdened and well-nigh paralyzed by the weight of the debts incurred at the higher price levels of the prosperity periods, and entered into under the stimulus of the expansion psychology of the speculative period. During this secondary post-war period of hard times, wages, prices, and profits for both city dwellers and country people are painfully jarred and jolted back into a working adjustment in the effort to enable the people of the nation or the nations to make progress in the long task of paying down the accumulated indebtedness. These efforts are always accompanied by agitation in favor of lightening the load by monetary inflation, and by laws to extend indebtedness, or to repudiate it, or to refund it by the use of public credit.

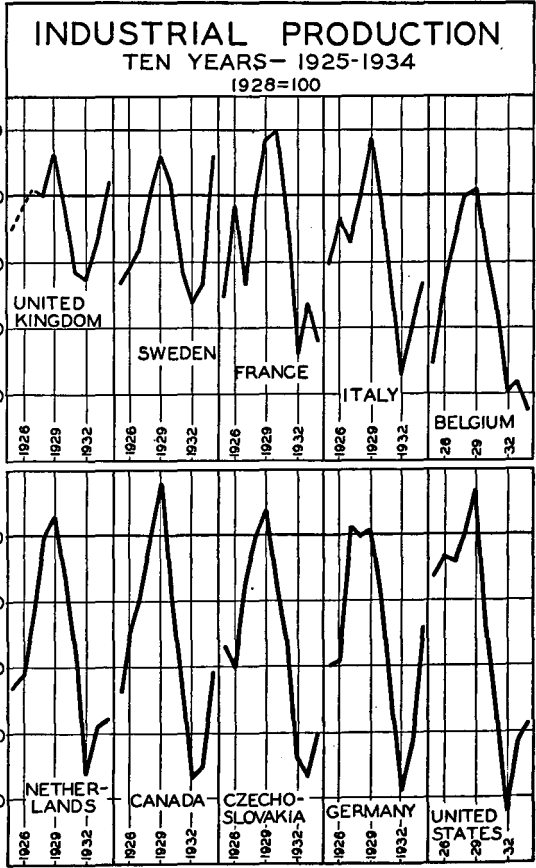
Apparently it takes about 15 years for the events that have been described to run their course. It takes about 10 years for the developments that intervene between the peak of war-time prices and the beginning of the secondary post-war depression. The peak of commodity prices of the War of 1812 came in 1815, and the secondary depression was ushered in 10 years later by the panic of 1825. That depression lasted more than four years. In the Civil War the peak of prices came in 1864, and the first full year of the secondary post-war depression was 1874. The depression lasted six years. After the World War the peak of commodity prices was in 1920, and the first full year of the secondary depression was 1930. In each case there seems to have been the same sequence of (1) commodity price inflation, (2) farm prosperity and farm-land speculation, (3) price deflation and a short primary post-war depression, (4) a period of city prosperity and widespread speculation, (5) secondary price deflation and a long secondary post-war depression.

A WORLD DEPRESSION

Business developments have followed patterns of closely similar sequences in this country during and after those two earlier wars, and in this latest period, but this time the whole world is involved. Instead of thinking about it merely in terms of our own country districts and city populations, we must remember that this time these characteristic economic developments that accompany and follow a great war affect whole nations, and almost all nations, all over the world.

The changes in the volume of industrial production in 10 countries during the 10 years from 1925 through 1934 are shown in the diagram on page 12. The data from which it is drawn are those published by the statistical section of the League of Nations. In each case the volume of production in 1928 is taken as being equal to 100, and the volumes for the other years are in percentages of that base. The marked similarity in the contours of almost all the curves shows that the boom that reached its climax in 1929 was as truly international in character as was the depression that followed it. This greatest of all depressions is world-wide in extent. It followed an international business boom which was probably unprecedented both in its vigor and extent, and in the volume of speculation with which it was accompanied. Both sets of phenomena followed as results of the greatest of all wars.

The depression itself got actively under way with the collapse of the speculative booms in the autumn of 1929, but its advent also was in large degree international in character. Wholesale commodity prices had been falling in England and Canada since the beginning of 1925, and serious declines got under way in a long list of other countries in 1928 and early in 1929. The market prices of stocks turned down in Germany in the summer of 1928, in Great Britain and the Netherlands in the spring of 1929, and in Sweden in the summer of that year. Industrial activity began to decline in Canada and in Italy in the spring of 1929, and in Japan in the summer of the same year, while in France the down-turn did not take place until the spring of 1930. Almost all the countries of the world are involved in the depression, but no one among them can



rightly be charged with having started it or with being responsible for having caused it.

The great and rapid price advances that accompany wars, and the long price declines that follow them, have been discussed in this section as being directly responsible for the nature and sequence of the business cycles of the 20 years or so following the wars. This appears to be the case, and the third section of this essay is devoted to a discussion of the maladjustments between the production of durable goods and consumers goods that appear to constitute the chief causes of business cycles in general, and to occur in specially aggravated form when the wide price swings of war and post-war periods are under way. The great price increases and decreases of war and post-war periods are directly responsible for the special types of prosperity and depression discussed in this section, but the changes in the volume of production of durable goods furnish the economic mechanism through which they work out their effects on employment and on general business activity.

II.

FACTORS THAT DID NOT CAUSE THE DEPRESSION

There are perhaps 11 widely accepted beliefs which are held to account for the depression, and to explain its origin, which the writer believes to be erroneous. It seems worth while to discuss them briefly in this section.

1. Malefactors of great wealth. During all depressions there is widespread belief that the calamity was caused by the acts of small groups of rich men who secured control over large portions of the wealth and credit during prosperity, and brought on the collapse by attempting excessive exploitation. The charge is so lacking in substance that no one ever attempts to explain just what the acts of such men were which resulted in the depression. It would appear impossible that there could be concerted acts of such groups that could cause severe depressions simultaneously in almost all the countries of the world. Certainly depressions operate in ways utterly contrary to the interests of powerful financiers, for they ruin their prestige, reduce corporate earning power, shrink dividends, and cause great declines in security prices. The charge is too vague to be conclusively refuted, but too general and recurrent to be ignored.

2. Overproduction. The arguments which claim that the depression was brought on by general overproduction in this country may be briefly dismissed because the statistical records of what actually happened in the years just before the depression do not sustain them. Our most trustworthy indicators of changes in the volume of the production of goods are still the figures showing freight movements of the railroads, despite the growing use of trucks. The records of freight moved by the railroads show that the tonnages originated per capita of the population were greater in 1923 and in 1926 than they were in the last prosperity year of 1929. The index of the volume of industrial production compiled by the Federal Reserve Board shows a per capita output in 1929 only slightly greater than in 1926. The records for all production, including agriculture, industry, and construction, show that the

combined per capita volume of output was greater in 1923, 1924, 1925, and 1926 than it was in any one of the three years of 1927, 1928, or 1929 just before the depression.

3. Price declines. The great and general fall in the prices of commodities, securities, land, buildings, and almost everything else, is often cited as being the evident cause of the depression. Clearly it was its most conspicuous development, and it brought about many of its most serious resulting difficulties, but the price decline cannot rightly be regarded as having caused the depression. When the prices of goods fall it is because there is no longer a sufficient demand for them to move them at the prices at which they are offered. As a result the prices are marked down, but that does not tell us why the demand decreased. The price decline cannot be the fundamental cause; it is rather the result of something else that has happened. If, as in this case, there has been no important increase in the volume of goods offered for sale the great decrease in prices must start with a decrease in money demand. The possible causes of such decreased demands will be considered in Section III.

4. Reduced agricultural purchasing power. During the 10 years from 1911 through 1920 agriculture received about 12 per cent of American national income, but during the following 10 years it received only about seven or eight per cent of it. These data are taken from the recent report by the Brookings Institution on "America's Capacity to Consume." The opinion is widely held that this change resulted in so great and cumulative a decrease in the purchasing power of the farming districts to absorb the output of the industrial sections that it finally brought on the depression. This theory is of special importance in this country, because it is a major tenet in the doctrine supporting the present policies of the Agricultural Adjustment Administration.

The plight of the farmers in recent years has been real and serious, but the belief that their reduced purchasing power for industrial goods brought on the depression is misleading. During the years after the war but before the depression, the people of this country were spending a smaller proportion of their national

income for agricultural products than they had been previously, but that did not result in reducing the total purchasing power for industrial goods. It lessened the power of the farmers to purchase, but it increased the buying power of the rest of the population. When the food bills of the non-farming population were reduced as compared with their incomes the result was to give them more to spend for other things. The purchasing power was shifted when the farmers got a smaller proportion of the total income, but the total was not reduced.

5. Shortage or maldistribution of gold. Earlier in the depression there was in this country wide acceptance of the theory that the decline in prices and the stagnation of trade had been caused by a shortage of gold, or by so serious a maldistribution between countries as to result in shortages for most of the nations of the world. The argument was that this country and France had absorbed unduly large proportions of the gold stocks of the world, leaving other nations with such small amounts that their means of credit expansion became so restricted as to force them to adopt policies of deflation which made prices fall and so caused the depression.

The refutation of these arguments has been effectively formulated by Lionel Robbins, Professor of Economics in the University of London, in his book entitled "The Great Depression," published by the Macmillan Company, in 1934. He shows that during the years just preceding the depression the world's production of gold had been increasing as rapidly as had the long-term trend of the advancing world output of goods. He cites the evidence showing that the assertion of a world gold shortage is unfounded.

Prof. Robbins continues his exposition to show that prior to the depression the large gold stocks of France and this country were not sterilized, but that on the contrary credit was being expanded in both countries. He shows that there was a shortage of gold in Great Britain, and a tendency for that country to lose gold, but he demonstrates with thoroughness that the maldistribution of gold in the world during the years just prior to the depression was an influence making for inflation rather than for deflation. Readers

interested in the gold arguments will do well to read his book, as indeed will all who are students of depression problems.

6. Shortage of consumer purchasing power. Probably the theory relating to the depression which is most widely accepted in this country is that it was caused and has been protracted by a lack of purchasing power on the part of consumers. The wide acceptance of this theory is of special importance because it underlies the policies with respect to the wage and hour provisions of the NRA codes, because it has been adopted as the most powerful argument of the advocates of the bonus payments to the veterans, and because it is fundamental to the whole program for spending our way out of the depression by priming the business pump through huge government expenditures financed by continued budget deficits.

The theory is that since employed workers produce goods and services that are sold for amounts sufficient to cover not only costs of materials and wages, but also to provide for plant extensions and profits, it follows that the workers can never receive enough to buy what they produce. Hence it is argued there must from time to time be the breakdowns of the economic productive process that we know as depressions, caused by shortage of consumer purchasing power, and resulting in insolvencies and the writing down of property values until a sufficiently low new basis of production costs is reached to enable the process to be begun once more.

The fallacy in this theory lies in its implicit assumption that the portion of the selling price of goods and services that is not paid to the workers, but is instead withheld by employers as profits and for replacements and extensions, does not get spent. In reality it does get spent and so it also becomes purchasing power. The fact is that a condition of depression is not due to deficient spending by consumers nearly so much as it is to deficient spending by business, which always restricts its spending when the prospects for profits appear doubtful. Moreover business is able to postpone spending to a far greater degree than are individual consumers, for the purchasing that business does is largely for durable goods,

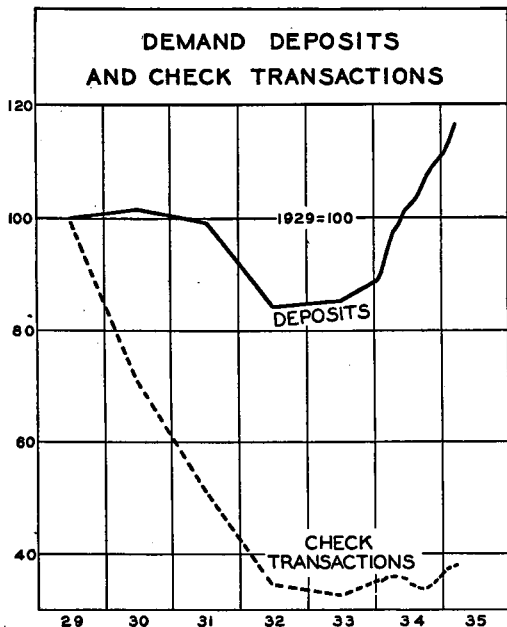
and a major part of such purchasing can be postponed during depressions because existing durable goods may be made to do service for extended periods of time. By contrast individual consumer purchasing is largely for food, clothing, gasoline, and other consumers goods, and most of such buying cannot be postponed.

Our banking figures furnish evidence that it is deficient business purchasing, and not deficient individual consumer purchasing, that is responsible for protracting this depression. As a nation we have spent in this depression many billions of dollars of private and public funds to increase and spread individual purchasing power by advancing wages through the codes, paying bonus money to veterans and farmers, by lavish outlays for public works, and through huge spending for relief benefits. It is now becoming evident that as these funds are spent by the individual recipients they flow into business channels, and are used by business men in part to pay down indebtedness, in part to sustain slow-speed business operations, and in large measure to build up bank balances. They are not actively stimulating revival or rapidly reducing unemployment.

The diagram on page 19 shows the changes for the past six years in the demand deposits and the check transactions in reporting banks that are members of the Federal Reserve System. The demand deposits are mostly those of business concerns, and since they can only be used by drawing checks against them, the dashed line showing check transactions reflects changes in business activity. In the diagram the deposits and check transactions in 1929 are both taken as equal to 100. Check transactions were abnormally large in 1929 due to stock market activity, and so their subsequent decline has been great. That element is now largely absent from them and they now fairly reflect changes in business activity, and are widely considered as among the best of the business activity indicators. They declined from 1929 to 1933 and have since then made a moderate recovery.

Meanwhile demand deposits fell from 1929 to 1932, and since then they have recovered to well above the prosperity levels of

1929. The data do not include government deposits. They are mainly business deposits, and they have grown so rapidly since the government began its large disbursements for relief benefits that they are now well above the old prosperity levels of 1929.



What is happening is that the huge federal expenditures, designed to increase consumer purchasing power, are being spent by the consumers, passing into the hands of business men, and then piling up in the banks as demand deposits, without producing any important increases in business activity. We have tried on a vast

scale a great economic experiment based on the consumer purchasing power theory of business cycles, and it is failing because the theory on which it is based is not valid.

7. Overinvestment in productive equipment. The theory that overinvestment in productive equipment is the cause of depressions is closely related to the consumer purchasing power theory. It is often referred to as the theory of oversaving, and it holds that our business cycle troubles are largely due to the excessive practice of thrift by the people of the nation as a whole. The argument is that people spend too little of their incomes, which reduces the consumption of current goods, and save too much, which is invested either directly or through banks in uneconomic expansions of industrial equipment, which results in still more overproduction.

The evidence that this was not so with respect to this period has already been presented in the second section of this series where it was shown that there was no general serious overproduction just prior to the beginning of this depression. There exists a large body of similar evidence indicating that overinvestment in productive equipment was not the cause of previous depressions. In this connection the reader is referred to the diagram on page 32 showing changes since 1899 in the volume of production of durable goods which include and largely constitute the goods produced by investment financing.

8. Technological unemployment. The belief has been widely held in the United States in recent years that the increasing development of automatic and semi-automatic processes of manufacturing was causing unemployment, and even that it was doing it on so large a scale as to be responsible for the depression. This fear that machines would displace workers has been a constantly recurring one ever since the beginning of the industrial revolution, some two hundred years ago. Nevertheless every serious study of the matter reaches the conclusion that in the long run labor-saving inventions and developments increase the opportunities for employment instead of diminishing them. Perhaps the best single indicator of technical progress in industry in this country is

the series of census figures giving the total of horsepower used in our factories. These data are available from 1870 to now. With other census figures they enable us to make a table showing by 10-year periods the growth in the population if we take that of 1870 as equal to 100, the increase in the number of employed persons in the population above the age of 15 on the same basis, and the advance in the horsepower used in factories. The comparisons are as follows:

Year	Population	Gainfully Employed	Horsepower in Factories
1870	100	100	100
1880	130	133	145
1890	163	185	253
1900	197	232	430
1910	239	308	796
1920	276	356	1,250
1930	319	409	1,830

It seems clear from the figures that the striking technological advance as reflected in the increase in the use of horsepower has not resulted in any general decrease in the proportion of the population gainfully employed. The figures cited do not reflect fluctuations in employment, but they do indicate that there is no tendency for employment among adults to decrease as technological advances in manufacturing develop.

9. Concentration of wealth. A favorite explanation of the depression on the part of people who do not like to puzzle over more subtle theories is the blanket claim that these hard times have been caused by the rich getting richer, and the poor getting poorer. This is really a variant of the theory that the depression is due to lack of consumer purchasing power, but it adds the implication that buying power has been shifted away from the wage earners and to the property owners. Probably the best way to investigate the claim is by referring to the available computations of the distribution of national income in recent years.

Material for this purpose is to be found in the recent report of the Brookings Institution on "America's Capacity to Consume."

This shows at five-year intervals since 1909 the percentages of national income going to wage earners and to property owners as follows:

Year	Per Cent to Employees	Per Cent to Property Owners
1909	54	15
1914	57	16
1919	55	12
1924	64	13
1929	65	15

Clearly there is not here any support for the theory that employees have been getting progressively smaller proportions of the national income, for their share of all there was to divide has been increasing.

10. Speculation. This depression began in this country with the collapse of one of the most excessive speculative periods of modern times, and so it is not to be wondered at that many persons have concluded that speculation is the general cause of depressions. Probably it is true that no period of general speculation on a large scale, whether it be speculation in lands, in commodities, in securities, or in varying combinations of them, ever terminates without being followed by a depression. It is not true, however, that all serious depressions are preceded by periods of important speculation. Since the Civil War there have been three long and serious depressions in this country, that of the 70's, that of the 90's, and this one of the 1930's.

The Cleveland Trust Company has compiled an index series of the prices of representative railroad stocks month by month since 1831. This gives us something of a check on stock speculation just prior to these three great depressions. The five highest monthly average prices reached by these rail stocks in the five years ended with 1873, when the depression of the 70's began, were 108 in 1869, and 105 in 1870, and 106 in 1871, and 102 in 1872, and 98 in 1873. The record for the five years ended in 1893 is similarly free from symptoms of speculation. The five highest monthly averages

were 86 in 1889, and 88 in 1890, and 86 in 1891, and 86 in 1892, and 80 in 1893. The record for the five years ended in 1929 is strikingly different. The five highest monthly averages for the rail stocks were 125 in 1925, and 136 in 1926, and 154 in 1927, and 158 in 1928, and 189 in 1929. Clearly important stock market speculation ushered in this latest depression, but not the two most serious earlier ones. There was a good deal of land speculation just before the depression of the 70's, but not much in lands, in stocks, or in commodities before that of the 90's.

When speculative movements are carried forward by large numbers of participants they always carry prices excessively high, and when the speculative wave breaks the prices always fall to unreasonably low levels. Price advances carried forward by popular speculative enthusiasm can almost never be stabilized at moderate levels either in the phase of the advance or in that of the decline. They must run their courses to extreme highs and subsequently to extreme lows. This is because it is the very essence of the popular speculative movement pursued with enthusiasm that the participants operate largely with borrowed funds, which they must turn rapidly to make profits while prices are rising, and which they must withdraw promptly if prices turn downward. The rapid deflation of a great speculative movement is almost sure to run so far as to terminate in a depression, but nevertheless it is not true of depressions in general that they are always or even usually caused by the collapse of exceptional waves of popular speculation.

11. Bad banking. The case with respect to the relationship between unsound banking and depressions is somewhat like that between speculation and depressions in that the records show that we have had some depressions accompanied by serious banking distress, but many others in which few banks were seriously enough over-loaned to experience bad difficulties. The bank crisis of 1933 was the fourth time in its history that this country experienced general curtailment or temporary suspension of its banking facilities. In 1819 nearly all the banks in the country suspended, although many in New England remained open.

Eighteen years later, in 1837, there was another period of almost universal bank suspensions. Twenty years after that, in 1857, there came a third period of nearly universal bank closing.

Previous to each of these four times of general bank difficulties the country had passed through a period of feverish prosperity accompanied by excessive speculation. The relationship between excessive wide-spread speculation and general bank difficulties seems clearly established, but there is no similar conclusive evidence that the cause of depressions is bad banking. Since the beginning of the last century we have had in this country some 20 serious depressions, of which only four have been accompanied by general bank difficulties of a serious nature, or five if we include the depression of the 70's which brought wide-spread but not general bank suspensions. Bank suspensions have always increased during depressions, but there has been no such relationship between the numbers of suspensions and the severity of the depressions as to support the contention that we may consider bad banking as having been the cause of the depressions. We have never had in this country an adequately sound and well integrated system of banking, and we ought to have one, but nevertheless we cannot account for our depressions by charging our banks with responsibility for them.

III.

THE CAUSES OF THIS AND OTHER DEPRESSIONS

Unemployment is the most obvious symptom of this depression, as it has been of previous depressions. It is its most serious social feature, its most dangerous political feature, and it may be that it is its most significant economic feature. If we can, by analysis, find out about how many workers are unemployed, and in what kinds of activities they would be engaged if they were normally employed, it may be that we can make progress toward finding out more about the causes of depressions. Fortunately the statistics of employment that have become available for the first time during this depression enable us to carry forward an inquiry of this sort much more instructively than has heretofore been possible.

We know that the people in this country who would be classified by the census as being in normal times engaged in gainful occupations are about 50 millions in number. At the present time about 11 millions of them are out of work, and that number has not changed greatly in the past year and a half. In normal times about half of the workers would be engaged in producing goods through agriculture, manufacturing, mining, forestry, construction, and the like. The other half would be providing services in trade, transportation, the professions, and the other numerous service occupations. Similar proportions hold now among the unemployed. About half of them would normally be at work as producers of goods, and the other half would be busy as providers of services.

Now these facts do not at all indicate that these two great groups of five millions or more each of unemployed are of about equal importance and similar significance when considered as factors in the general problem of unemployment. There is a distinction of the first importance between them. It is that the unemployment among the providers of services is caused by the unemployment among the producers of goods. It is because there has been a great reduction in the output of goods that fewer

workers are needed in transportation, in communication, in the professions, in wholesale and retail trade, in banking, in office work, and consequently there are fewer opportunities for workers in personal and domestic services.

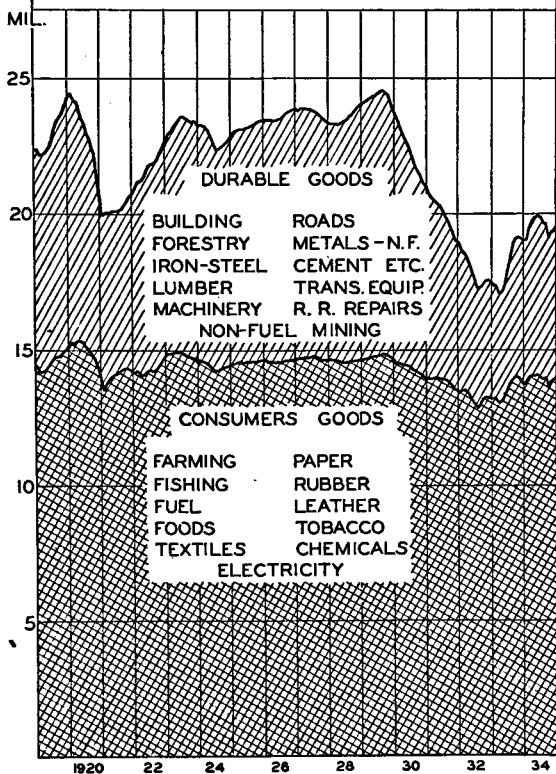
It is a highly important and significant fact that nearly one-half of the unemployment is mostly caused by the other half of it. If the producers could be put back to work, and kept profitably employed, the depression would soon be over. If the producers were busy, the unemployment problems of the providers of services would solve themselves. It follows then that one way to get more essential information about the depression and its causes is to find out what classes of producers make up most of the unemployed and why it is that they are out of work.

The census figures tell us that all the producers are divided into two great groups, one of which raises or makes consumers goods, while the others make durable goods. Consumers goods consist of things that we use up or wear out and replace relatively quickly, such as food, clothing, gasoline, soap, tires, tobacco, and the like. Durable goods are long-lasting goods. They include buildings, machinery, automobiles, furniture, bridges, ships, locomotives, cars, and a long list of articles made of the lasting materials such as the metals, lumber, stone, clay, glass, and cement.

CONCENTRATED UNEMPLOYMENT

Now our recently assembled figures have been giving us information about the producers of these two classes of consumers goods and durable goods which have not before been available. They show that in times of depression the really serious unemployment among producing workers is concentrated in the durable goods industries. This is illustrated by the diagram on page 27 which shows the changes in the employment of producers of goods monthly during the 16 years from 1919 through 1934. The lower portion of the diagram in heavy cross-hatching shows employment among producers of consumers goods, and the upper portion in lighter cross-hatching shows employment among producers of durable goods. The figures have been adjusted to eliminate normal seasonal variations.

EMPLOYMENT OF PRODUCERS



The figures on which the diagram is based are believed to be adequately reliable to show without distortion the major changes that have taken place although the several series used vary a good deal in character. All the data for manufacturing are taken from the employment indexes compiled by the Federal Reserve Board. The data for construction have been based on the census data of occupations, the records of contracts awarded, and on those of monthly employment reported by contractors. No attempt has been made to estimate monthly changes among agricultural workers, and the numbers employed in that group have been considered as those reported by the Census in 1920 and in 1930, with the numbers for the other years estimated from the data of these two years. The data of the diagram do not include the workers classified by the Census as engaged in miscellaneous industries, and numbering about two per cent of all producers, but with that exception the attempt has been made to include all workers engaged in producing goods.

The important feature of the diagram is its clear evidence that during serious depressions unemployment of producers is concentrated among the makers of durable goods. During the period of 16 years covered by the diagram there were two major depressions and two very minor ones. In all four of them most of the unemployment of producers was among the makers of durable goods, and in the mild depression of 1927-28 the unemployment was almost exclusively among the durable goods workers.

These differences are so important that it is well to measure them as accurately as may be. To make the comparisons we may assume that we have two diagrams showing employment among producers of durable goods, and among producers of consumers goods. Now if there had been no depression unemployment the upper lines of the diagrams would have been straight lines running in each case from the peak employment at the end of 1919 to the peak employment of 1923. If we accept such straight lines as representing what employment might have been if the depression of 1921 had not intervened, we may find by subtraction the difference between that full employment, and the volume of em-

ployment actually recorded by our figures. The result is the measure of the unemployment resulting from the depression of 1921. These computations show that unemployment among the makers of durable goods amounted to 66.4 million worker-months, while that among producers of consumers goods was 26.9 million worker-months. This means that during that period the unemployment among the makers of durable goods was over 71 per cent of the total depression unemployment of all producing workers.

Similarly we may imagine the two lines in the diagram to have straight sections running from the actual data of March, 1924, to those of March, 1925, and from March, 1927, to the end of 1928, and to be level straight lines extending from the peak employment data of August, 1929, to unchanged figures at the end of 1934. Computations based on these assumptions show unemployment in the minor depression of 1924 as being 3.1 million worker-months for the durable goods workers, and 1.8 millions for the consumer goods workers. They show 6.8 millions for durable goods workers in the minor depression of 1927-28, and only .4 millions for consumers goods workers. Finally the computations for this great depression show that unemployment among durable goods workers up to the end of 1934 amounted to 236.6 million worker-months, while that among makers of consumers goods amounted to only 64.7 millions.

In each case the major part of the depression unemployment among producers of goods was concentrated among the makers of durable goods. Their part of this unemployment amounted to 71 per cent of all in the major depression of 1921, to 63 per cent of it in the minor depression of 1924, to 94 per cent of it in the minor depression of 1927-28, and to almost 79 per cent of it in this great depression up to the end of 1934. If we combine the figures covering all four depressions we find that the unemployment among makers of durable goods amounted to 77 per cent of all the unemployment among producing workers.

We may rightly conclude from these figures that the unemployment which constitutes the most seriously important feature of

depression periods is that among the makers of durable goods. We may infer somewhat tentatively that it is a rule that during depressions about three-quarters of the unemployment among producers of goods is concentrated among the makers of durable goods. We have already noted that the depression unemployment among the providers of services is largely caused by the unemployment among the producers of goods. We may now combine these several observations into one highly important general conclusion, which is that the most important cause of depressions is unemployment among producers of durable goods.

The social aspects of this concentration of unemployment among producers of durable goods are even more seriously important than the economic ones. If three-quarters of the unemployment in depressions is that among makers of durable goods, it follows that these idle workers are three times as numerous as are those among the makers of consumers goods. But there are almost twice as many people in the groups producing consumers goods as there are in those making durable goods, which means that in proportion to the total numbers involved the problems of unemployment during depressions are almost six times as serious in the durable goods industries as they are in the consumers goods occupations. These disparities are still further aggravated by the high degree of concentration of a large part of the durable goods workers in restricted geographical areas, notably in the iron and steel producing communities of the middle-west.

INDUSTRIAL PRODUCTION

The evidence that has been presented concerning unemployment in four depressions occurring within 16 years is not adequate by itself to support sweeping conclusions about depressions in general, but it can be substantiated by more evidence covering a much longer period. We cannot carry back month by month to years earlier than 1919 the statistics covering the changes in employment among substantially all the producers of goods. We have, however, monthly data showing the changes in the volumes of manufacturing production of durable and consumers goods

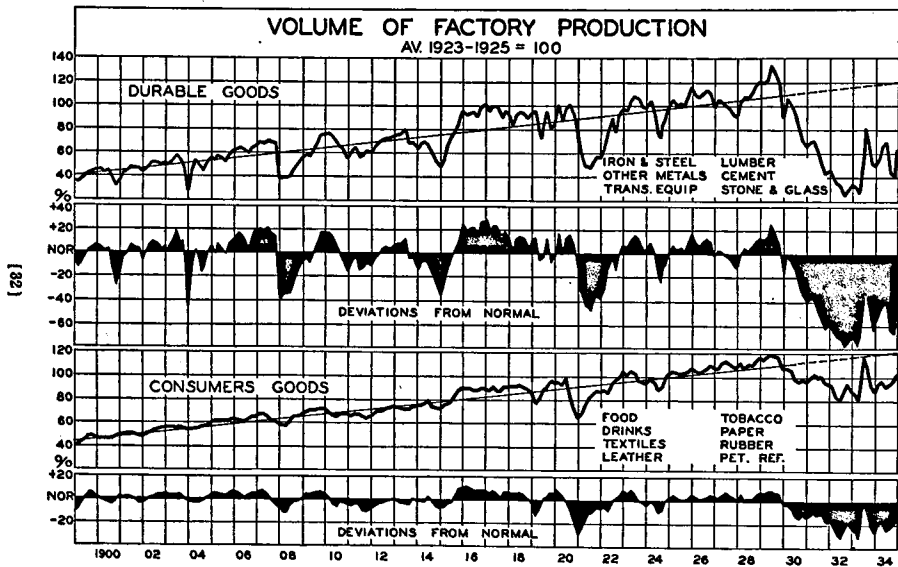
beginning with 1899. These figures show output rather than employment, and they do not include the production of such groups as the farmers, fishermen, foresters, miners, and construction workers.

The diagram on page 32 shows the monthly changes in the physical volume, but not in the value, of the industrial production of durable and consumers goods during the past 36 years. It is based on the data, the weightings, and the methods used by the Census and the Federal Reserve Board in the construction of their indexes of production. It is believed that the totals for each year are relatively reliable throughout, but due to inadequacy of data the monthly changes prior to 1910 are only approximations.

In the upper section of the diagram the irregular line shows the index of production of durable goods. A straight line computed by the method of least squares and based on the data from 1899 through 1930 inclusive, has been drawn through the irregular index line to show the trend, and to serve as a computed normal from which to measure the plus deviations of the prosperity periods, and the minus deviations of the depressions. The black silhouette just below it shows the percentages by which the production of durable goods exceeded this computed normal each month, or fell below it.

In the lower part of the diagram there is shown the index of consumers goods, made by the same methods and having a computed normal of the same sort. The black silhouette below shows the monthly deviations from that normal. Fairly conclusive evidence is supplied by the two black silhouettes in this diagram in refutation of the popular theory which holds that depressions are caused by the accumulation of over-production just prior to them. They show that there does not appear to have been any specially important volume of overproduction just prior to this depression, and that during the whole period there seems to have been in operation no general rule that overproduction before major depressions was notably greater than overproduction before minor depressions.

Another diagram derived from the data used in making these



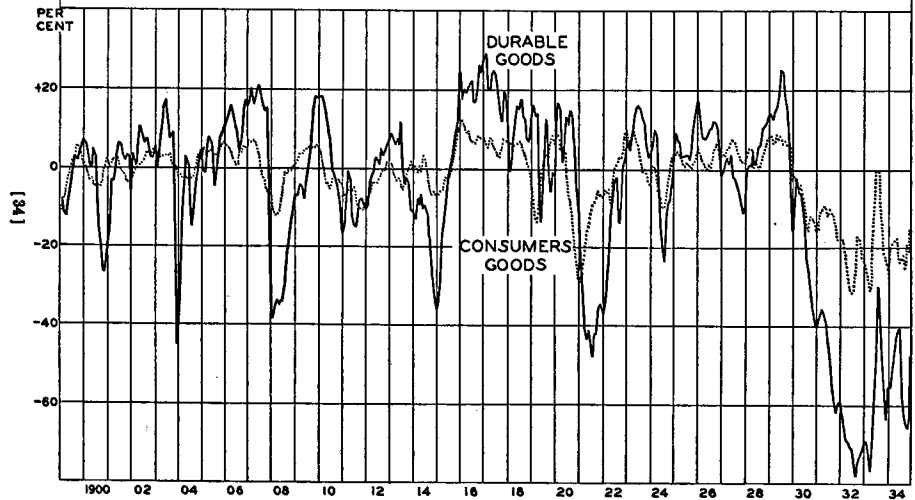
two black silhouettes is shown on page 34. The solid line shows for the past 36 years the percentages by which the volume of production of durable goods has risen above the computed normal trend of output or fallen below it. The data are entered at monthly intervals. In a similar fashion the dotted line shows the percentage deviations above and below normal of the volume of production of consumers goods. The most striking characteristic of the diagram is its clear evidence that in times of prosperity the output of durable goods rises much further above normal than does that of the consumers goods, while in periods of depression it falls much further below.

The average of all the plus and minus deviations of the durable goods line is 17, while that of the consumers goods line is only six. This means that over this long period the variability in the volume of output of durable goods has been nearly three times as great as that of the consumers goods, and that consequently the problems of unemployment in the durable goods industries have been correspondingly more serious. The numbers of industrial workers producing durable goods in manufacturing are about equal to those producing consumers goods, and so the fact that the fluctuations in the production of durable goods are about three times as great as those of consumers goods, goes far toward substantiating the other evidence indicating that about three quarters of the depression unemployment among producers of goods is concentrated among the producers of durable goods.

TURNING THE BUSINESS CORNERS

Our next step should be to examine the evidence still further to find out whether or not decreasing production of consumers goods, just before depressions, or decreasing employment of the producers of such goods, operates to initiate the business declines that later on assume serious proportions, and conversely whether or not increasing absorption of consumers goods starts recovery movements. Probably it is true that the most popularly believed of all theories about business cycles is one which holds that depressions are initiated by decreases in consumer purchasing power,

DEVIATIONS FROM NORMAL PRODUCTION



[34]

relative to the goods produced, and that recoveries are initiated by increases in consumer purchasing power.

The following table shows for each of the major and minor depressions included in our diagrams whether the first important downward movement of production and employment was recorded in the consumers goods or in the durable goods, and whether the first vigorous upturn toward the following recovery was begun by the consumers or the durable goods.

INITIATION OF DECLINES AND RECOVERIES

Years of Depression	As Indicated by Volume of Industrial Production		As Indicated by Employment Among Producing Workers	
	Downturn to Depression	Upturn to Recovery	Downturn to Depression	Upturn to Recovery
1900-01	Consumers	Consumers		
1903-04	Durable	Durable		
1907-08	Consumers	Durable		
1911-12	Consumers	Durable		
1913-14	Durable	Durable		
1919	Consumers	Consumers		
1921-22	Consumers	Consumers	Durable	Consumers
1924	Consumers	Durable	Consumers	Durable
1927-28	Durable	Durable	Durable	Durable
1929-34	Durable		Durable	

The entries in the table show pretty conclusively that there has not been in operation any consistent rule as to the initiation of depressions or recoveries by changes in the volume of production of consumers goods or of durable goods, or by changes in the employment of the workers producing them. In some cases the first important change at the turning points has been in the one class of output or employment and in some cases in the other class. This leaves us with two important conclusions. The first is that the evidence does not support the theory that changes in individual consumer purchasing regularly initiate either depression downturns or recovery upturns. The other conclusion has already been stated. It is that irrespective of the order in which changes take place when downturns and upturns are being initiated the

unemployment which constitutes the most serious condition in all the depressions is that among the producers of durable goods.

If the unemployment of producers was never any more serious among makers of durable goods in times of depression than it is among makers of consumers goods, most of the social and economic problems of business cycles would become relatively unimportant. The remaining problems of unemployment could then be taken care of without undue difficulty, and the flow of durable goods production would become so nearly constant that our problems of credit and capital issues would become greatly simplified. Probably it is true that the mere matter of priority of change in the volume of production and so of purchasing as between consumers goods and durable goods, or as between more closely defined consumption goods and capital goods, is of less importance than has usually been assumed, because as will be shown, priority in these changes does not tell us much about their causes.

PURCHASES BY BUSINESS AND BY INDIVIDUALS

The evidence that we have considered so far tends strongly to support the proposition that depressions and recoveries largely consist of changes in the volume of production of durable goods. By and large all the goods of every sort that are produced and sold are purchased either by businesses or by individual consumers. If we could find out in what proportions businesses and individual consumers make their purchases of each important class of all finished goods produced, we should gain insight into the nature of the changes that cause depressions and recoveries.

It is important that we restrict our classifications of purchases to those of finished goods, or ready-to-use goods, in order to avoid the duplications of purchasing that exist in the records of distribution to business enterprises, and which are absent from the records of retail distribution to individual consumers. Such duplications are, for example, present in the wholesale records of production and distribution in the steps from iron at the blast furnace, to ingots at the steel mill, to sheets at the rolling mill, and

finally to the production of the automobile, which then goes to the individual consumer in a single transaction.

Much valuable new information about the distribution of goods has recently been made available by the Census reports on wholesale and retail trade and on the distribution of manufactured products, and by the painstaking compilations in a recent volume by Prof. W. H. Lough, assisted by Mr. M. R. Gainsbrugh, on "High-Level Consumption." The importance of the new information lies in the fact that it shows that the distribution of finished goods to consumers is very different from what much recent and current economic reasoning assumes it to be. In over-simplified terms it may be stated that much popular economic reasoning assumes that finished goods are produced by business enterprises and purchased by individual consumers, and that hence the changes in business activity that we are discussing must be caused by reductions and increases in the volumes of individual consumer purchasing.

It is true that in the long run, and in ways that are sometimes direct, and sometimes very indirect, all finished goods are used by, or for the benefit of, individual consumers, but it is not true that all important changes in the volume of purchasing of finished goods are those made by individual consumers. Huge volumes of both finished durable goods, and finished consumer goods are purchased by business enterprises both at wholesale and at retail, in connection with their activities in furnishing goods and services for the benefit of individual consumers. Hotels make such purchases, but they sell to the individual consumers meals and shelter; theaters make them, but they sell entertainment; public service corporations make them, but they sell gas and electricity, and telephone service. Innumerable other examples could be cited, and they would all reinforce the argument that if we are to examine into the distribution of finished goods to locate the responsibility for the great changes in the volume of purchasing that cause the depressions and recoveries we must take into account not only all individual buying but all business buying also.

On page 39 there is a table showing the allocations as between

business purchasers and individual consumer purchasers of all finished and ready-to-use goods produced in 1929. It assumes that all the goods produced were sold and that goods exported were in general offset by goods imported. It attempts to exclude all the duplications in business purchasing by restricting the data on industrial goods to finished articles, and its totals of manufactured articles correspond closely with the estimates by the Department of Commerce of the value of all manufactures excluding duplication.

The values used are wholesale and not retail, and most of the figures for purchases by individuals are taken from the book of Prof. Lough on "High-Level Consumption," which gives explanations of the methods by which they were derived. The attempt is made to include in this table all the goods made in 1929 by the producing workers included in the employment diagram on page 27. Construction is included as though it were a commodity, but only the labor value is used, since the materials of construction are included among the other items.

The most important fact shown by the figures of the table is that the purchases of nearly three-quarters of the finished durable goods are made by businesses instead of by individual consumers. If passenger automobiles were classified as being consumers goods, the altered figures of the upper part of the table would show that the purchases of five-sixths of the finished durable goods are made by businesses instead of by individual consumers. This indicates that the changes in the volume of purchases of durable goods which are chiefly responsible for causing depressions and revivals of trade activity are predominantly the results of business decisions. They are mostly changes in the volume of buying by corporations.

It is believed that the data are adequately reliable guides for the use here made of them. The figures of the table show that the percentage of all manufactured goods going to individual consumers is 56.7. This corresponds closely with the figures published by the Census in its report on wholesale trade in 1929, which showed the proportion of all manufactured goods going to in-

**FINISHED GOODS PRODUCED IN 1929 IN BILLIONS
OF DOLLARS**

Products	Total Values	Business Commodities		Individual Consumer Commodities	
		Dollars	Per Cent	Dollars	Per Cent
Durable Goods					
Railroad repair shops.....	1.27	1.27	100.0	----	----
Construction (labor only)....	2.63	2.45	93.2	.18	6.8
Iron and steel.....	2.51	2.21	88.0	.30	12.0
Machinery.....	4.25	3.55	83.5	.70	16.5
Miscellaneous.....	.51	.41	80.4	.10	19.6
Cement, stone, clay, glass.....	.75	.55	73.3	.20	26.7
Lumber and products.....	2.44	1.54	63.1	.90	36.9
Non-ferrous metals.....	.65	.25	38.5	.40	61.5
Transportation equipment.....	4.50	1.70	37.8	2.80	62.2
Total durable.....	19.51	13.93	71.4	5.58	28.6
Consumers Goods					
Paper.....	1.37	1.07	78.1	.30	21.9
Printing.....	2.40	1.70	70.8	.70	29.2
Rubber.....	1.12	.62	55.4	.50	44.6
Petroleum and coal products.....	2.64	1.44	54.5	1.20	45.5
Coal.....	1.25	.58	46.4	.67	53.6
Miscellaneous.....	1.08	.43	39.8	.65	60.2
Chemicals and drugs.....	1.16	.26	22.4	.90	77.6
Textiles.....	6.42	1.32	20.6	5.10	79.4
Foods, processed.....	11.03	1.73	15.7	9.30	84.3
Tobacco.....	1.41	.14	9.9	1.27	90.1
Farm prod., not processed.....	4.88	.24	5.0	4.64	95.0
Leather.....	1.24	.04	3.2	1.20	96.8
Total consumers.....	36.00	9.57	26.6	26.43	73.4
Total all finished goods.....	55.51	23.50	42.3	32.01	57.7
Total manufactured goods.....	46.75	20.23	43.3	25.52	56.7

dividual consumers in that year to be 55.2. The dollar value of these goods shown in the Census report is too high because duplications were not eliminated, and moreover that study failed to recognize that large amounts of goods are bought by businesses from retail sources.

About one quarter of the consumers goods are bought by business enterprises, and this proportion is so large as to indicate that declines and recoveries in business activity may be initiated by

changes in business purchasing whether the increases or decreases take place first in the production of durable goods or of consumer goods. This is the chief reason why studies of the priority of such changes at the turning points of business depressions and prosperities do not afford much helpful evidence as to the causes of the turning movements.

The figure for individual consumer purchasing of construction will seem astonishingly low, but probably it is about right. It represents one-half of the estimated value of the construction of one-family houses and private garages as computed from the data on permits and contracts in 1929. The proportion of one-half was used because about one-half of all homes are rented, and were presumably built in the main as business ventures rather than for owner occupancy. Probably many of the remaining single homes were actually built for sale also.

We may now expand our statement about the cause of business cycles. The evidence that has been reviewed covering the records of the employment of producing workers from 1919 through 1934, and of industrial production in this country from 1899 through 1934, and of the sales of finished goods to businesses and to individual consumers, supports the conclusion that trade cycles are chiefly caused by changes in the volume of purchases of durable goods by business enterprises. The chief reason why fluctuations in the purchasing of durable goods are about three times as great in proportion to total value as are those in the purchasing of consumers goods is inherent in the very nature of the goods. In the main the demand for consumers goods is obligatory while that for durable goods is optional. We cannot avoid or long postpone most of our purchases of such things as food, clothing, domestic fuel, soap, tires, and gasoline, and so such buying of consumers goods is obligatory. That is why there is not even in times of depression any very great volume of unemployment among the producers of consumers goods.

By contrast our purchases of durable goods are optional, for individuals and corporations alike are quite free to postpone buying them if they think it is to their advantage to do so. Most existing

buildings can be made to serve for many years longer if it does not seem advisable to their owners to replace them. The same is true of locomotives, and cars, and ships, and bridges, and most household equipment, and to a considerable degree even of trucks and automobiles. When purchases of durable goods are being postponed those who are doing the most important waiting are largely the corporations, for in normal times they are the best customers of the durable goods industries. All manufacturing plants, and their machinery, all equipment of transportation, communication, and the public utilities, and all office appliances are furnished by the durable goods industries.

We have already noted, in this discussion, three important ways in which durable goods differ from consumers goods. The first is that the demand for them is highly variable, while that for consumers goods is relatively constant. The second important difference is related to this first one, and it is that the demand for durable goods is at any given time mostly optional, while that for consumers goods is largely obligatory. The third significant difference is that most durable goods are purchased by business enterprises, while the majority of consumers goods are purchased by individual consumers.

FINANCING OF PRODUCTION

There is a fourth difference between the two classes of goods which is of special importance not only in its economic implications, but in its bearing on the efforts of government to mitigate depressions and to stimulate recovery. It is a difference in the methods by which the production of the two classes of goods is financed. The production of consumers' goods, which are short-time goods, is largely done by short-term credits, and it presents relatively little difficulty even in times of serious depression. The problems of financing the production of durable goods are entirely different, and far harder. These are long-time goods, and in the main their output is financed by long-term credits. Durable goods are not mainly bought in stores at retail and paid for out of wages.

They are largely purchased from the producers, and paid for out of borrowed funds.

New highways and ships, public buildings and bridges, factories and industrial equipment, are usually paid for by funds raised through bond issues. Locomotives and railroad cars are purchased through the sale of equipment trusts. Most residences and many other buildings are constructed with the help of money secured through mortgages. Automobiles, furniture, and such household equipment as ranges and refrigerators, are largely paid for over periods of many months by the use of finance company notes.

This distinction goes far toward explaining the lack of success so far attained by our managed recovery program in its attempts to solve the depression problem of unemployment by increasing consumer purchasing power through giving more workers and more unemployed people more money to spend for consumers goods. During the period of the past two years in which these attempts have been pushed with the greatest vigor the flow of long-term financing by corporations through bond issues has almost ceased, and there are no present evidences that it is likely to be soon resumed on any large scale. The great expenditures of public funds do not succeed in priming the business pump and stimulating recovery because they are mostly effective in sustaining the demand for consumers goods which do not account for much of the unemployment, while other influences, chiefly related to doubts about profits and fears about money, continue to restrict the production of durable goods which do account for most of the unemployment among producers, and indirectly for most of the rest of the unemployment.

There is involved in the production of durable goods an economic principle of special significance, and it is well for us to note how this has worked out in earlier recovery periods in our history. In the past the rapid and robust recoveries from previous business depressions have almost always been accompanied by important increases in construction and in the creation of new industrial equipment. In large part these increases have been in the construction of new buildings, but they have also included ways of

activity in the construction of ships, of canals, of railroads, of war materials, and of automobiles.

These constructional activities have always been significant features of the recoveries from our business depressions. They have come when men of courage and initiative took advantage of low interest rates to float bond issues for financing extensions of railroads, enlargements of plants, and improvements of equipment. Such new construction is the most effective force making for business recovery because the wages that are paid produce a prompt restoration of the purchasing power of the workers without resulting in the output of new goods which workers must currently buy if the work is to continue.

Money paid for new building is a most effective aid to recovery because it is present purchasing power derived from borrowed funds. The same is true if the construction creates canals, or railroads, or war materials, which will be paid for out of long-term bonds, and it is largely true if it produces automobiles, which are commonly paid for over a long series of months. In every such case the work goes forward, and the wages are paid, without its being necessary for these workers, or other workers, to purchase from current wages the goods that are being produced.

We have here the second important reason why the key to securing a durable recovery is to be found in restoring the production of durable goods. The first reason is that it is the reduction in the output of durable goods that largely constitutes the depression and causes the unemployment. This second reason is that the money which pays for the production of durable goods is borrowed money that is paid out to the workers as wages, and so becomes present purchasing power, but is paid back slowly over a long term of years or months. Thus those workers do not have to buy back currently what they are producing currently in order to have their employment continue. Ordinarily that is not true of the production of consumers goods, for where they are concerned the workers that produce them, as well as other classes of workers, must continuously consume them in large volume in order that they can continue to be produced in large volume.

We need have no fear that as a nation we shall not need in the future as large an output of durable goods as we have had in the past. There is no limit to the amounts of durable goods that we can use if we can get them. Our present accumulation of them largely constitutes our national wealth. We shall need to keep on increasing our production of them until American families are much better housed than they are now, and far more fully provided with services that public utilities can supply. The task of the durable goods industries is to continue building, and rebuilding America, and it has no limits that we can foresee.

We may now formulate still more fully our statement about the causes of the irregular swings of business activity from prosperity down to depression and back again that we have come to know as business cycles. The conclusion reached from the evidence that has been reviewed, and from the consideration of the differences between durable goods and consumers goods as factors in our economic life, is as follows: Trade cycles are mainly caused by changes in the volume of purchases of durable goods by business enterprises, actuated by changes in the prospects for profits. Clearly this statement calls for further elaboration. If it is accepted as valid the question at once arises as to what causes the changes in the prospects for profits.

BUSINESS PROFITS AND BUSINESS PURCHASING

The evidence that has been presented, and the analysis that has been offered in this essay, support the proposition that the degree of business activity depends on the volume of business spending. Business is the exchange of money and credit for goods and services. There is constantly under way a circuit flow of purchasing by which each business enterprise pays out money to other businesses and to individuals in return for goods and services, and each individual consumer pays out his income for the goods and services he uses.

About half of the gainfully occupied individuals are in normal times engaged in providing services, and the other half in producing goods. The earnings which they receive in return for their

efforts are in the main paid to them by business. As long as the businesses for which they work are making profits, and believe they have the prospect of continuing to do so, these individual workers have employment. They are able to exchange what they do for what they want, and when that opportunity is generally available we call the condition prosperity.

From time to time there are widespread changes in the general conditions of conducting business which are of such a nature as to decrease profits or the prospects for making them, and then businesses curtail their purchasing, reduce their output, and pay out less in wages and salaries. When these restrictions take place businesses buy somewhat smaller volumes of consumers goods, but sharply lowered amounts of durable goods. The purchases of the durable goods are cut perhaps three times as much as those of the consumers goods, and the reason for the difference is that the existing durable goods may be made to serve for extended periods of time.

When business slows down, the earnings of individual consumers are reduced, and as a result their purchases are curtailed. The sequence in time and in causation is first, reduction of profits or profit prospects; second, curtailment of business production and purchases; third, reduction of individual incomes and so of individual consumer purchases. This has to be the order in which these influences operate, for if the flow of profits continued unimpaired, business activity and the earned incomes of the individual consumers would be sustained, and their purchasing would continue without diminution. These individual consumers spend most of what they earn. They get their incomes from business, and do not curtail their purchases until their incomes fall. Their incomes fall when business restricts its operations, and that happens when profits decline, or threaten to.

CHANGES IN PROFIT PROSPECTS

This brings us to the question why profits decline, and here it is all too easy to have resort to the obvious but illogical answer that it must be because individual consumers reduce their purchases. This easy solution really is illogical because there is ordi-

narily no reason why the great mass of individual consumers should decide to buy less as long as their incomes are not reduced. Such mass restrictions of the exercise of individual satisfactions do not spontaneously develop. Something else has to happen first, and that something else is curtailment of buying from business enterprises by other business enterprises, and the reason for this is the actual or threatened reduction of profits that we are discussing.

Similarly the theory that changes in consumer purchasing by individuals account for the business cycle fails to explain recoveries. It is hard to believe that at the lowest point of a depression large number of individuals simultaneously decide to increase their purchasing despite the fact that their incomes which mostly come from business have not been raised. On the other hand business enterprises can and do curtail their purchasing when the prospects for profits seem doubtful, and this may happen at the end of a prosperity period even before their incomes are reduced. It happens when changed relationships between costs of production and the sale prices of goods indicate that profit margins will be reduced, and then the reductions in purchasing are made possible by using up stocks of raw materials, and postponing outlays for repairs, replacements, and improved equipment.

At the bottoms of depressions it is the business enterprises that start the flow of increased purchasing that initiates recovery. They do it when changed relationships between costs and prices bring improved prospects for profits. They finance these increases by using their working capital, or their accumulated surpluses, or their credit facilities. The fact that it is extremely difficult to induce a business recovery by increasing the purchasing power of the individual consumers is being impressively demonstrated in this depression. Since 1930 billions of additional dollars have been paid to workers through the wage increases under the codes, and many billions more disbursed to individuals by relief payments, public work projects, and bonus settlements to veterans and farmers.

These payments have helped sustain the consumers goods industries, and they have greatly aided retail trade, but they have done little to revive business purchases of durable goods, and so they have not greatly decreased unemployment. The reason for this is that they have not been accompanied by any general improvement in the prospects for business profits. On the contrary, the increases in wage costs imposed by the codes, and the innumerable restrictions of the codes, have impaired profit prospects, while the huge continuing federal budget deficits have engendered doubts about money which have made business hesitant about assuming the risks of expanding enterprise.

There is no general rule or formula to explain the beginnings of general reductions or increases in business profits, or impairments and improvements in the prospects for profits, for there are numerous combinations of circumstances which may cause these changes. In 1929 the breaking of the speculative boom in stocks served sudden notice that a depression was coming because the losses involved were so huge, and involved so many people, that a considerable business curtailment was bound to follow. The great depression that has followed is only in partial degree the result of the speculation that preceded, but in this country it was started on its way by the collapse of the security prices. Probably the severe credit strains induced by commodity speculation may fairly be considered to have been the most important element in bringing on the depression of 1921.

In 1914 a mild business recession was under way, and apparently a recovery was beginning, when the outbreak of the World War so disrupted normal trade as to bring on the brief, but serious, depression of 1914-15. So one might by careful study assign to each of a long series of depressions some combination of circumstances that could, with good reason, be considered as the determining factor in initiating the downturn, and similarly other reasons could be cited for the beginning of the upturns. All of them would be explanations of the causes of the downward and upward turning movement in the general flow of business profits. Probably the best brief discussion of the nature of the factors

involved is to be found in the recent volume by Prof. Sumner H. Slichter, entitled "Towards Stability."

The only inclusive rule is that any change in conditions which makes the business men who control enterprises generally believe that the prospects for profits have become doubtful in a period of prosperity will start a restriction of purchasing and initiate a downturn in business activity, while any change in conditions justifying a general change of prospects of the contrary sort during a depression will initiate a recovery. Probably it is true that the controlling factors in these changes have in the past usually been the development of periods of credit stringencies, which have initiated downturns, and of credit ease, which have started recoveries.

It is true that before most of the depressions of the past one hundred years in this country stock and bond prices have declined, and short-term interest rates have considerably advanced, shortly before business activity has turned decisively downward. Similarly it is true that just before most of the recoveries from depression stock and bond prices have turned up, and short-term interest rates have been low. These facts support the argument that the recurring periods of credit stringency and of credit ease have probably been the most usual initiating causes of the major fluctuations of business activity, but clearly they have not been solely responsible for starting them.

LAWS CANNOT CURE BUSINESS CYCLES

There is no simple legislative formula by which business activity can be stabilized in a capitalistic economy, so that the fluctuations of booms and depressions will be ironed out. Relative stability can be attained, but not by means of new laws designed to enforce it. Stability of business activity depends on the stability of the fundamental conditions under which business operates. That kind of fundamental stability is the product of the drab and undramatic exercise of national integrity and self-restraint. It involves persistent adherence to at least seven national policies. 1. Peace, and the enduring prospect of peace. 2. A sound money

in which both our citizens and those of other countries have full confidence. 3. Balanced national budgets. 4. A sound banking system, independent of political influence. 5. The limitation of bank credit to loans fully justified by the demonstrated earning power of the assets on which the loans are based. 6. The restriction of speculation financed by credit. 7. Such negative regulation of business operations as experience may have proved necessary to prevent abuses, dishonest competition, and exploitation, but with a minimum of positive regulation designed to control wage and price competition, or to favor special group interests.

CONCLUSION

Throughout this analysis the object has been to identify and examine controlling factors in business cycles, rather than to consider and evaluate auxiliary contributing influences. This thin pamphlet is utterly inadequate in scope and method to treat the subject with even an approach to thoroughness. The economic factors involved in the generation and development of business cycles are numerous, and they combine and operate in varying ways in different cycles. For example all the popularly assigned explanations examined and rejected in PART II of this essay undoubtedly involve or include some elements of validity.

It is not the intention of the writer to assert that changes in the volume of purchases of durable goods by business enterprises constitute the sole or exclusive cause of business cycles, for there are clearly many other contributing influences. It is however his conclusion that this is the controlling factor accounting for most of the depth of the depressions, and most of the vigor of the recoveries, of the peace-time cycles of recent decades.

SUMMARY

1. This is the sixth year of this depression, but it is the 22nd year of the causes of the depression, for this most serious of modern periods of hard times has its roots in the World War, and so its true origins reach back into 1914.

2. Great wars appear to produce regular sequences of economic

results which we may identify as, (1) commodity price inflation, (2) farm-prosperity and farm-land speculation, (3) price deflation and short primary post-war depression, (4) a period of city prosperity and widespread speculation, (5) secondary price deflation and a long secondary post-war depression.

3. Economic developments have followed this specialized pattern of movement and sequence during and after other great wars, and they have done so during and since the World War.

4. This is a secondary post-war depression which involves almost all nations, all over the world.

5. There are perhaps 11 widely accepted beliefs which are held to account for this depression, and to explain its origin, which the writer believes to be erroneous. They may be designated as follows:

- a. Malefactors of great wealth.
- b. Overproduction.
- c. Price declines.
- d. Reduced agricultural purchasing power.
- e. Shortage or maldistribution of gold.
- f. Shortage of consumer purchasing power.
- g. Overinvestment in productive equipment.
- h. Technological unemployment.
- i. Concentration of wealth.
- j. Speculation.
- k. Bad banking.

6. Since unemployment is the most seriously important symptom of this and other depressions, data relating to it are studied in the hope of finding out more about the causes of depressions.

7. About half of our 11 million unemployed would in normal times be engaged in producing goods, and the other half in providing services. The unemployment among the service workers is largely caused by the idleness of the producers of goods, so we should study the causes of the unemployment among the producers.

8. About half of the producers raise or make consumers goods which are things we use up or wear out and replace relatively

quickly, such as food, clothing, gasoline, and the like. The others make durable goods which are long-lasting, and include such things as buildings, machinery, automobiles, furniture, bridges, locomotives, and a long list of articles made of the metals, lumber, stone, and cement.

9. Employment data covering the past 16 years show that during the two minor and two major depressions of that period the unemployment among makers of durable goods amounted to 77 per cent of all the unemployment among producing workers. Data for manufacturing production during the past 36 years, and including six minor and four major depressions, reinforce the evidence indicating that about three quarters of the depression unemployment among producers of goods is concentrated among the producers of durable goods.

10. Over 70 per cent in value of the purchases of finished durable goods are made by business enterprises instead of by individual consumers. This indicates that the changes in the volume of purchases of durable goods which are chiefly responsible for causing depression unemployment, and constituting trade revivals, are predominantly the result of business decisions. They are changes in the volume of buying by corporations.

11. The evidence leads to the conclusion that trade cycles are mainly caused by changes in the volume of purchases of durable goods by business enterprises, actuated by changes in the prospects for profits.

12. Both depressions and recoveries may be initiated by important changes in the volume of purchasing of either durable goods or of consumers goods, but analysis sustains the proposition that business decisions are the controlling factors in the downward and upward turns of business activity, and that changes in consumer purchasing are not. Individual consumers change the volume of their purchasing when their incomes have been increased or diminished, and that happens when business which supplies their incomes has raised or lowered them.

13. Any general change in the prospects of business profits may initiate a depression or a recovery. There are many combina-

tions of developments capable of doing it. Probably those factors that have in the past been most frequently responsible for starting major changes in business activity have been periods of credit stringency and of credit ease.

14. Stability of business activity depends on the stability of the fundamental conditions under which business operates. This cannot be created by any simple legislative formula. It involves persistent adherence to at least seven national policies; peace, sound money, balanced budgets, sound banking, the restriction of credit to loans justified by earning power, the restriction of speculation, governmental regulation of business to prevent abuses, dishonest competition, and exploitation, but not to control wage and price competition or to favor special groups.

The Cleveland Trust Company

Capital Funds.....	\$ 31,500,000
Resources.....	305,000,000

Problems of Financial Reform and Readjustment of Public Loans in China

*Prepared for the Fourth Bi-annual
Conference of the Institute of Pacific
Relations to be held at Hangchow
from Oct. 21st—Nov. 4th, 1931.*

16

Gokhale Institute of Politics
and Economics, Poona 4.

By

MASUTARO KIMURA
Professor, Hosei University

Published by

THE JAPAN COUNCIL OF THE INSTITUTE OF PACIFIC RELATIONS
Boeki-Kaikan, Ginza Nishi Nana-chome, Kyobashi-ku,
TOKYO, JAPAN

X7.411113

91

PROBLEMS OF FINANCIAL REFORM AND READJUSTMENT OF PUBLIC LOANS IN CHINA

By MATSUTARO KIMURA

I

INTRODUCTION

The financial condition of a nation is the material basis of administration just as is the nerve system of the human body. It reflects in political form the general social condition of the country. The fact that the financial condition of China has reached such a state of confusion and depravity, vitally affecting its functioning as a nation, can not but be a very serious matter for that country.

As is seen in the administration of successive central governments of China, it was easy at the beginning for the ruler to control the country because the administrative and military affairs were limited in their scope and the tributes from the other parts of the country were sufficient to support the government. As the years went by, however, the number of officials, both military and administrative, began to increase steadily, with the result that the central government expenses gradually began to increase. The government was forced, therefore, to increase taxes to make up the deficit, but such a step only precipitated a tendency toward an outbreak of military strife. This made it all the more difficult for the central government to raise funds for the suppression of civil wars, and finally the people became weary of the war ridden situation. This condition of affairs has become the usual order of the day and it has been under such circumstances that all the successive governments of China have suffered their tragic fates.

The expenditure of the central government under the Ming Dynasty was at first 2,000,000 taels, but it increased to 12,000,000 taels towards the end of the dynasty. The same was true with the Tsing Dynasty, when the appropriations at first were no more than four or five million taels. It steadily increased but the national treasury even after the middle period of its rule still had some surplus, the central expenditure being not more than 8,000,000 taels. As the dynasty approached the end of its career, however, the country began to be threatened by various disturbances at home and abroad and the national expenditure expanded to seventy or

eighty million taels. Even this enormous appropriation, however, proved to be insufficient and the dynasty was finally overthrown.

The financial administration of China for some time preceding the downfall of the Tsing Dynasty followed as a whole the policy of regulating the amount of appropriations according to the amount of revenue income. It was for this reason that a financial embarrassment of the national treasury was no more than a mere matter of the fate of the particular dynasty. But when the dynasty adopted the policy of relieving the country from a financial crisis by floating foreign loans, it violated the first fundamental principle of financial administration, namely, that the annual running expenses must be met by the annual revenue income. As a result, China's financial difficulties ceased to be a matter solely of domestic concern.

China's financial difficulties have been a potential cause of disturbing the peace of the Orient. It was because of such financial difficulties that China has been unable to consolidate its political position, unify the country or improve the economic life of its people. The situation has often been discussed as an international problem, with the result that enormous foreign loans have been advanced to China by various nations, jointly or separately, in order to have China effect a financial readjustment and a unification of the country.

But this measure has not only failed to contribute to the financial reform and political renovation but has even encouraged political confusion and corruption, making the financial position of China worse. Under the circumstances, the nations concerned finally deemed it advisable to extend a slightly increased assistance to China by providing it with a new financial source. They recognized and approved a revision of China's custom tariff at the Washington Conference of 1922 and subsequently granted China a tariff autonomy as a measure looking toward a fundamental financial relief for the country.

Some critics maintain that it will be necessary to increase the revenue of China's national treasury in order to relieve that country from the present plight, the cause of the social disorder there being due chiefly to the lack of adequate finances. They insist that it is practically impossible to find a source of national revenue for China as sure as that of the customs duty and also that it is equally impossible, judging from the financial system and the present condition of the country, to expect much of its national revenue to come from sources such as Europe and America have found practical.

It is difficult for China, no doubt, to depend upon income taxes and other direct taxes as practiced in other countries, but if China is to depend

solely upon the custom tariff for its financial relief simply because it is dependable and easy to collect, any amount of increase in the rate of customs duty for such purpose, moreover, is bound to affect the development of international commerce and at the same time can not be expected to have a good effect on the economic development of the Chinese people. So long as China is unable to be economically independent due to the present stage of its economic development, such a measure is bound to cause a rise in the prices of commodities and thereby threaten the livelihood of the people, and bring about an unbearable economic pressure upon them.

Such a condition of affairs is conducive to the development of new and still greater social evils in China which is already burdened with many political and social defects. In order to bring about a reorganization of China's financial administration, it is imperative to strike at the root of the evil, and remove the causes which have led to the present crisis.

It is true that the administrative confusion, corruption and the lack of a definite policy of floating foreign and domestic loans ever since the latter part of the Tsing Dynasty (清朝) have been largely responsible for the present condition of China, but the fundamental defect in the financial system of that country has not a little to do with it. In the light of this fact, it is necessary to effect a reform of China's financial policy and to rectify the former mal-administration by adopting a new plan of making both ends meet, if a fundamental reform in China is to be brought about.

As has already been stated, politics and finances are interdependent and it is practically impossible to improve the financial administration without improving the political system, but the present paper deals chiefly with a plan of financial reform in China which, taking into consideration the special conditions which obtain in China, is comparatively feasible.

II

IMPROVEMENT OF CHINA'S FINANCIAL SYSTEM

(1) China has never made a distinction between national and local expenditures, following the financial principle that the national revenue must be used for the general good. The taxes and other income raised by the local governments have been regarded as national revenue and the expenses of the central and the local governments have been defrayed from this revenue. The local expenses are paid by the provincial government, but in principle they are regarded as a part of the local government's share

of national expenditure and have been treated as such. Because of this condition a decentralization of power to an extreme degree has been developed and practiced in Chinese politics from time immemorial, the central government entrusting a large part of the political and financial affairs to the local governments. This is seen in the fact that at the end of the Tsing Dynasty, the annual expenditure of the nation was more than 300,000,000 taels as against only 70,000,000 or 80,000,000 taels expended by the central government.

During the past few years, however, China seems to have adopted a principle of centralization of power in the political and financial administration of the country. But it is no easy task for China to make a clear distinction between the part of the expenditures which are to be shouldered by the central government because of its national importance and the part to be met by the local government because of its local significance. From a practical consideration, the conditions which make for local expenditure vary according to the difference of geographical conditions historical connections and political traditions, in addition to the effect which may be caused by the change of national circumstances. In the items of expenditure, there are some which are apparently national in scope and more effectively undertaken by the central government, while others may be accomplished by the local government with more efficiency. But nevertheless it is often found difficult to determine whether an item should be classified as national or local, because some of the items can neither wholly be considered as national or local while others which are apparently of national importance can be administered with greater results by the local governments. It is all the more so in a country like China where the principle of decentralization of power to such an amazing extent, has been practiced for centuries, the greater proportion of national undertakings having been entrusted to the local governments.

But the system of decentralization of power in China is based on the peculiar circumstances under which the nation still has its existence. In principle feudalism has been done away with since the Chin (秦) and the Han (漢) periods, and the country is now divided into counties or prefectures, but in reality it is not different from what it was under feudalism except that the local governor is appointed by the central government.

Because of its geographical factors and its well developed system of local self-government, China cannot easily adopt the principle of centralization of power. As a matter of fact, financial centralization was tried at the beginning of the republican regime, but it proved to be a failure and the government could not do otherwise than to return to the old system.

Under the circumstances, it is advisable to make a plan for the unification of the country which is based upon an improvement of the present local self-government with its historic traditions.

The tendency that makes for shifting the national finance to the local governments is due to the policy of leaving the collection of taxes to the local governments. This matter, as will be taken up later, requires a fundamental reform. It is also necessary to differentiate between the affairs of the central government and those of the local governments, leaving matters which have direct relations with the people to the local government. At the same time, a distinction must be made between local and national revenue, and a definite plan must be made to make the local governments obey the direction of the central government.

(2) One feature of the administration system in China is that there is no proper gradation of ranks between officials attached to the central and the local governments which would enable the officials of the former to maintain direct and superior relation to those of the latter. This is due to the decentralization of power inherent in the administrative system of China but also is designed to prevent government officials by restraining one another from wielding too great an individual power. But administrative supervision and the gradation of official ranks are correlative and the right of administrative control is the inevitable result of the relation between superior and subordinate governmental offices. Without the presence of this gradation in ranks, it is inevitable that there can be no efficiency in administrative supervision. It is equally inevitable that there can be no progress in the disposal of governmental business when the nation has no confidence in the government offices. The fact that it is better in the administration of a country to begin with the local government rather than with the central government is recognized even by France, the home of administrative centralization. If the local government is to take part in the national administration, however, it is necessary for it to assume a position subordinate to the central government.

(3) In China, the taxes and other revenue collected by the local governments are regarded as national revenue, and the central government is supported by a part of the income thus collected and turned over to it by the local governments. Under the circumstances it has been practically impossible for the central government to organize a regular national budget. The national budget framed by the central government represents the national revenue and expenditure including those of the local governments, but since a part of the taxes are collected under the repartitions system and at the same time the tax collected by the local government is first applied

to the operation of that government, China's national budget can not be regarded as organized according to the principle of the so-called total budget. Under such a condition of affairs, the actual amount of national expenditure becomes obscure, making it difficult for the central government to estimate its obligations toward the tax payers and to supervise its financial administration. The system also has the defect of making it impossible to know the relation between the income and the expenses for collecting the taxes.

When once the financial administration of the country becomes universally recognized and national financial unity is secured according to the national constitution, all income accounts will be brought into the national treasury, thus making it possible for the authorities of the central government to establish a total budget system. In China it is absolutely necessary to make a clear distinction between national expenditure and revenue and those of the local governments. The two budgets should be organized separately.

(4) According to the Chinese system, each local government supervises the revenue and expenditure for its district, in other words the so-called "local safe system" (各官廳金庫制度). The system is conducive to confusion because of a lack of unity in handling national finances, local offices undertaking independently to collect and spend the national taxes. As the local offices themselves handle the money, they are thus liable to fall into the habit of squandering it, and so increase the opportunity of exposing state finances to the danger of being tampered with. It is for this reason that many modern nations have adopted the Federal Treasury System (合一金庫制度). Under this system, all income is received by the central treasury irrespective of the differences in the governmental offices or of the financial sources from which it comes. At the same time, all national expenditures are defrayed from this national coffer, thus securing unity in handling national revenue and expenditure.

(5) The tax system of China is not only too much dependent upon the indirect tax but, since the national and local taxes are so entirely mixed up, it fails to draw a clear line of distinction between the two. In principle, as was stated before, the taxes collected by the local government are regarded as national revenue, and those collected under a special name are looked upon as local revenue. Under such an arrangement the revenue of the central and local governments appear to be distinct. In actual practice, however, a confusion of the central and local affairs becomes inevitable because the salaries of local officials and other expenses of the local offices are defrayed out of the proceeds from the national tax and not out of appropriations especially provided for by the central government.

This practice is not limited to any one prefecture or tax office, for the prefectural and tax offices transmit the proceeds from the taxes to the provincial offices and the provincial office in turn hands them over to the central government, but only after each has subtracted its own office running expenses. This practice makes it inevitable for national and local revenues to become hopelessly confused.

There is a difference of opinion about the advantage of the independent tax over the surtax in levying local taxation, but as the latter is comparatively easy to collect, it tends to encourage the government to increase its administrative expenses or at least makes it reckless in spending. It is all the more so in a country like China where the tax system is imperfect and unjust. A heavy tax obligation will encourage evasion of taxation, making it difficult for the government to collect even a reasonable and justifiable local tax, and at the same time increasing the liability of the people's confusion between the local and national taxes.

In a country where the income, land, house, real estate, and particularly business taxes constitute the essential parts of the tax system, it is easy for one to recognize that the source of taxation lies in the district in which the local government is situated, and, therefore, that there will be no difficulty in levying a surtax. But in China where the consumption tax has been made the essential part of the national tax system, the levying of a surtax in the name of local taxes is difficult. Moreover, in China where strong local thoughts and sentiments are so deep rooted, the independent tax, making the local administrative expenses payable by the local government, is more advisable, for it is easier to collect it when the tax payer appreciates the benefit of the local government directly.

Where it is deemed advisable to entrust the administrative affairs largely to the local government, as they are in China, it is more advantageous to make the independent tax an essential part of the local tax, in general depending upon the land, business and other income taxes. It tends to encourage the people to pay their taxes because the objects for which these are levied yield more income or appreciate in value according to the condition of various facilities provided by the local government. From the consideration of the general condition which obtains in China, this arrangement is about the best possible for the improvement of the Chinese tax system.

As for the national tax, the policy of making the general income tax an essential part of the revenue system, which is now adopted in many countries, is in principle, no doubt, most proper. Particularly in China where the present tax system is too greatly dependent upon the consumption tax, it is well to make efforts to emphasize more the importance of the income

tax in producing increased tax revenue. This system, however, requires the cooperation of the tax payers and can not efficiently be realized unless the country is equipped with an efficient tax administrative organ and unless the people have a high moral development regarding payment of taxes. It is for this reason that generally speaking, there is no other way than to make the customs duty, the revenue derived from the monopoly of salt, wine and tobacco, the traffic tax and some special consumption taxes the nucleus of China's nation tax.

(6) Theoretically the tax rate in China is regulated by law, the national government collecting the taxes through the local government and ordering them to turn in a certain amount of the proceeds to the central government. But in actual practice the tax collections, except such as the customs duty and the salt tax which are collected by the special offices, is left almost entirely to the local government. As the levying of additional taxes beyond the prescribed limit is generally practiced, a sort of repartitions system has come to be adopted.

It goes without saying that the direct collection of taxes by the central government most efficiently realizes the principle of division of labor and the centralization of the rights of the state. Where a nation is not yet trained in the technique of financial administration and the power of the central government is still weak the repartitions system need not be rejected altogether, but the tendency for the central government to be subordinated to the local governments can never be done away with under such a condition. This is one of the reasons that special emphasis is laid on the importance of setting a clear line of demarkation between national and local taxes.

III

READJUSTMENT OF PUBLIC LOANS

It is true that the extreme official corruption in addition to the various defects in the financial system is mainly responsible for having plunged China into the present financial confusion, but the immediate financial distress with which that country is confronted has been caused by a lack of policy in floating domestic and foreign loans since the latter part of the Tsing Dynasty (前清朝). When the Tsing Dynasty was at the height of its prosperity, the government adopted the policy of enforcing a rigorous discipline and at the same time of relieving the people from their heavy obligations. The people feared the authority but appreciated the gracious virtue of the ruler. At the same time a greater proportion of the administrative affairs were entrusted to the local governments. As the expenses required by the central government were comparatively small, the financial condition of the govern-

ment was relatively stable. But towards the end of the dynasty, the country was threatened by various foreign and domestic perils which occurred one after another, with the result that the financial difficulty of the government became increasingly acute. Finally it seemed necessary to resort to floating foreign loans to relieve the critical condition of the country.

But China's financial system was such that the total amount of revenue was appropriated for the payment of expenditures. This necessitated floating further loans to pay off the outstanding amounts due and the accruing interest, thus violating the fundamental financial principle that ordinary expenditures must be paid from ordinary revenue. When the floatation of foreign loans became difficult, China resorted to domestic loans, irrespective of their kind and nature, to cope with the immediate financial needs, thus accentuating the financial confusion all the more until it finally has reached the present deplorable stage.

The issuance of a loan merely to pay an extraordinary expense is often opposed by some people. When a loan is floated, the government, taking advantage of an indifference on the part of the people, might appropriate the money, which was intended to be used for industrial development, for something not very important or urgent. It is true that a foreign loan, when floated in a country which has an abundance of funds, has the advantage of being able to be secured at a low rate of interest and there is no danger of weakening the industrial basis of the country, but the influx into the country of specie resulting from the loan is bound to precipitate an expansion of currency and a rise in the price of commodities. In a country like China, which always has an excess of imports over exports, this tendency is all the more accentuated, threatening the international trade balance and even encouraging a further loan floatation.

Even in the case of domestic loans, a nation has to pay a proportionally higher rate of interest as its credit becomes weaker resulting from too many being floated in succession. Such loans not only absorb the idle funds on the money market but also use up the capital invested or about to be invested in those industrial enterprises which are comparatively unprofitable, or which may be accompanied by difficulty in withdrawing, danger and other such circumstances, and thus lessens the scope of the industrial activities of a nation. Moreover, in case the proceeds from such loans are to be invested in unproductive enterprises, the rate of interest is bound to become higher, resulting in no small effect upon the general economic condition of the country. It is particularly so in a country like China where the money market is tight and the rate of interest very high.

Despite the fact that the issuance of loans has an important bearing

On the financial condition of a country, the Chinese government has had no definite policy regarding it, the loans usually being applied to make up the shortage in meeting national expenditures. Due to the high rate of interest and the disadvantageous conditions under which loans have had to be contracted, China has faced a situation never experienced in any other country.

The financial credit of a nation is the trust which other countries have in the ability of that nation to creditably dispose of its obligations. The extent of a nation's credit, like that of an individual, depends upon the ability to fulfill the terms of its payments, and the ability to fulfill its obligations depends upon the wealth of the people and the financial system of that nation. For this reason, it was unavoidable that China's creditors should demand a reliable security for the loan it advanced and even a certain amount of right to control the loan. Such conditions on loans inevitably constituted a serious disadvantage to China.

As has already been stated, China has been supporting its national finance during the past 20 years by floating foreign and domestic loans. Due to the absence or unreliability of security, the number of unliquidated domestic and foreign loans has been steadily increasing. According to the figures given at the Customs Conference held at Peiping in 1925, the amount of such loans had reached the total of approximately 1,000,000,000 yuan at the end of that year, and the accruing interest on these loans has been of course accumulating since that time. A readjustment of these complicated loans is most imperative for China's financial reorganization and economic development. So long as this condition remains as it is, it is absolutely impossible to restore China's international credit to anything like a normal condition.

Considering the financial straits of the Chinese central government, there is no other way of rectifying the situation than adopting a policy of applying the customs revenue as a fund for such readjustment. This revenue has already been held largely as security for various foreign and domestic loans, but in the future there will doubtless be a year by year increase of the margin due to the redemption of some of the loans. Moreover, the policy of loan readjustment in China by floating loan readjustment loans and using this revenue as security to clear the outstanding domestic and foreign loans was recognized by the special session of the Customs Conference of 1925.

In spite of the fact that foreign loans, which constitute a large proportion of the sum mentioned, still remain unpaid both in principle and interest for many years, as much as 181,000,000 yuan has been paid

on the domestic loans which have been contracted for since the establishment of the Nanking Government. These payments have been met by the application of an ever increasing customs revenue. Such a state of affairs can not but be regarded as a gross injustice (see reference B).

Moreover, if the present situation should take its course, it is probable that the number of domestic loans at high rates of interest will continue to increase all the more. If that be the case, greater evils will be brought upon the economic situation in China. Such a condition of affairs will still further reduce China's international credit, making it all the more difficult to carry out the proposed loan readjustment.

Judging from the amount of Chinese loans and the customs revenue receipts in the past, the foreign and domestic loans and their accruing interest, including the Boxer indemnities which are to be paid off in 1931, total approximately 150,000,000 or 160,000,000 yuan for the foreign loans and about 120,000,000 for the domestic loans. It is still difficult to estimate the amount of revenue which will be received from the customs duty this year, but judging from the amount last year, it will not be far from 320,000,000 yuan. If this estimation is correct, there will probably be a surplus of about 40,000,000 or 50,000,000 yuan after all loans and interest, both foreign and domestic, are paid up from the customs revenue this year. (See tables C and D.)

At the time of the Sino-Japanese tariff agreement in 1929, the Chinese Government announced its intention of reserving 5,000,000 yuan from the customs revenue each year for the adjustment of domestic and foreign loans based on unreliable securities. China ought to be able to realize this without embarrassing the finances of the central government if, on the other hand, the Chinese authorities will see to it that all possible efforts be made to keep down military expenses. Then there will be a certain amount of surplus resulting from the rescission of loans. It should not be impossible for China to adjust its foreign and domestic loans by the application of this surplus together with the 5,000,000 yuan which the Chinese government agreed to reserve from the customs revenue for this purpose.

But it goes without saying that the foreign and domestic loans should be treated on the basis of equality and the loans which have been legally concluded must, out of a consideration of international trust and responsibility be fully paid up. In the payment of the domestic loans, a special commission has been organized to take charge of the fund received from the customs revenue. A similar commission of international status should be organized to handle the funds and business in connection with the debts when a proper plan of settling the unsecured domestic and foreign loans above mentioned is

formulated. When such a definite plan is made and set into motion for the settlement of the unliquidated loans on a basis of equality, it will become feasible at the same time to carry out the reform plan of the whole financial system to secure the proper balance of revenue and expenditure and thus consolidate the financial foundation of China.

(A) INADEQUATELY SECURED DEBTS OF CHINA

(December 31, 1925)

- 1) Debts proposed by each country in the Tariff Conference held in Peking, 1925.

Name of country	Ministry of Finance	Ministry of Communications	Total
U. S. A.	\$ 36,440,000	22,277,000	58,717,000
Belgium	502,000	40,046,000	40,548,000
Denmark	331,000	—	331,000
France	73,549,000	57,000,000	130,549,000
Great Britain	43,080,000	18,955,000	62,035,000
Italy	71,956,000	—	71,956,000
Netherlands	1,070,000	15,375,000	16,445,000
Japan	322,376,000	39,768,000	362,144,000
China	260,000,000	40,000,000	300,000,000
Total	809,304,000	233,421,000	1,042,725,000

- 2) Debts investigated by Chinese Government.

Name of country	Ministry of Finance	Ministry of Communications	Total
Foreign Debts: ^(a)			
U. S. A.	\$ 34,510,000	36,160,000	70,670,000
Great Britain	40,680,000	150,910,000	191,590,000
France	1,230,000	34,870,000	36,100,000
Italy	71,950,000	—	71,950,000
Japan	254,990,000	146,620,000	401,610,000
Netherlands	1,080,000	16,350,000	17,430,000
Total	404,440,000	385,350,000	789,350,000
Domestic Debts:	260,252,000 ^(b)	87,000,000 ^(c)	347,252,000
Grand Total	664,692,000	472,350,000	1,136,602,000

- (a) Report of the Commission for the Readjustment of Finance, P. 9.
(b) Commission for the Readjustment of Finance—Tables of Inadequately Secured Domestic Loans of the Ministry of Finance, P. 3.
(c) Report of the Ministry of Communications on Internal Debts under its Charge, P. 2.

Foreign currencies are converted into Chinese Dollars at the following rates:
\$10 = £1 = G.\$5 = ¥10.

(B) LIST OF CHINESE INTERNAL LOAN

Peiping Administration:

Name of Loan	Issued	Amount authorized	Amount issued	Outstanding on June 1, 1931	Rate %
*7th Year Long Term Loan of the Republic of China	Apr. 21 1918	\$45,000,000	\$45,000,000	\$31,500,000	6
*Chinese Government 6% Consolidated National Loan	Mar. 3 1921	\$45,392,228	\$45,392,228	\$32,635,340	6
Ditto, 2nd Series	June 2 1921	\$25,600,000	\$25,600,000	\$25,600,000	6
*Chinese Government 7% Consolidated National Loan	Mar. 3 1921	\$13,600,000	\$13,600,000	\$ 8,160,000	7
Ditto, 2nd series	June 2 1921	\$ 8,800,000	\$ 8,800,000	\$ 8,800,000	7
8% Bonds for refunding Internal and Foreign Short Term Debts (96 million Loan)	Feb. 11 1922	\$96,000,000	Y. ↑39,608,700 \$56,391,300	\$56,391,300	8
*Chinese Government 8% National Loan of the 14th year of the Republic	Mar. 16 1925	\$15,000,000	\$15,000,000	\$ 8,250,000	8
Treasury Notes: 11th Year Treasury Notes Secured on Salt Surplus	1922	\$14,000,000	\$14,000,000	\$ 3,500,000	1½ per month

ISSUES OUTSTANDING ON JUNE 1, 1931.

Secured by	Issue price	Repayment and general remarks
Capital on Russian Boxer Indemnity, Interest on Consolid. Nat. Loan Service	100	Between June, 1928 and December, 1937, \$2,250,000 half-yearly.
Consolidated Nat. Loan Sinking Fund	₹100	Between December, 1921 and December, 1930. 1921-1924 \$2,719,611 yearly 1925 4,351,378 " 1926 6,527,066 " 1927-1930 8,158,835 " Four drawings in arrears. Totalling \$32,635,340.
Not definitely Secured	₹100	From end of 1931 to end of 1935 by five annual drawings.
Consolidated Nat. Loan Sinking Fund	₹100	Within 10 years from 31st August, 1921. 1921-24 \$ 680,000 annually 1925 1,088,000 " 1926 1,632,000 " 1927-31 2,040,000 " Four drawings in arrears. Totalling \$8,160,000.
Not definitely Secured	100	From end of 1931 to end of 1935 by five annual drawings.
Salt Surplus, or Customs Surplus	84 up	January, 31, 1923-January, 31, 1929 half-yearly redemption of: 1 at \$2,255,652 4 " 3,947,391 4 " 4,511,304 4 " 5,075,217 Redemption and interest in default.
German Boxer Indemnity	88	Half-yearly on March 31 and September 30. \$ 900,000 during 1928-1929 1,050,000 " 1930-1933 1,500,000 " 1934
Salt Surplus	100	(Not calling for interest, which has at once been deducted from issue price). \$700,000 monthly from Feb., 1922 to September, 1923. Five payments in default.

Peiping Administration:—Continued.

Name of Loan	Issued	Amount authorized	Amount issued	Outstanding on June 1, 1931	Rate %
*Spring Festival Special Treasury Bills of the 15th Year of the Republic	1926	\$ 8,000,000	\$ 8,000,000	\$ 8,000,000	
7% Famine Relief Internal Loan 1920	1920	\$ 4,000,000	\$ 2,168,475	\$ 1,610,220	7
*Treasury Bonds secured on Austrian Canceled Indemnity	Dec. 20 1926	\$ 2,400,000	\$ 2,400,000	\$ 2,112,000	8
*Peking Bankers Association Public Safety Loan	May 11 1926	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	8
*Autumn Festival Safety Loan Treasury Bills of the 15th Year of the Republic	Sept. 20 1926	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	8

x These bonds were exchanged against other previous issues at the ratio of \$40:100.

† This portion (Japanese) for yen 39,608,700 is classified under foreign loan obligations.

Secured by	Issue price	Repayment and general remarks
Balance from Consolidated Nat. Loans Sinking Fund	82	By half-yearly instalments from July, 1928 to Jan. 31, 1932. 2 at \$ 700,000 2 " 800,000 2 " 1,000,000 2 " 1,500,000 Redemption to the extent of \$5,000,000 in default.
Not definitely Secured	90	By 4 semi-annual drawings, beginning May, 31, 1921, ending November 30, 1923. First redemption of \$558,255, effected on July 31, 1922. Remaining 3 redemptions @ \$536,740 in default. (Total \$1,610,220).
Austrian Boxer Indemnity	82	By instalments from Dec. 20, 1928 to June 20, 1937: 3 at \$ 95,000 in Dec., 1928-30 1 " 120,000 in Dec., 1931 4 " 144,000 in June and Dec., 1932-33 3 " 168,000 in June, Dec., 1934 and June, 1935 3 " 216,000 in Dec., 1935 and June, Dec., 1936 1 " 264,000 in June, 1937
German Boxer Indemnity	60	In one sum, on July 10, 1935.
Sinking Fund Consolidated Nat. Loans	88	In one sum, on March 20, 1931. (over due)

* Secured on Customs Revenue.

Total outstanding \$191,558,860.

Nanking Administration:

Name of Loan	Issued	Amount authorized	Amount issued	Outstanding June 1, 1931	Rate %
Treasury Notes *2½% Surtax Treasury Bonds, 2nd (Shai) issue	Oct. 1 1927	\$40,000,000	\$40,000,000	\$23,000,000	9.6
*18th Year Customs Surplus Treasury Bonds	June 1 1929	\$40,000,000	\$40,000,000	\$26,461,839	8.4
*Military Reorganization and Disbandment Treasury Bonds of the 18th Year of the Republic	Sept. 1 1929	\$70,000,000	\$70,000,000	\$55,300,000	8.4
*19th year Short Term Treasury Notes	Sept. 15 1930 Oct. 7 1930	\$50,000,000 30,000,000	\$80,000,000	\$71,460,000	9.6
*19th Year Rehabilitation Short Term Treasury Notes	Oct. 31 1930	\$50,000,000	\$50,000,000	\$46,400,000	9.6
*20th Year Customs Short Term Treasury Note	April 1 1931	\$80,000,000	\$80,000,000	\$78,400,000	9.6
18th Year Treasury Bonds secured on the Rolled Tobacco Tax (Second issue)	Mar. 1 1929	\$24,000,000	\$24,000,000	\$ 7,680,000	9.6
19th Year Treasury Bonds secured on the Rolled Tobacco Tax (3rd issue)	Mar. 1 1930	\$24,000,000	\$24,000,000	\$17,280,000	9.6

Secured by	Issue price	Repayment and remarks
Increased Customs Revenue	98	\$1,000,000 monthly, beginning January 31, 1930 and ending April 30, 1933.
	98	By 62 monthly instalments of \$800,000 each (covering interest and capital redemption) beginning June 30, 1929, ending July 31, 1934.
	98	By 100 monthly instalments of \$700,000 each beginning on September 30, 1929, and ending on December 31, 1937.
Definite portion of increased Customs Revenue	98	Within 58 months, beginning August 31, 1930, and ending May 31, 1935, on the following scale: 1% during first 6 months @ \$800,000 from September 31, 1930; 1.2% during following 12 months @ \$960,000 from February 28, 1931; 2% during following 39 months @ \$1,600,000 from February 29, 1932; 1.6% during last 1 month @ \$1,280,000 on May 31, 1935.
	98	Within 66 months from November 30, 1930 to April 30, 1936, on the following scale: 1% during first 6 months @ \$500,000 from November 30, 1930; 1.2% during following 10 months @ \$600,000 from May 31, 1931; 1.6% during following 34 months @ \$800,000 from March 31, 1932; 1.8% during following 14 months @ \$900,000 from January 31, 1935; 1.2% during following 2 months @ \$600,000 from March 31, 1936.
	98	By 100 equal monthly instalments, beginning on April 30, 1931, ending on July 31, 1939.
Tobacco Tax of all China	98	\$480,000 monthly, April, 1929 to March, 1930 (2%). \$600,000 monthly, April, 1930 to November, 1930 (2 1/2%). \$960,000 monthly, December, 1930 to January, 1932 (4%).
	98	Between April 30, 1930 and January 31, 1932, in monthly instalments of \$480,000 (2%). Between February 28, 1932, and March 31, 1932, in monthly instalments of 960,000 (4%).

Nanking Administration:—Continued.

Name of Loan	Issued	Amount authorized	Amount issued	Outstanding June 1, 1931	Rate %
20th Year Treasury Bonds secured on the Rolled Tobacco Tax (4th issue)	Jan. 1 1931	\$60,000,000	\$60,000,000	\$57,000,000	8.4
Loan Bonds 18th Year Famine Relief Treasury Bonds	Jan. 8 1929	\$10,000,000	\$10,000,000	\$ 8,000,000	8
Internal Loans 8% Internal Loan of the 17th Year for Military purposes	May 1 June 1 1928	\$10,000,000	\$ 6,000,000 4,000,000	\$ 8,000,000	8
*8% Internal Short Term loan for the Rehabilitation of the Country	June 1 Dec. 31 1928	\$40,000,000	\$20,000,000 20,000,000	\$20,000,000	8
*17th Year Short Term Currency Bonds of the National Government of China	Oct. 1 1928	\$30,000,000	\$30,000,000	\$24,930,000	8
*17th Year Long Term Currency Bonds of the National Government of China	Nov. 1 1928	\$45,000,000	\$45,000,000	\$45,000,000	2½
*18th Year Troop Disbandment 8% Internal Loan	Feb. 1 1929	\$50,000,000	\$50,000,000	\$40,000,000	8
*Hopei Province Short Term Loan for Haiho Conservancy Work	Apr. 21 1929	\$ 4,000,000	\$ 4,000,000	\$ 3,200,000	9.6
*19 Year Customs Revenue Bonds	Jan. 1 1930	\$20,000,000	\$20,000,000	\$18,000,000	8

* Secured on Customs Revenue.

Secured by	Issue price	Repayment and remarks														
Tobacco Tax of all China	98	<p>Monthly</p> <table> <tr><td>1931</td><td>600,000</td></tr> <tr><td>1932</td><td>660,000</td></tr> <tr><td>1933</td><td>720,000</td></tr> <tr><td>1934</td><td>780,000</td></tr> <tr><td>1935</td><td>840,000</td></tr> <tr><td>1936</td><td>900,000</td></tr> <tr><td>1937</td><td>960,000</td></tr> </table> <p>Jan./May June 1,200,000</p>	1931	600,000	1932	660,000	1933	720,000	1934	780,000	1935	840,000	1936	900,000	1937	960,000
1931	600,000															
1932	660,000															
1933	720,000															
1934	780,000															
1935	840,000															
1936	900,000															
1937	960,000															
Increased Customs Revenue	98	By 20 semi-annual drawings of \$500,000 each, from June 30, 1929 to December 31, 1938.														
Stamp Tax of all China	98	By 20 semi-annual drawings of \$500,000 each, from June 30, 1929 to December 31, 1938.														
Increased Customs Revenue	94 96	By 10 semi-annual drawings of \$4,000,000 each, from December 31, 1928 to June 30, 1933.														
Portion of former German Hoxer Indemnity	92	By 14 semi-annual drawings from March, 1929 to September 30, 1935. 7% annually in the first 3 years; 20% annually in the second 3 years; 19% in the 7th and last year.														
Customs surplus Revenues	100	By 40 semi-annual drawings of \$1,125,000 each, from March 30, 1934, to September 30, 1953. Issued for refund of unredeemed Hankow banknotes of 1926-1927.														
Increased Customs Revenues	98	By 20 semi-annual drawings of \$2,500,000 each, from July 31, 1929 to January 31, 1939.														
8½ on existing Tax of 5% on Tientsin river dues	98	From October 15, 1929 to April 15, 1939, by means of 20 half-yearly drawings of \$200,000 each.														
Increased Customs Revenue	100	Within 10 years by 20 semi-annual drawings of \$1,000,000 each, from June 30, 1930 to December 31, 1939														

Total outstanding \$550,081,830.

(C) I. FOREIGN LOAN OBLIGATIONS

	Amount issued	Retired in	Amount outstanding on Dec. 31, 1930	Principal Payable 1931	Interest Payable 1931
Secured on Customs Revenues:					
1	1895. Franco-Russian Loan .	£ 15,820,000	1931	£ 797,923	£ 797,923
2	1896. Anglo-German Loan..	£ 16,000,000	1932	£1,797,950	£ 877,050
3	1898. Anglo-German Loan..	£ 16,000,000	1943	£8,087,425	£ 471,300
4	1902. Boxer Indemnities:				
	Great Britain	£ 16,573,810	1945	£7,847,096	£ 413,127
	United States	G.\$ 53,348,145	1945	£4,171,349	G.\$1,329,785
	Japan	£ 10,944,809	1945	£5,404,696	£ 272,816
	Italy	F217,868,647	1948	£4,779,951	G.\$1,047,874
	Netherlands	Fl 3,066,005	1940	£ 89,339	Fl 76,425
	Spain	Fr 1,107,596	1940	£ 14,243	Fr 27,608
	Portugal	£ 30,203	1945	£ 14,300	£ 752
	Sweden & Norway.....	£ 20,568	1940	£ 7,174	£ 512
5.	1918 Reorganization Loan..	£ 25,000,000	1960	£ 997,180	£ 346,160
Secured on Customs Revenue Boxer Indemnities:					
1.	1925				
	French-Indemnity Bonds..	G.\$ 43,893,900	1948	G.\$40,602,450	G.\$ 760,250
2.	1928				
	Belgian-Indemnity Bonds..	G.\$ 5,000,000	1941	G.\$ 4,051,450	G.\$ 403,400
					G.\$ 248,994
Secured on Salt Revenue:					
				Total	£7,805,288
1.	1908 Anglo-French Loan ..	£ 5,000,000	1938	£2,250,000	£ 250,000
2.	1911 Hukuang Loan	£ 6,000,000	1951	£5,636,790	£ 143,580
3.	1912 Crisp Loan	£ 5,000,000	1952	£4,584,157	£ 111,189
					£ 214,068

(C) II. INSTALMENTS OF INTERNAL LOANS REPAYABLE IN 1931

Secured on Customs Revenue:

	Principal	Interest	Principal Interest Together
1. 2½% Treasury Bonds, (2nd S'hai issue).....	\$ 12,000,000	\$ 2,160,000	\$ 14,160,000
2. 8% Internal Short Term Loan.....	8,000,000	1,440,000	9,440,000
3. 2½% Surtax Treasury Bonds (Tientsin issue)....	900,000	14,400	914,400
4. 18th Year Famine Relief Treasury Bonds	1,000,000	620,000	1,620,000
5. Hopei Province Short Term Loan.....	400,000	316,800	716,800
6. 18th Year Customs Surplus Treasury Bonds.....	7,405,127	2,194,872	9,600,000
7. 18th Year Troop Disbandment Loan.....	5,000,000	3,300,000	8,300,000
8. Military Reorganization Treasury Bonds	8,400,000	4,615,800	13,015,800
9. 19th Year Customs Revenue Bonds	2,000,000	1,000,000	3,400,000
10. 19th Year Customs Revenue Short Term Bonds..	11,360,000	6,803,200	18,163,200
11. 19th Year Rehabilitation Short Term Bonds.....	6,800,000	4,417,600	11,217,600
12. Spring Festival Special Treasury Bills.....	—	640,000	640,000
Total	63,265,127	27,922,672	91,187,800

Secured on Customs Revenue Boxer Indemnities:

1. 7th Year Long Term Loan	4,500,000	—	4,500,000
2. 8% National Loan of the 14th Year.....	2,100,000	702,000	2,802,000
3. Peking Bankers Public Safety Loan.....	—	160,000	160,000
4. 17th Year Short Term Currency Bonds.....	2,100,000	2,028,000	4,128,000
5. Treasury Bonds, 1926	120,000	168,960	288,960
Total	8,820,000	3,058,960	11,878,960

	Principal	Interest	Principal Interest Together
Secured on Tobacco Revenues:			
1. 18th Year Treasury Bonds (2nd issue).....	11,520,000	691,200	12,211,200
2. 19th Year Treasury Bonds (3rd issue).....	5,760,000	11,635,840	17,395,840
3. 20th Year Treasury Bonds (4th issue).....	7,200,000	4,762,800	11,962,800
Total	24,480,000	7,089,840	31,569,840
Secured on Stamp Revenues:			
1. 8% Loan for Military purposes	1,000,000	620,000	1,620,000
Secured on Customs Revenue Surplus:			
1. 17th Year Long Term Currency Bonds.....	————	1,125,000	1,125,000
2. 7th Year Long Term Loan	————	1,823,000	1,823,000
3. 6% Consolidated National Loan	8,158,834	1,958,120	10,116,954
4. 7% Consolidated National Loan	2,040,000	571,200	2,611,200
Total	11,198,834	6,097,320	17,296,154
Grand Total	107,763,691	44,168,792	151,932,754

(D) CUSTOMS REVENUE, 1928 TO 1930

	1928	1929	1930
Import Duties	\$ 72,074,000	\$166,241,000	\$211,786,000
Export Duties	41,939,000	56,254,000	53,379,000
Coast Trade Duties	4,184,000	5,636,000	6,298,000
Tonnage Dues	4,597,000	4,925,000	4,825,000
Transit Dues (Inwards)...	804,000	911,000	943,000
Transit Dues (Outwards) ..	4,017,000	2,920,000	2,305,000
Native Customs Revenue ...	5,370,000	6,828,000	9,654,000
Tonnage Dues for Junks ...	238,000	251,000	254,000
Total	133,223,000	243,966,000	291,444,000

Report on the Currency System of China

*Prepared for the Fourth Bi-annual
Conference of the Institute of Pacific
Relations to be held at Hangchow
from Oct. 21st—Nov. 4th, 1931.*

By

MITSUTARO ARAKI

Professor

Tokyo Imperial University

Gokhale Institute of Politics
and Economics, Poona 4.

Published by

THE JAPAN COUNCIL OF THE INSTITUTE OF PACIFIC RELATIONS

Boeki-Kaikan, Ginza Nishi Nana-chome, Kyobashi-ku,

TOKYO, JAPAN

X61.41.N3
G1

CONTENTS

	Page
Preface	1
I History of Chinese Currency	3
(a) The Development of Chinese Currency	3
(b) The Present Condition of Currency in China	5
II The Special Features of Chinese Currency	24
III Necessary of a Reform in the Chinese Currency System	34
IV Private Plan Proposed for a Reform of Chinese Currency	44

Gokhale Institute of Politics
and Economics, Poona 4.

PREFACE

The World War wrought destruction in every branch of European civilization, but the reconstruction work following the conclusion of the war has shown a distinct progress in all spheres of human endeavor. From this point of view, the World War may be regarded as a turning point in the progress of the world's institutions.

The progress made following the World War may be seen in the social, political and economic aspects of the world, but the change made in the field of economics may be regarded as the greatest. This becomes apparent when one studies the general tendency towards progress made in the currency systems of various nations involved in the war.

When the armistice was declared in 1914 and peace was restored to Europe, the first and foremost concern of the nations involved in the war was their economic restoration. The first step taken in this direction was a reestablishment of the currency systems which had been temporarily put out of commission during the war.

The declaration that "the essential condition for the economic restoration of Europe is the establishment on a secure basis of a currency system of the nations concerned" was the first article of the financial resolution adopted by the conference held at Genoa for a discussion of the economic restoration of Europe after the war. It is apparent that the establishment of a unified currency system is a condition of vital importance for the development of a nation's economic society, and no nation can hope for economic progress without this fundamental factor.

The question of what should be the standard of currency for the new era following the war has been seriously discussed by many, but the interested nations have solved the problem in practice by agreeing to adopt the gold standard. Moreover, even a country which did not use the gold standard before has adopted it since the war. The gold standard may now be considered to be in the height of its popularity.

A survey of the currency system of the Chinese Republic, how-

ever, reveals that there is no unity of currency and a confusing number of different kinds of money are in circulation. They differ not only to locality of circulation but also as to relative value. Moreover, the value of the currency fluctuates according to various circumstances. A wide-spread is the confusion that no one can hesitate to declare that in China there is no currency system in the strict sense of the term. The "worst currency" as has been often repeated is a term which adequately represents the present condition of the currency in China.

Such a currency system as China has today, when the economic conditions of the nations of the world have been acquiring more and more international significance, constitutes a very serious obstacle to the economic development of that country. Not only does it affect the development of China but through the inconvenience which it entails in business transactions it casts a dark shadow on the development of the world economy.¹

1. Kemmerer's report, page 50.

I

HISTORY OF CHINESE CURRENCY

It is difficult to explain any state of affairs if one ignores the history of the case, and this is particularly so in the case of China. Only a survey of historical facts which cover a long period of time can adequately explain the present deplorable condition of Chinese currency.

(a) *Development of Chinese Currency*

The history of the development of Chinese coins may be traced back as far as 2698 B. C. [Tai Hao (大昊),] for the art of coin making was already known to the Chinese people of that age. The coin of those days was of copper and was ordinarily in the shape of the Chinese character “泉” or of a sword. By 660 B. C. the Chinese coin began to assume a round shape with a round hole in it. A round coin with a square hole in it, however, did not appear until about 221 B. C. during the Chou (周) dynasty. But the coins in the shape of the Chinese character “泉” and of a sword as well as the shell currency were still in circulation.

Regulations known as “Chiu-fu Yuan-fa” (九府圖法), comprising several articles concerned with coins, were issued in 1032 B. C. in the reign of Cheng Wang (成王) under the Chou (周) dynasty in an effort to control the currency. Later during the Tsin (秦) dynasty, however, the minting of private coins began to be practiced popularly until, during the Han (漢) period, efforts were made to unify the currency and to do away with this evil. During the reign of Wu Ti (武帝) currency made out of the skins of white deer was put into circulation in addition to coins of gold, silver, copper and iron.

The currency system was more or less put in order under the Tang (唐) dynasty, limiting the number of mints to about seventy. During the early part of the Tang dynasty, money known as Kai Yuan Tung Pao (開元通寶) was coined. This is said to be still found in the

Chinese money market. The currency system of the country was again plunged into confusion about 100 years later because of a shortage of currency caused by the gradual decrease in the number of mints, at times even a piece of cotton cloth was sometimes used as currency.

During the Sung (宋) dynasty the principal material used in making coins was still copper, and the copper coin was the principal currency but paper money was beginning to be popularly used, with the result that coins were being gradually displaced. Under the circumstances the evil resulting from the reckless issuing of soft money had become more and more apparent.

Silver had begun to be used for business transactions but it was used more as a treasure than as currency. During the Yuan (元) period there was an influx of silver from the West as international intercourse was established, but the principal currency was the paper note. During the Shin (清) dynasty (after 1663), the copper coin was used at first but due to the shortage of currency, private coins began to be put into circulation in increasing numbers. Among the private coins silver was used as well as copper.

Silver coins were minted in the year 57 of Chien Lung (乾隆). In the 13th year of Kuang Mi (光緒), Chang Chih-tung (張之洞), the Governor-General of Kuangtung (廣東), minted coins of one yen value (圓) and in the 26th year of Kuangmi (光緒), 1900 A. D., the minting of copper yuan (銅元) began.

With the development of communication with foreign countries, the influx of foreign currency began to increase. The Mexican dollar, for instance, began to be brought into the country in increasing amounts with the gradual increase of trade with that country. The American dollar and the Japanese yen also found their way into China under similar circumstances. When the government found that the foreign dollars were being well received and put into free circulation, it reproduced them or minted similar silver coins and put them into circulation.

But the issuance of private coins and paper notes continued to

alleviate the inconvenience caused by the shortage of currency. In this way the currency of China has become a mixture of public and private coins, paper notes, and foreign coins. This is the present condition of currency in China and is maintained on the basis of the ordinance issued in the third year of the Chinese Republic.

(b) *The Present Condition of Currency in China*

The present Chinese currency, whose development was discussed above, is based on silver. All business transactions, debts and credits are settled on the basis of silver. From a practical consideration, China is a nation with a silver standard. But because of the variety of money in circulation and the number of different monetary units maintained, there is no unity of any kind in the Chinese currency system; it is instead a miscellaneous currency (Sortengeld).

The "Yuan" Unit

The units (einheit) of currency in China may be classified under two headings, the yuan and the tael. The yuan or dollar is the unit of the silver coins of the Chinese Republic and constitutes the standard of money of that country in the form of the "silver dollar." The yuan unit operates according to the decimal system.¹

But the yuan differs in nature according to the circumstances under which it is coined. For instance, according to Article 2 of the National Currency Ordinance promulgated on February 7 of the third year of the Chinese Republic, the kupin (庫平銀) silver of 6 tsien (錢), 4 fen (分) and 8 li (厘) constitutes the unit of value and is called a "yuan." Under this regulation, the Yuan Shih-kai dollar was coined at mints in various parts of China. At first it was good in quality, just in its weight and widely circulated, but later it degenerated both in weight and quality, with

-
- L 1 (元) yuan or dollar.....10 chias
1 (角) chias10 fen
1 (分) fen.....

the result that the yuan in circulation has become varied according to the different localities, eras and regimes in which it was coined.

The "Tael" Unit (兩)

The unit of currency in the Chinese Republic is in principle the "yuan" but besides this there is another unit known as the "tael." The tael was originally a unit of weight but at one time there was a coin under that name in circulation. Subsequently paper money was issued under the same unit and more widely circulated than the coin. At present the tael is no more than the name of a unit.

The tael unit is principally used in the open ports of China. In Shanghai, for instance, a small transaction is conducted according to the silver dollar unit but practically all transactions on a large scale are carried on according to the tael basis. In other words, the tael is adopted for all foreign trade at Shanghai and the party who wants to buy gold dollars, must first convert the silver dollars he has into tael and buy gold dollars with that. In case he wants to sell gold he must have the gold first converted into tael and then he will receive silver dollars for it.

The origin of the tael is very old. Its use has been decreasing as the yuan has been gaining in popularity. This tendency is due to the inconveniences of having two standards of currency; at the same time the Chinese government intends to abolish the tael unit and gradually to adopt methods of calculation according to the silver dollar basis. According to an investigation into the 46 old and new leading banking houses in China, 31 of them indicate the amount of their capital by yuan and 15 by tael, the ratio being two to one in favor of the yuan unit.¹

The national economic conference held at Shanghai under the auspices of the Chinese government in the middle of 1929 also adopted a resolution demanding the abolition of the tael and the adoption of the

1. General survey of the problem of reform of the currency system of China: Tokuyoshi Tanaka, Research report No. 18, Yokohama Specie Bank, page 37.

yuan unit in its place.¹

The tael unit was also according to the decimal system as follows: 1 Liang is equal to 10 Chien, 1 Chien is equal to 10 Fen and 1 Fen is equal to 10 Li.²

The tael unit like the yuan unit is not uniform. There are various kinds of tael and, as its weight is often fixed according to custom and not by law, it is difficult to know its exact weight.

The tael weighs approximately from 500 to 600 grains, or from 32 to 39 grams. As its quality differs according to the locality in which it was produced, it is practically impossible to make any comment on it. The principal variety of tael are the Shanghai (上海) tael, the Haikan (海關) tael, the Kupin (庫平) tael and the Tsaoping (曹平) tael. The sycee is the concrete form of the tael unit.³

It is very difficult to define the meaning of the word currency but a clear understanding of it is essential, particularly in discussing the present condition of Chinese currency. In a country like the present day China, where there is no currency system in the sense in which the word is used in various European countries, small localities may have their own currency. The inclusion of such special cases un- necessarily enlarges the general idea of the term. Speaking of cur- rency here, it is understood merely as an instrument for exchange, and therefore, a measurement of value and a means of payment. It is still difficult to determine what is really meant by the general nature of cur- rency, but it is possible to give the following table, taking the coins used as currency in the districts facing the coast lines and rivers as the major districts and the small cities in the hinterlands as minor districts

-
1. "A consideration of the reform of the currency system by Prof. Kemmerer," Edward Kann, Shanghai weekly, July 16, 1930, page 7.
 2. 1 Liang (兩).....Tael.....=10 Chien.
1 Chien (錢).....Mace.....=10 Fen.
1 Fen (分).....Candereen=10 Li.
1 Li (釐).....Cash.
 3. This subject will be taken up in greater detail later.

I—MINTED CURRENCY

- A. Silver Yuan (silver dollar)
 - (1) Yuan Shih-kai dollar (Sun Yat-sen dollar).
 - (2) Mexican dollar.
 - (3) Other kinds of silver dollars.
- B. Silver coin.
- C. Copper coin (copper yuan) (銅元).
- D. Copper penny (文錢、制錢).

II—BANK NOTES

The paper money like the coin is in a state of confusion. It also is issued according to the yuan and the tael as well as the foreign units. The paper currency can be classified under the following heads:

1. Bank notes issued by the Central Bank of China. (民國中央銀行)
2. Bank notes issued by local banks and government organizations.
3. Bank notes issued by foreign banks.
4. Bank notes issued by private banks.
5. Notes issued by industrial and other organizations and by private persons.

Each item given above will be considered briefly in order.

I.—MINTED CURRENCY

*A Silver Yuan (silver dollar)*¹

The silver yuan, or silver dollar, may be regarded as the standard currency in China. There are many kinds which have developed with the growth of foreign trade, some of them foreign coins and others copies of foreign models.

According to the National Currency Ordinance issued in the third year of the Chinese Republic, the right of minting coins belongs to the

1. The silver yuan is called Toiyang (大洋).

government (Article 1). The old silver mint (銀元局) was abolished consequent to the establishment of a new minting system in the same year, and new mints were established in Tientsin(天津), Wuchang(武昌), Nanking, (南京), Kuangchou (廣州), Chengtu (成都), Yunnan (雲南), and Fentien (奉天). They were maintained directly under the Finance Ministry with the Tientsin mint as the principal institution, and the Chinese government planned to issue the well unified silver dollar. This plan, however, was not carried out because of the lack of unity and stability in the condition of the country. Taking advantage of the situation, each provincial government continued to mint its coins for its own interest, making the currency system of China all the more confusing.

(1) Lungyang (龍洋), Yuan Shin-kai dollar and Sun Yat-sen dollar.

The Lungyang was minted in various sections of the country before the Sun Yat-sen dollar was brought into being. There are many kinds of them and the quality differs accordingly, causing considerable inconvenience due to the difference in their value on the money market. The coin, however, has been reminted and its number is decreasing.¹

Investigation of the quality and weight of Lungyang (By the Osaka Mint)

Name of coin	Weight	Quality	Pure silver
Hupe kuangsu tung pao 湖北光緒通寶	414.9372 grains	899.8	1273.9049 grains (6.4516 momme)
Hunan kuangsu tung pao 湖南光緒通寶	413.20108 grains	895.0	369.81496 grains (6.3904 momme)
Chiangnan suantung tung pao 江南宣統通寶	415.651708 grains	900.0	373.54653 grains (6.454884 momme)

1. The Lungyang coin bears on its face the figures indicating kupin (庫平), seven chias and two fen, but its quality is not uniform, with the result that the price often fluctuates. For instance, the principal Lungyang in circulation in Shanghai are.

Kuangsu yuan pao minted in Kuantung province(廣東省造光緒元寶)
Suantung yuan pao(宣統元寶)
Kuangsu yuan pao minted in Chiangnan province(江南省造光緒元寶)
Kuangsu yuan pao minted in Hupe province(湖北省造光緒元寶)

Investigation Conducted by the Mitsui Bank

Name of coin	Weight	Quality	Pure silver
Hupe suantung tun pao..... 湖北宣統通寶	417.2453 grains	901.5	376.1466 grains (6.4998 momme)

"Study on China" by Kesau Tsuchiya.

The Yuan Shih-kai dollar. The Yuan was coined in order to do away with the inconvenience caused by the different kinds of Lungyang (龍洋). It was first coined in December of the third year of the Chinese Republic according to the provision of the national mint ordinance proclaimed in that year. The quality of this silver dollar is about 890 and the weight is kupin seven tsien and two fen, corresponding to six tsien and four fen of kupin pure silver. The popularity of this silver dollar is due to the fact that spurious coins are few, the quality is comparatively good and the weight is uniform. The reason for calling it popularly the Yuan Shih-kai dollar is due to the fact that it has the head of Yuan Shih-kai on one face.

Investigation of the quality and weight of the various kinds of
Yuan Shih-kai yuan by the Mitsui Bank

Year and name of mint	Weight	Quality	Pure silver
Third year of Chinese Republic Nanking mint ... 南京造幣廠	7.17 momme	895.5	6.4207 momme
Eighth year of Chinese Republic Anching mint ... 安慶造幣廠	7.21 momme	862.5	6.2186 momme
Ninth year of Chinese Republic Wuchang mint ... 武昌造幣廠	7.15 momme	891.1	6.3713 momme
Tenth year of Chinese Republic Choutsu mint Hangchau ... 杭州造幣廠	7.13 momme	888.5	6.3350 momme
Average	7.165 momme	884.4	6.3364

"Study on China" by Kesau Tsuchiya

The Sun Yat-sen dollar is issued in increasing quantities in place of the Yuan Shih-kai dollar and receives its name from the fact that it bears the head of Sun Yat-sen on one face. Another name for it is the Chungshan (中山) dollar. It is in circulation at present along with the Yuan Shih-kai dollar.

Investigation of the quality and weight of the Shanchung
dollar by the Osaka Mint

	Weight	Quality	Pure silver
A	7.16 momme	886.1	6.344 momme
B	7.11 momme	890.1	6.328 momme
C	7.17 momme	888.6	6.35 momme
Average.....	7.146 momme	888.6	6.35 momme

"Study on China" by Kesau Tsuchiya.

(2) Mexican dollar

The Spanish dollar was introduced into China in early times as a result of the trade relations between the two countries. The Mexican dollar came to China when Mexico, a producer of silver, began to export silver coins to the Orient, and by the middle of the 19th century it replaced the Spanish dollar.

Mexico adopted the gold standard in 1904 and subsequently prohibited the export of the Mexican dollar, but the silver coins still circulate in China to some extent. At present they are in circulation in Cheh-chiang (浙江) and Shanghai. They are known in that country as Yingyang (鷹洋) or Yingyang (英洋).

According to the regulations of 1892, the ratio of silver in the coin should be 903 parts to 1,000 and its weight 417.85 grains. The silver contained in the coin, therefore, must be 371.31855 grains, but in reality the Mexican dollar in circulation is generally inferior to the standard set by the regulations. According to an investigation made concerning the quality and weight of the Mexican dollar in circulation in about 1890, for instance, the weight and quality, though not far from the regulations mentioned, was not uniform, as shown in the following table:

	The quality and weight according to the regulation	The actual quality and weight	Difference
Quality	903/1,000 th	902.5/1,000 th	0.5 inferior
Weight	417.85 grains	415.509 grains	2.341 lighter

(3) Other silver dollars

The other silver dollars which are in circulation in China are the Hongkong silver dollar, the Japanese silver yen and the Saigon dollar.¹ Of these the Hongkong dollar is most widely circulated, the chief districts being Fukien (福建), Hopei (河北), Paoting (保定), Shansi (山西), Shantung (山東) and Shensi (陝西). The Japanese yen is circulated in Fukien [Amoy (廈門) and Fuchou (福州)] and Changsi [Chiu-chian (九江) and Nanchan (南昌)], while the Saigon dollar is common in Yunnan [Kunming (昆明)].

(B) *Silver Coin*

The silver coin was minted as auxiliary coin of the silver dollar (silver yuan) which is the standard coin used in all small transactions. This auxiliary money was coined freely by each provincial government and its quality degenerated. At first the provincial government attempted to maintain the corrupt auxiliary coin at the same rate of value as the silver yuan but ultimately this attempt failed, with the result that the price fluctuated with the quality, the weight and with other circumstances.²

(C) *Copper Coins (copper yuan)*

The copper yuan is widely circulated in China and commonly used in ordinary transactions except in Manchuria. In the third year of the Chinese Republic, an effort was made to unify the weight, quality and shape of the copper yuan, limiting the number of mints to those of Peking (奉天), Nanking (南京), Tientsin (天津) and nine other mints. But the government was unable to enforce its order, with the result that all the provincial governments today maintain their copper coin mints.

1. The Saigon dollar contains approximately 378 grains of pure silver.
2. Since Dr. Sun Yat-sen's time corrupt 2 chien (錢) coins were issued from the Canton Mint. The same is true with the Anching (安慶) Mint. See K. Tsuchiya's "Study on China," page 15.

In China at present there are copper coins of 1 fen (分) and 2 fen in addition to 50 wen (文), 100 wen and 5 wen, or half a copper coin. None of them, however, is widely circulated in China. Their value against the silver yuan constantly fluctuates. The fact that the value varies with the mint in which it was coined has the same results as in the case of the silver yuan.¹

(D) *Seisen* (制錢)

The *Seisen* is made of copper and brass and used to be the principal coin. It is in circulation at present only in Szechuan (四川) and Kansu (甘肅) and is gradually being replaced by the copper yuan. This is largely due to the fact that the material used in the *Seisen* was exported when the price of copper rose at the time of the world war in 1914. The variety of copper coins may be classified as follows:

- a Chih-t sien (制錢)
- b Puer-t sien (普爾錢)
- c Yang-t sien (樣錢)
- d Ku-t sien (古錢)
- e Szu-t sien (私錢)
- f Foreign-t sien (外國錢)²

BANK NOTES

As in the case of minted currency there is no unity in the condition of Chinese paper money. Those bills which were issued by the government, by various public and private banks, by military officers and by foreign banks are circulating in a hopeless confusion and are constantly subject to fluctuation.³

1. In Manchuria there is little Chinese copper money in circulation. Japanese copper money is circulated in the leased territory and along the Manchuria Railway.
2. Kimura, Masutaro, "Study on China," Chinese Currency System, page 278.
3. The use of paper currency began in the Sung (宋) period.

The Chinese paper note may be classified in three groups according to the three different monetary units as follows :

- 1 According to the yuan unit.
- 2 According to the tael unit.
- 3 According to the foreign money unit.

As there are the yuan and tael units in coins, there are two corresponding units in the paper currency as they represent one or the other kind of coin. In addition to this there are foreign banks with main or branch offices in China which undertake to issue bank notes. Some of these foreign banks issue their notes according to the Chinese unit, while others adopt the unit of their own respective countries. The gold and silver yen bank notes issued by the Bank of Chosen and the Yokohama Specie Bank and circulated in the Liaotun (遼東) peninsula and along the Manchurian Railway zone are examples of the latter. The gold yen bank notes are convertible either to gold or to the convertible notes of the Bank of Japan, and they are on the whole recognized on a par with the Japanese yen.

The paper money issued in China can be classified under the following heads :

- 1 That issued by the Central Bank of China (中央銀行).
- 2 That issued by the Central Government and by the local governments.
- 3 That issued by private banks.
- 4 That issued by industrial and private concerns.

(A) *Central Bank Note*

The note of the Central Bank may be regarded as the most important among those issued by various financial organs maintained by the Government. The Central Bank was organized according to the revised Central Bank regulations issued on October 6, 17th year of the Chinese Republic and is under the supervision of the Chinese Central Govern-

ment. It was established on November 1 of the same year and the installation ceremony was held in the presence of General Chiang Kai-shek.

The bank has a capital of \$30,000,000 silver of which \$20,000,000 silver is paid up, a short term loan being floated in the 17th year of the Chinese Republic. The paper currency was issued on October 26 of the same year according to the provision of the act concerning Central Bank convertible notes in the Central Bank regulations.

The main office is maintained in Shanghai with branches in Nanking (南京), Hankow (漢口), Kuangtung (廣東), and Tientsin (天津). The first Governor of the bank is Mr. Sung Tzu-wen (宋子文), the Minister of Finance of the Chinese Republic, with Mr. Chen Yen as Vice-Governor. The special rights with which the bank is invested by the Central Government are (1) the right to issue convertible notes, (2) the right to mint coins, (3) the right of being the agent for handling the money of the national treasury and (4) the right to float domestic and foreign loans and to accept the same.

The regulations for the issuance of convertible notes by the Central Bank are approximately as follows :

*Regulations regarding the issuance of convertible notes
by the Central Bank (proclaimed on October 26,
the 17th year of the Chinese Republic.)*

- Article 1. The Central Bank shall establish a special bureau to issue notes convertible to the standard coin according to the provisions of the first section of Article 5 and Article 13 of the Central Bank regulations.
- Article 2. The Central Bank notes must be supported fully by a reserve fund of 60 percent in specie and 40 percent in security reserve. The actual coins and bullion must be held as the specie reserve, and for the security reserve negotiable notes such as issued by the financial department of the government

or guaranteed by it, and reliable short term commercial stock share may be appropriated.

- Article 3. The denominations of the convertible note issued by the Central Bank shall be one yuan, five yuan, ten yuan, fifty yuan and one hundred yuan. The Central Bank may issue auxiliary notes according to the demand of the money market.
- Article 4. The convertible notes issued by the Central Bank may be used for paying taxes, public obligations, debts and for all other purposes.
- Article 5. The denominations and designs of the Central Bank convertible notes shall be presented to the government for inspection and duly published by the government before they are issued.
- Article 6. When the Central Bank is fully prepared to issue its convertible notes, it shall be required to publish each time the number of notes to be issued and the amount of reserve fund for them.
- Article 7. When a Central Bank convertible note can no longer be used on account of being soiled or damaged, the owner of it may demand its exchange for a new one at the Central Bank.
- Article 8. Any one guilty of counterfeiting Central Bank convertible notes or of inflicting damage to its credit shall be severely punished.
- Article 9. These regulations shall be submitted to the government by the Governor of the Central Bank and shall be duly sanctioned by him.
- Article 10. These regulations shall be enforced from the date on which they are sanctioned.

According to these regulations, the Central Bank holds a considerable amount of silver reserve, having 60 per cent of specie reserve in silver for the convertible notes it issues.

The Chinese government had previously attempted to establish a bank under the same name but the undertaking was unsuccessful because the capital was in the form of loans and not actually paid up, with the result that the convertible notes failed to function evenly for the bank lacked credit. The convertible notes issued by the present Central Bank however, have been apparently gaining credit. At present the sphere of their circulation extends from Tientsin (天津) in the north to Fuchou (福州) in the south and all along the Peping-Hankow railway.

(B) *Paper Currency Issued in Each Province*

Besides the paper currency issued by each provincial bank, notes are also issued by a government controlled Bank, or by the so-called Currency Bureau. (官銀號, 官錢局) Although these organs are not alike, chiefly in their handling of either silver or copper, they take charge of public money, accommodate loans and at the same time issue paper notes with their holdings as reserve. Practically all the notes issued by these establishments depreciate in value because of inflation and a lack of reserve fund. The Fentien piao (奉元票), Kirin tiao (吉林官帖), Helungchiang tsien piao (黑龍江錢票) and the Harbin and Kirin silver dollar convertible notes are some of the outstanding examples of this.

Besides this there are a number of semi-official banks which also issue convertible notes. Some of these establishments are:

Jeh-he Development Bank	熱河興業銀行
Liaoning and Three Eastern Provinces Bank	遼寧省東三省銀行
Chiangsu Bank	江蘇銀行
Chehchiang Bank	浙江銀行
Hope Bank	河北銀行
Republic Bank	民國銀行
Hunan Bank	湖南銀行
Kueichou Bank	貴州銀行
Kuangsi Bank	廣西銀行
Honan Bank	河南銀行 ¹

1. Hamada, S., "Present Day China," page 1029.

(D) *The Issuing of Convertible Notes by Private Banks*
(*Special Banks*)

The convertible notes issued by private banks in China, which are known as special banks with a right to issue notes, are able to maintain their status. Instances of depreciation of the notes issued by these banks are very few. Some of the special banks of this status are (1) the Chinese Bank (中央銀行), (2) the Communication Bank (交通銀行), (3) the Hypothec Bank (勸業銀行), (4) the Sinhua Savings Bank (新華銀行), (5) the Salt Bank (鹽業銀行), (6) the Agricultural and Industrial Bank (農工銀行), (7) the Chinese Commercial Bank (中國商業銀行), (8) the Hengyo Bank (邊業銀行), (9) the Agricultural and Commercial Bank (商農銀行), (10) the Mongolia-Thibet Bank (蒙藏銀行) and (11) the Chih-dien Bank (殖邊銀行).

The special banks mentioned above are established each for its own special purpose according to its independent regulations. They all have the right to issue convertible notes but most of the notes are issued by the Chinese Bank and the Communication Bank. Both banks have a long history, the Chinese Bank being formerly the Taishin Bank and the Communication Bank having been established early in the former Shin period.

The Chinese Government issued regulations on April 16 in the second year of the Chinese Republic and again in April of the following year, making the Chinese Bank and the Communication Bank respectively semi-official organizations. When the nationalist government was established the government proclaimed an ordinance in October, 17th year of the Chinese Republic to allow the Chinese Bank to serve as an organ of international exchange and another ordinance on November 16 of the same year to make the Communication Bank serve for the promotion of industry.

(D) *Convertible Notes Issued by Foreign Banks*

The presence of foreign banks in China has an important signi-

finance in the present condition of the Chinese money market. Without the foreign banks the commerce of that country would suffer all kinds of difficulties and inconveniences. The business of the foreign banks is conducted chiefly in the foreign settlements and the foreign notes are issued by the special permission of their respective governments backed by their own financial interests. The foreign bank notes have great credit among foreigners as well as among Chinese people and are widely circulated among them. The foreign banks¹ in China are (1) The Hongkong & Shanghai Banking Corporation, (2) The Chartered Bank of India, Australia & China, (3) The You-li Bank (有利銀行), (4) The International Banking Corporation,² (5) The Mi-feng Bank (美豐銀行), (6) The Tungtang Huili Bank (東方滙理銀行), (7) The Chungfa Commercial Bank (中法實業銀行), (8) Le Banque Belge Pour l'Etranger, (9) The Holland Bank, (10) The Yokohama Specie Bank, (11) The Bank of Taiwan and (12) The Bank of Chosen.³

The units of face value indicated on the convertible notes issued by these foreign banks are classified under (1) the Chinese currency unit and (2) foreign currency units. Of the above mentioned foreign banks The Hongkong & Shanghai Corporation, The Chartered Bank of India, Australia & China, and Le Banque Belge pour l'Etranger issue convertible notes according to the Chinese currency unit. On the other hand, The Bank of Chosen and The Yokohama Specie Bank issue their convertible notes according to the gold and silver yen unit. These notes are circulated chiefly in the Liaotung peninsular leased territory and in the Manchurian Railway zone.

These bank notes maintain a uniform value and are exchanged at

1. The foreign banks handle deposits, loans, money orders and gold and silver bullion.
2. The International Banking Corporation was merged with the National City Bank of New York in 1927.
3. The Bank of Chosen has the right to issue notes only in Manchuria. The Hua-nge-tao-pang Bank (華俄道勝銀行) which is under the joint management of Japan and China also issues paper notes.

par whenever presented. For instance, the Japanese gold yen note can be converted into gold or exchanged for the convertible note of the Bank of Japan whenever presented, and it circulates as freely as the yen in Japan. The silver yen bank note is exchangeable for a silver yen piece or its equivalent and circulates as freely as the Chinese silver dollar.

The bank notes which are issued by the British banks in Hongkong may be included in this category. They are circulated in Kwantung (廣東) and its neighborhood and are convertible to the Hongkong silver dollar.

(E) *The Convertible Notes Issued by Industrial and Other Organizations and by Private Parties*

Besides those mentioned above, there are checks issued by the Chinese banks of the new model. A kind of paper money is issued by various institutions. There are Hui-huochuang (匯劃莊), Tiao-ta (排打) and Su-tui (帶兌) of Tsien-chuang (錢莊), situated in Shanghai (上海), Ningpe (寧波), Chenchiang (鎮江), Nanking (南京), Chiuchiang (九江), Shashih (沙市), Amoy (廈門), Shantou (汕頭), and Cheefu (芝罘). Yin-hao (銀號) is called either Iuheng Yinhao (入行銀號) or Chingsiao Yinbag (傾銷銀號) when there is a trade guild. In Hangchou (杭州) it is called Yin-chuang (銀莊). Yin-hao (銀號) is situated in Kwantung (廣東), Tientsin (天津) and Peping (北平). Tsien-chuang and Yin-chuang (錢莊 and 銀號) handle deposits, loans, exchange, discount and transactions concerned with the silver yuan and at the same time issue Chuang piao (莊票). Chuang piao (莊票) is a blank promissory note issued by Tsien-chuang and Yin-chuang (錢莊 and 銀號), old fashioned banks in China. The bearer may not only exchange it for cash upon the expiration of the term but may transfer it without the endorsement of the party concerned.

Besides these, which are similar to paper currency, notes are issued by factories, mines and other public organizations and chambers of commerce. There are many kinds of them but the circulation is local

and the amount of issue is limited.

Tael

The tael is the other currency unit differing from the yuan unit. This currency unit originally developed from the weight unit. It assumed the form of coin and paper currency, but in due time the tael paper notes became far more widely circulated than the tael coins. At present the tael is no more than a nominal unit. As in the case of the silver yuan, there are many kinds of tael and it is difficult to know accurately their exact weight because of the fact that they are regulated according to custom instead of by law. The following are the principal tael: (a) Haikwan tael (海關), (b) Kupin tael (庫平), (c) Shanghai tael (上海), (d) Kuantung tael (廣東), (e) Tsaopin tael (曹平), (f) Tientsin tael (天津), (g) Peking tael (北京), (h) Hankow tael (漢口), and (i) Niuchang tael (牛莊).

The first four are the most important. The kupin tael, for instance, is regulated by the government and is used for the payment of taxes, being the standard unit all over China. It is difficult to know the exact weight of the unit, but according to the regulations of the nationalist government issued in the third year of the Chinese Republic, the weight of 1 tael is as follows:

Kupin 1 tael	575.629032 grains
" "	37.301 grams
" "	9.946869 momme

The Kaikuan tael is used for the payment of customs duty. It was adopted for that purpose in connection with the Sino-British commercial treaty, which was revised in June, 1858, to avoid inconvenience caused by the variety of tael in calculating the customs duty at the open port. The following in a table showing the value of the customs tael:

Customs tael	581.47 grains
" "	37.684 grams
" "	10.0478 momme

The Tsaopin (曹平) tael is the one used by the people in general, as the standard coin but its weight differs according to locality. Even in one locality it is not always the same. For instance, the Shanghai tael is a kind of Tsaopin tael. The Shanghai tael is not always uniform but its weight which is generally accepted as standard is 565.697 grains corresponding to 9.775244 momme in Japanese measurements.

We have seen that there are many kinds of tael, but in general it may be said that it ranges in weight from 500 to 600 grains or from 32 to 39 grams.

The value of the tael is standardized by the Wenyin (紋銀) as the standard silver coin, but the value of the Wenyin itself sometimes differs according to locality. It is practically impossible, therefore, to fix the quality of silver when the quality of even the standard silver coin is not accurate.

Thus the tael was originally a weight measurement but has come to be used as a unit of currency. The actual form of the coin is called a sycee. The sycee is named from its shape which is like that of a horse-shoe. The sycee is not uniform in weight and is equivalent in value to a sum ranging from 49.85 to 50.10 tsaopin tael. Each sycee is inspected at the office (公估局) and its quality and weight are determined there for circulation. Its quality is determined by comparing it with the wenyin as a standard and the amount of premium is fixed accordingly. A silver piece of 50 tael in weight with the addition of three tael as premium (申水) more than the wenyin, or in other words silver with a premium of six percent is considered pure silver. It may be said, therefore, that the quality of wenyin silver, which is the standard silver, is one hundred parts of silver to one hundred and six, or 943.4.

The sycee is circulated chiefly in Shanghai, Hongkong and Tientsin, and is more popular in Shanghai than anywhere else in China. The banks in Shanghai, irrespective of their nationalities, hold a greater part of their silver reserves in sycee. Small transactions in that city are

done in silver dollars but the tael is adopted for practically all large transactions.

The face value of a check is usually indicated in both tael and silver dollars, but it is generally admitted that it would be more convenient if the value were indicated by the tael unit only, thus avoiding trouble in converting it.

Foreign trade in Shanghai is conducted in tael. If a person wishes to buy gold dollars, he must first convert his silver dollars into tael for the transaction. Likewise a party who wants to sell gold dollars has to convert them into tael in order to get silver dollars for them. This old practice of calculation according to the tael unit, however, has been gradually going out of fashion.

There are three sizes of sycee. One which is generally called the sycee weighs about 50 taels and is known as Yuanpao Yin (元寶銀). The medium size sycee is called the Chunting (中錠) and the smallest, the Siao ke (小鐐).

Unlike the silver yuan the sycee is cast at silver smelters which are operated by private concerns. At present there are 22 silver smelters in Shanghai each maintaining eight small furnaces. It is said that one of these smelters casts each day about 400 sycees of approximately 50 taels. This means that the aggregate capacity of the 22 smelters in casting sycee a day is approximately 400,000 taels, the capacity of each smelter being about 20,000 taels.

II

THE SPECIAL FEATURES OF CHINESE CURRENCY

The general description already given of the cross section of the Chinese currency system is sufficient to show that the Chinese currency system is quite different from those obtained in Japan and in various countries of Europe and America. A further study of Chinese currency will reveal several particular features which characterize the Chinese currency system.

(1) *The Silver Standard of the Chinese Currency*

The first thing that attracts our attention in the study of Chinese currency is the silver standard on which the Chinese currency system is based. Instances in the past showing that the nations of the world used the silver standard as the basis of their currency systems are no rare, India, Mexico, the Panama Republic and the Straits Settlements having adopted it at one time or another. Japan also used it before she adopted the gold standard. It is not at all strange, therefore, that China has a silver standard, but the reason for pointing it out as a special feature of China's currency system is that China alone still adheres to this antiquated custom of the silver standard in spite of the fact that all the leading nations of the world as well as other lesser countries have shifted from the silver to the gold standard. In other words the silver standard of the Chinese currency must be observed against the background of time.

The barter as the first method of exchange in economic society developed from a direct exchange to indirect exchange according to the degree of acceptability of the commodity with which the primitive trade was conducted. It was natural that a commodity currency should be brought into existence as a medium of trade in connection with this development.

Any kind of commodity with a fixed value served as currency, but in the course of circulation metal finally won its supremacy as the best material for currency use. This was due to the particular nature of metal as a suitable means of currency for circulation, but the coin system as practiced at present was still far from being conceived at that time.

Trade was conducted in those days by the so-called system of currency by weight, each piece of metal used as a medium of trade being examined and weighed at the time of exchange. The appearance of the coin currency meant the first step toward the unification of the disordered currency. This improvement was first wrought in a form of parallel standard system. Under this system, many kinds of currency were put into circulation, leaving the valuation of the metal currency to their relative values on the market. The system is a very liberal one, indeed, but it must not be understood to be the same as that of the present day currency system.

With the gradual development of this currency system, however, a method of fixing the relative value of those coins (such as, for instance, gold and silver) by law instead of leaving it entirely to the quotation of the market, was initiated. The currency system of France in the 19th century was based on this gold and silver standard system. But a free minting of coins on the basis of this bi-metallic standard of gold and silver led to an inflation of silver coins when the value of silver was depreciated, and consequently caused a hindrance to a smooth circulation of currency. As the result, the free minting of silver coin was prohibited, the limping standard being adopted. France adopted this method in 1876.

Although the limping standard had developed thus from the bi-metallic standard, it was really more of a gold standard than a bi-metallic standard because the particular feature of the bi-metallic standard was lost. Then Great Britain adopted the gold standard in May, 1816, abolishing silver coins. The nations which had been carrying on

foreign trade with the maritime nation desired to use the same standard for the sake of convenience. But the depreciation in the value of silver and the pessimistic prospect for the output of gold furnished advocates of the bi-metallic standard with a plausible reason for opposing the gold standard, thus obstructing for a time the movement for a change from the bi-metallic to the gold standard. In due time, however, the increase in the output of gold turned this tide of the situation in favor of the gold standard. The history of currency in Europe up to the outbreak of the World War, therefore, may be regarded as a history of the development of currency toward the gold standard.

With the outbreak of the World War in 1914, the nations involved in the struggle as well as neutrals stopped the conversion of paper notes to gold directly, and indirectly prohibited the export of gold, with the result that the gold standard system ceased to perform its purpose. When the relation between the gold and paper currency was thus severed, the gold standard, having lost its significance, had become a mere matter of name, and the nations of the gold standard were in reality converted into countries with non-convertible paper notes.

When the armistice was declared and the war was brought to an end, the first consideration for all nations concerned was the readjustment of non-convertible paper currency. In other words the first concern of the nations was on what basis their currency systems should be reestablished.

In the face of this fact, some of the people advocated the restoration of the gold standard, while others, declaring the futility of the gold standard, insisted on the paper currency standard. What actually occurred was that the nations concerned made all possible efforts to return to the gold standard, and not only have they succeeded in this attempt but those countries which were not on the gold standard before the war, have adopted it.

It is true that there is a certain difference in form between the gold standard practiced before the war and that used since the war, but both

are nevertheless the gold standard. Viewed from the perspective of history, the gold standard has attained its highest possible development. Despite this tendency in the currency system the world over, the fact that the silver standard though nothing unusual in itself, is still maintained by China, does not fail to be one of the special features of China's currency system.

Why is it that China alone should maintain the old standard, utterly ignoring the exigencies of the time, when there is a general tendency in the development of the currency system toward the gold standard? A consideration of this question shows the necessity of studying the relation between the development of capitalistic economy and the gold standard.

The production of commodities for commercial purposes is one of the features of modern economic conditions under capitalism, but this is possible only on the basis of currency "economy." In other words, it is possible for capitalism to develop properly only when it goes hand in hand with a perfect currency system.

The adopting of the gold standard by Great Britain in 1816, though it might have been inevitable as the natural course in the development of the currency system, was an epoch making event in the history of the standardization of currency. The adoption of the gold standard by Great Britain, the nation which held the supremacy as a maritime country, expedited the movement for the rest of the nations to adopt the same standard. For the development of capitalism for mass production goods must necessarily find markets abroad. It was simply a matter of necessity for the nations, therefore, to participate in the international commerce. In the face of this fact it was impossible to ignore the gold standard system of England. The gold standard was, in fact, the condition upon which all nations participated in the economic world.

The gold standard is recognized as necessary not only as the medium of settling international accounts but also because it provides domestic industry with a currency of constant value which is an

obvious necessity for a society engaged in the production of commodities for commercial purposes. The political confusion in China, indeed, has been a serious obstacle for the development of economic life and the development of capital in that country under such conditions cannot but be very slow. Nevertheless, the fact that China, which has been making earnest efforts to have herself recognized in the comity of nations, is still contented with the silver standard, is an exceptional case, for China thus isolates herself from the rest of the nations in the movement toward the adopting of the gold standard.

Another feature of the Chinese currency system is the Chinese love of silver. It is a well known fact that the Chinese people have cultivated a singular sentiment for silver, and they would accumulate their wealth rather in the form of this metal than in any other form. The fact that Chinese laborers in mines, railways or industrial factories like to have their paper notes exchanged for silver dollars when their wages are paid in paper notes, and also the custom of hoarding silver dollars under the floor should not be regarded merely as a manifestation of a lack confidence in the Chinese paper note. It must not be forgotten that this Chinese attitude toward silver is due to more often the peculiar attachment of the Chinese people to silver.

This sentiment toward silver is not a special characteristic of only the Chinese people. The Hindu also use a considerable amount of silver, for instance, in making preparations for a wedding. The amount of silver used each year by Hindu for various purposes other than that of making coins is enormous.

Another point which may be regarded as a positive cause for the maintenance of the silver standard is the opposition of financial interests to the gold standard. The ideal currency system of a nation, considering the general function of currency, should be based on a currency which does not fluctuate in value. From this it is apparent that the silver standard which is controlled by the value of silver bullion quoted on the market is unsuitable for a national currency, for either domestic

or international purposes. It goes without saying that the gold standard will remedy this shortcoming of the silver standard. The greatest opposition to the adoption of the gold standard is the personal interest of those who profit themselves by taking advantage of this fluctuation in the value of silver.

The fluctuation in the value of commodities is for all businessmen a source of profit, but for a speculative businessman it is the only source of profit. The silver standard which is subject to great fluctuation in value is a convenient standard for the financial broker whose business it is to take profit from the fluctuation in the value of silver. It is for this reason that the adoption of the gold standard which makes for the stability of the value of currency means a fatal improvement for him. The objection against the gold standard on that ground must not be ignored. The fact that the reluctance to effect a reform on the Chinese currency in the past was based on the interest of the practical businessman rather than on mere theory shows the existence of this close relation between the silver standard and the practical interest of speculators. This is a less obvious reason why China is still unable to adopt the gold standard.

(2) *Lack of Unity in the Chinese Currency*

The second characteristic of the Chinese currency is a lack of unity, all kinds and varieties of currency being put into circulation. As was explained in the chapter on the present condition of the Chinese currency, there are two units of currency, one the yuan unit in which money is counted according to the number of pieces and the other the tael unit which goes by weight. It is impossible to find such a condition of affairs in any country in Europe or America. In addition to this, the quality, weight and shape of the currency of these two units differ according to the different institutions from which they were issued. Moreover, the currency is local, and the sphere of circulation is limited according to its kind. This total lack of unity in currency is

a phenomenon found only in China, with the exception of a temporary condition of the kind which occurred in certain belligerent nations during the World War.

The reason that Chinese currency has remained in such utter confusion is due ultimately to the geographical fact that the country is excessively large. The enormous size of the country has the following effects :

(a) *The Difficulty of Centralizing the Political Power*

It goes without saying that the greatness of the geographical area constitutes a serious obstacle to a thorough concentration of political power for the unification of the country. In a country like China, extending from 18.20 to 53.40 north latitude and from 73 to 134 east longitude with an area of 1,532,800 square miles in China proper and 4,307,773 square miles when including the three eastern provinces of Manchuria, Mongolia, Shingkiang and Tibet,—a country which is inhabited by about 300,000,000 people representing Han, Manchurian, Mongolian, Islam and Tibetan races—in such a land the vastness of the geographical area certainly constitutes a serious obstacle to the unification of the country. The lack of a predominating political figure is largely responsible for the present political confusion and the decentralization of power in China, but at the same the situation is also a natural consequence of the failure of the central government to have its command conveyed to the far distant districts.

The political situation due to the decentralization of power in China cannot be disposed of merely as a political phenomenon. The decentralization of political power encouraged local financial independence and consequently created a financial situation which necessitated the establishment of local institutions for minting coin. The centers of local political power enforced the circulation of local coin as an expression of local authority and at the same time issued paper currency to make up their financial deficits. At present the silver and copper yuan are minted

and issued by many public and private local concerns, and there are so many different kinds of paper currency that it is practically impossible to enumerate all the varieties of silver piao (票) issued by local militarists, and by great local commercial and financial concerns.

(b) *Difficulties in the Development of a Communication System*

The vastness of territory prevents the development of a communication system. The fact that the total length of railways in China over the entire area of 4,300,000 square miles is 8,648 miles, showing 333 square miles of area to a mile of railway, indicates how imperfect is the net work of railways in China.

Comparison of Railway Mileage

Government and private railways in China	6,501 miles
Railways operated by foreign interests	2,147 miles
Total	8,648 miles

Names of Countries	Area to a Mile	Population to a Mile
United States	12 sq. mi.	3,800
Japan	16 sq. mi.	8,000
India	40 sq. mi.	8,000
China	333 sq. mi.	52,600

It is apparent that the economic expansion of a nation requires the development of the communication system. The growth of trade along with the development of communication is a vital condition for economic consolidation and political unity. Inconvenience of communication constitutes a serious obstacle for the despatch of a political command and also restricts the sphere of economic interest, limiting the expansion of economic markets. The limitation of market naturally creates small local centers and constitutes a cause for the lack of unity of the nation as a whole. It is apparent that unity and the even spread of currency depend upon the development of communication.

(c) *The Circulation of Coin According to Its Actual Value*

One of the important characteristics of Chinese currency is that its circulation depends upon the actual value of its currency. A feature of the currency system adopted by Japan as well as by Europe and America is that money is counted according to the number of coins and convertible notes. We handle the money according to its face value and there is not the slightest difference in this respect whether it is gold or silver coin or paper money. We never inquire into the quality of coin but merely count the money according to the number of pieces. In China two coins with the same face value differ in their actual value and are counted accordingly. This fact is born of the bitter experiences the Chinese people suffered in the past from fluctuation in the value of currency. The genius of the Chinese people in economic calculation has been developed through many years of bitter experiences in handling currency issued by local governments, militarists and commercial concerns without reliable security and liable to degenerate or even to be reduced to the value of a scrap of paper.

The Chinese people, to whom the actual value of coin is of supreme importance, naturally have no auxiliary currency with a stable value as we have. Although in China silver and copper coins are used as auxiliary money, a certain limit set in the amount of payment with them is the only restriction, and there is no discrepancy between the face value and actual value of the coins. Chinese coins in this sense, therefore, must be regarded as unique. When the Chinese people acquire the conception of money as value by number as we and the European and the American peoples have, it will be comparatively easy to introduce to China the kind of money we have. But on the other hand, when there is no political background and consequently no political power which might be trusted, the preponderance of a sense of economic calculation and the circulation of money only under the urge of economic pressure will not constitute so serious an obstacle to the

currency reform as we imagine it will from our viewpoint. Instead this characteristic of the Chinese people at this time of total absence of political unity may have in it something which may serve the purpose of currency reform.

III

NECESSITY OF A REFORM IN THE CHINESE CURRENCY SYSTEM

It is clear now that the Chinese currency system is in a state of utter confusion, the like of which it is impossible to find in any other country. All kinds of evils are associated with this state of affairs, providing an opportunity for a demand to bring about a reform of the system. The following may be pointed out as some of the evils growing out of the present condition of the Chinese currency system :

(1) *Inconvenience of Circulation due to a Lack of Unity in Currency*

The state of currency in China differs according to locality, and there is no currency which may be circulated throughout the country. An example like this cannot be found in any other country in the world. Moreover, the value of coin differs in the same locality and is subject to fluctuation, thus forfeiting the first principle of the function of currency to facilitate business transaction. Although the Chinese people do not feel particularly inconvenienced by this lack of unity in their currency, being accustomed to it for a long time and resigned to their fate, their attitude does not go to prove that the lack of unity in currency is not inconvenient. It goes without saying that a unified currency system is incomparably convenient as a medium of exchange, making it unnecessary to go into the trouble of examining the currency for its actual value or converting it into the desired variety at the time of trade. Unity of currency is not a small factor in the economic development of a nation because it simplifies trade conditions and is conducive to prompt business transactions. Thus there is a plausible reason for China to bring about a unity of currency.

A movement for the unification of the currency has been introduced

in China as the result of repeated discussions of the matter. A plan to replace the tael by the yuan unit is worthy of attention. The tael has a long career but it has been gradually replaced by the yuan unit. There is a plan to abolish the tael unit altogether and the Chinese Government is now bent on the realization of this, with the result that the popularity of counting money according to the yuan dollar has been gaining headway. The economic conference held at Shanghai in 1929 under the auspices of the Chinese Government approved a bill demanding the abolition of the tael unit to make the yuan the sole currency unit of that country.

An investigation has revealed that out of 46 new and old Chinese banks, 15 indicate the amount of their capital in the tael unit and 31 in the yuan unit, showing an apparent tendency in favor of the yuan unit.¹

(2) *Various Evils Resulting from Fluctuation in the Value of Silver*

The yuan dollar fluctuates greatly in its relation with other kinds of yuan coins, bank notes and copper coins. The following is one of the examples of the quotation on the Siao yang tsien (小洋錢) :

1. Tanaka, Noriyoshi. *A Reform in Chinese Currency*, p. 75.

Quotation on Siao yang as against 100 gold yen,
(Dairen Price Spot-transaction)

Year	High Yuan	Low Yuan	Average Yuan
1908	136.60	113.00	128.72
1909	136.60	122.00	131.40
1910	135.00	119.00	128.91
1911	133.40	117.50	126.90
1912	128.30	110.00	119.92
1913	129.00	113.20	123.00
1914	150.85	124.60	136.03
1915	154.35	133.50	147.55
1916	140.25	90.00	121.28
1917	107.50	64.30	94.24
1918	88.80	64.85	76.99
1919	80.04	42.07	64.01
1920	112.79	44.91	73.22
1921	130.83	90.79	110.87
1922	112.61	97.52	103.81
1923	114.00	103.69	108.74
1924	108.88	80.02	96.80
1925	102.10	81.00	93.83
1926	142.40	93.80	117.23
1927	142.35	116.65	127.71
1928	131.50	112.85	121.37
1929	146.10	117.75	132.29

Yasumori, Matsunosuke. *Outline on Money and Banking in Manchuria*, p. 30.

The following is the quotation on the Fengtien Piao (奉天票) as an example of fluctuation of paper currency in China :

Quotation on Fengtien Piao as against 100 gold yen
(Spot-transaction)

Year	High Yuan	Low Yuan	Average Yuan
1912	128.80	110.70	120.25
1913	129.60	114.00	123.13
1914	152.50	124.60	138.61
1915	155.10	133.00	147.92
1916	143.30	93.00	124.43
1917	111.60	70.00	100.94
1918	118.00	84.20	96.95
1919	115.20	62.00	93.48
1920	146.30	54.00	100.19
1921	166.30	107.00	139.48
1922	148.60	116.91	134.89
1923	148.00	128.00	138.85
1924	194.00	121.90	138.48
1925	233.00	130.00	168.19
1926	570.00	200.50	358.77
1927	1,360.00	480.00	956.65
1928	3,300.00	1,510.00	2,509.65
1929	7,760.00	2,670.00	5,682.68

It is apparent that the fluctuation shown above constitutes a serious obstacle for the smooth operation of all kinds of transactions in China.

The maintenance of the silver standard by China will have an important bearing on that country because of the fact that the demand for silver for minting silver coin has become far less than for various industrial purposes in the present generation when the nations of the world have been abandoning the silver standard, and consequently the silver is now treated merely as a costly metal. Under these conditions, the value of currency on the basis of the silver standard is determined according to the prevailing price of silver bullion on the market. Circumstances like this are certainly detrimental to the well being of China to no small degree.

(1) *The Effect of the Silver Standard upon the Financial Condition of China*

It is true that the financial difficulties of China are caused by a deficiency in her financial structure on the one hand and on the other by the greatness of her military expenses, the interest to pay on foreign loans and various other domestic expenses. The annual payment of interest on foreign loans in particular has been a very serious financial burden to China in the face of the present depreciation in the value of silver.

China started her career as a debtor of foreign nations in 1874 with a loan of 2,000,000 taels at 8 percent interest on a short term of 10 years. Since that time, the Financial, Communication and other departments of the Chinese Government have received all kinds of loans for the improvement of financial, railway and economic conditions of the country. A rough estimate of the loans made in 1925 totaled 1,780,000,000 yuan. In addition to this, the Chinese Republican Government contracted 600,000,000 yuan of debts, including 200,000,000 yuan of loan signed at Kwangtung, about 250,000,000 yuan at Hankow and about 130,000,000 yuan at Shanghai. All in all China is burdened

with foreign loans to a tune of approximately 2,400,000,000 yuan, and the annual payment of interest on them, say at 5 percent, will reach the 120,000,000 yuan mark. When the total amount of interest on the domestic loans is added to this, the grand total of interest China has to pay yearly is enormous. If China has to pay a greater proportion of this interest in gold, the present drop in the price of silver certainly entails a vast increase in China's obligation.

(2) *Effect of Silver Standard on International Trade*

In foreign trade, the depreciation of silver means to China with the silver standard (1) an appreciation of the bills of exchange drawn for a foreign country with the gold standard and (2) a difficulty to import foreign goods from a country with the gold standard. As the depreciation of silver naturally causes a rise in the rate of bills of exchange, the Chinese importer has to pay so much more of silver than before for importing goods from that country. As the result, the price of imported goods in the country will necessarily rise. From the standpoint of the exporter in a country with the gold standard who exports his goods on the basis of the silver currency unit, the price of his goods must be raised because the amount of gold he gets for the silver he receives will become less than before. A depreciation of silver thus has a very serious effect upon the foreign trade of a country with the silver standard.

Although the foreign trade of China, with a few exceptions, has always shown an excess of imports over exports, the effect of the present depreciation of silver on China's foreign trade is seen in the following statistics :

The Tendency of Foreign Trade of China
(According to the annual report on Chinese customs duty)
Haikan tael

Year	Exports	Imports	Balance
1870	55,294,866	63,693,268	8,398,402
1880	77,883,587	79,293,452	1,409,865
1890	87,144,480	127,093,481	39,949,001
1900	158,996,752	211,070,422	52,073,670
1910	380,833,328	462,964,894	82,131,566
1911	377,338,166	471,503,943	94,165,777
1912	370,520,403	473,097,031	102,576,628
1913	403,305,546	570,162,557	166,857,011
1914	356,226,629	569,241,382	203,014,753
1915	418,831,164	454,175,719	35,614,555
1916	481,797,461	516,406,995	34,609,629
1917	462,931,630	549,518,774	86,587,144
1918	485,883,041	554,893,082	69,010,041
1919	630,809,411	646,997,681	16,188,270
1920	541,631,300	762,250,230	220,618,930
1921	601,225,537	906,122,439	304,876,902
1922	654,891,933	945,039,680	290,157,717
1923	752,917,416	948,633,920	195,716,504
1924	771,984,468	1,039,102,156	267,317,688
1925	776,352,937	965,090,593	188,737,656
1926	864,294,771	1,144,646,971	280,352,200
1927	918,619,662	1,034,030,490	115,410,834

Remarks: 1. Reexportation is not included in the table.
2. The mark + indicates excess of exports over imports.
(Chinese Financial and Economic Manual)
Compiled by Japan Economic Federation.

It is said that the greater proportion of money for this excess of imports over exports is offset by the remittance of money to China by Chinese merchants abroad (華僑), but if this were not the case, and the money had to be actually paid for this excess of imports over exports, the depreciation of silver would certainly prove to be overtaxing to China.

We will now see what effect the depreciation of silver has upon the actual figures of China's foreign trade. The figures of China's foreign trade in the past, for instance, shows that the excess of imports over exports totals, roughly speaking, about 100,000,000 tael, the imports being about 1,000,000,000 tael and exports 900,000,000 tael. But in 1928, the amount of imports leaped to about 1,190,000,000 tael while that of exports increased to 990,000,000 tael, showing an excess of imports over exports of 200,000,000 tael. In the following year, the tendency had become more apparent when both imports and exports reached unprecedented figures with the amount of imports at approximately 1,265,000,000 tael and that of exports at 1,015,000,000 tael, showing an excess of imports over exports of 250,000,000 tael. This increase of imports over exports is due not to an increase in the quantity of commodities imported but to the depreciation of silver. The situation is that China imports commodities from foreign countries with the gold standard and pays the price in depreciated silver.¹

(3) *Effect of the Silver Standard on the Price of Commodities in the Country*

The problem of price in a country with the silver standard arises when the value of silver depreciates. The depreciation of silver is bound to cause a rise in the price of bills of exchange, and, therefore, of imported goods.

For the exporter who carries on trade with bills of exchange with gold as its medium, the depreciation of silver means an increase in the

1. *A Blow Dealt to Chinese Foreign Trade by the Depreciation of Silver*. No. 11, sixth volume, issued by the Tokyo Chamber of Commerce and Industry.

amount of net receipt for the goods exported. As this situation encourages export trade, the industry becomes active in the production of export goods. The increase in the amount of production along with the increase of profit makes demands for a greater amount of raw materials and manufacturing implements and machinery. This causes a rise in the price of manufacturing equipment as well as in labor wages, thus raising the price of commodities in the country.

But the depreciation of silver does not instantly reflect upon the price of commodities. It shows its effect gradually after a lapse of a certain period, beginning first with the export goods and then affecting others. This effect is first manifested in the open ports but not much in the hinterland where foreign trade relations if any, are slight.

The foregoing paragraphs pointed out various circumstances which put China at a disadvantage because of the silver standard and its effect on the foreign countries which maintain trade relations with China. From a consideration of these facts it is apparent that China should abandon the silver standard, both theoretically and practically, and adopt a currency on the basis of the gold standard. Another point which strengthens this view is the advantage which a reform in China's currency would be to the economic development of the world.

(4) *The Significance of China's Currency Reform to the Economic World*

The lack of unity in China's currency system, the inconvenience due to the complicated relations of value existing among various denominations of money, and other evils resulting from the silver standard constitute sufficient reason for a fundamental reform of the Chinese currency system. But there is one thing more and that is that the Chinese currency system should not be thought of as merely a Chinese affair. As a matter of fact in the past China has repeatedly planned a currency reform on her own initiative and has made efforts accordingly for the realization of it. If the benefit of reform were limited

entirely to the advantage of China, it would be possible for that country to say that she does not feel a positive inconvenience in the present condition of the currency system as it is. Such a view ignores the international significance of her currency reform.

The development of international communication shows a tendency to enlarge the outlook of economic exchange. No sooner had mankind entered the age of economic exchange from the age of isolation than an economic interdependence was brought into being. This interdependence has become more and more intensified with the progress of time until today it has become impossible for us to live in complete isolation from the society in which we live. This theory of the interdependence of mankind in a community may be applied to the national economic existence in its relation with the world. The economic existence of a nation can be expected to develop only as a part and parcel of the economic world. If the economy of a nation promotes the happiness of the people it embraces, world economy promotes the increase of happiness for all mankind at large. The economic deficiency of a nation which is a part of the world economy constitutes an obstacle for the promotion of human welfare because it affects not only that nation but the other countries as well. Considered from the viewpoint of this lofty ideal, such a deficiency is a sunken rock in the economic sea of the world.

The removal of this defect and its evil is desirable as a measure to promote human happiness. The nation is obligated to remove this defect in order to improve the economic world and increase human happiness. When all such defects in the Chinese currency system are exposed in the light of this ideal, the currency reform problem in that country will become a matter of important international significance, providing the basis of a strong argument for the necessity of reform.

IV

PRIVATE PLAN PROPOSED FOR A REFORM OF CHINESE CURRENCY

It is apparent that the necessity for China to reform her currency system is imperative in the light of the fact that a stable currency is the basic condition for the economic development of all classes in the country. It is regrettable that, though various plans for a reform of the Chinese currency system have been proposed in the past, they were full of defects, both theoretical and practical, and not one of them therefore has been realized. The realization of a reform of the Chinese currency system has been hoped for not only by the Chinese people but by all the nations concerned. The time has come, therefore, when the problem should be taken up seriously for the benefit of the world at large. The present article is a manifestation of anxiety on the part of the author to contribute something to the reform of Chinese currency.

It must be stated at the very outset that, as in all cases of reform projects, the plan is proposed with the expectation that the present condition in China will prevail as it is for some time to come. The present condition of China is in such a state of confusion that it is practically impossible to predict what will happen tomorrow. When we take this into consideration, it is impossible to make any kind of definite plan of reform. It is for this reason that the present plan is formulated on the hypothesis that conditions will remain as they are at present or least that they will not turn for the worse. This may be too obvious a matter, but considering the reform plans projected in the past, it will afford a standard for criticism.

This plan of reform is both theoretical and practical. First, it is a problem of what standard China should adopt for its currency, and secondly it is concerned with practical measures of reform.

PART (I) THEORETICAL BASIS FOR THE PROPOSED REFORM

(1) The question of what standard China should adopt as the basis of currency is the first matter of importance in the deliberation of the theoretical aspect of the reform problem. In this respect the gold standard is recommended as the ideal standard.

In the very beginning of economic development, mankind lived very much in isolation. In due course of time with the gradual growth of economic development, interdependent relations sprang up among the people. The interdependent relations among the nations of the world likewise have become more and more intense, making it impossible for any nation to have an economic development without being affected by the whole economic world just as it is impossible for any member of a community to live without being dependent in some respect upon the rest of the community in which he lives. In other words, the trend of national economic life toward world economic life has been great. The development of the world economic life indicates how greatly the economic life of a nation stands under the influence of the economic life of the other nations. This condition may be observed in every aspect of national life but it is more plainly observed in the currency system of a nation.

In regard to the function of currency in economic society, the ideal currency system of a nation is the one which is capable of providing the people with a currency of stable value. The economic relations of the nations of the world have become very close, strongly affecting one another. It is impossible for the value of a nation's currency to escape being affected by circumstances in other countries. It is impossible to think of a stability of a nation's value of currency without taking into consideration the economic condition of the other nations.

If the gold standard is observed from the viewpoint of its domestic service only, with the thought that it provides the people with a currency of stable value, it need not necessarily be adopted, because a

stable currency for domestic purposes can be achieved by issuing ir convertible notes to a certain limit. The managed currency as proposed in England by Prof. Keynes is another method to accomplish that purpose. But an observation of international relations of the nations concerned will reveal that the gold standard has a very important mission of its own.

The medium of settling international accounts is gold. In this sense, gold should be regarded as the international currency. If a nation desires to maintain the international value of its currency, therefore, it is necessary for that nation to have its currency system established on the basis of gold. When the currency system of a nation is established on the basis of the international currency of gold, permitting a perfect freedom of foreign trade, the value of a bill of exchange issued by a foreign country, or the international value of currency of that country, is securely maintained. Indirectly the international currency minimizes its effect upon the currency in the country, affording an opportunity for a stability of the value of the domestic currency. The importance of the gold standard is found in its international significance.

(2) *The Establishment of a Gold Exchange Standard as a Practical Aspect of the Problem*

A reform of China's currency system should progress toward the gold standard as its goal because of the nature of the gold standard as seen in the development of the currency system in the past. The problem is to decide what form of a gold standard China should assume which will be appropriate as the standard for the Chinese currency system.

The gold standard may be classified under three headings, (1) the gold coin standard, (2) the gold bullion standard, and (3) the gold exchange standard. The gold coin standard had been used by Japan as well as by various countries in the West including Great Britain, the

United States and Germany before the World War. The gold standard which England adopted for the first time in 1816 was the gold coin standard. Until 1925 when a revision of the law concerning the currency standard was effected, it continued to function in that country as the first form of a gold standard with a history of more than 100 years.

With the World War as the turning point, however, the gold standard has assumed a new aspect. In other words, the gold coin standard was replaced by the gold bullion standard. It was adopted not only by the nations which maintained the gold standard before the World War but also by those which had not used the gold standard before this change took place.

In the case of the gold bullion standard, gold coin is not minted and therefore the note is not convertible to gold coin, but it serves for a limited transaction of gold bullion at the central bank. It must not be regarded, however, that this gold bullion standard is a mere matter of form. In this I find a great change in the significance of the gold standard of the past in its relation to the economic world.

While the progress of each nation's economic trend towards world economy was slow and the interdependence of each nation upon another was not so close as it is today, the gold coin standard, providing a nation with a stable currency within the country, had an important significance. In this sense the gold standard with a stable value as practiced before the World War was nearly an ideal standard for the early period of the gold standard system. But, as has been stated, the development of economic interdependence among the nations, or the movement of national economy towards world economy, made it impossible for a nation to avoid the effect of a change in another nation's currency on the value of its own. From this point of view, the gold standard which supplied a stable currency only for domestic purposes was deprived of its importance. It has become impossible to maintain the constant value of currency within a country unless the stability is secured in its relation with the currency of the other nations.

The medium of settling the international account today is, of course, chiefly gold. If a nation desires to maintain constant value for its currency in relation with foreign countries, it is necessary for that nation to establish its currency system on the basis of the international currency of gold. It is the freedom of the influx and outflow of gold that makes for a stability of the currency in the foreign market (foreign exchange rate) as well as the stability of the currency within the country by minimizing its effect upon the domestic currency.

If the importance of the gold standard is attributed to the maintenance of the value of currency in the foreign market, it is due to the international nature of gold. From this consideration, the gold bullion standard is a form which can demonstrate its significance in the fullest extent as the gold standard, making the gold coin unnecessary in the functioning of the gold standard.

Both the Cunliffe Commission and the Chamberlain Commission in charge of the reform of the currency system in England following the World War reported that the minting of gold coin for the operation of the gold standard is not vital. The report clearly indicates that the gold standard has shifted from national to international in its significance. This is the reason that all the nations of the world returned to the gold standard in the form of gold bullion following the World War.

It is practically impossible to realize the gold standard in China in the form of the gold bullion standard. From a theoretical point of view, it is obvious that the stability of the currency would be secured and consequently there would be many advantages in foreign trade and in the administration of national finance if the gold standard were installed in the form of a gold bullion standard. For China which has been under the old silver standard, however, the adoption of the pure gold standard would inevitably cause a sudden drop in the value of silver due to the abolition of the silver standard, accentuating the present tendency of the depreciation of silver. China would be unable to

stand the brunt of the sacrifice it would have to suffer from such a situation. The alternative is the adoption of the gold standard in the form of the gold exchange standard.

The gold exchange standard is a system which may be adopted during a period of transition from the silver to the gold standard. According to this arrangement, the silver standard may remain in use for domestic purposes as in the past, making the silver coin the legal currency, while a certain fixed ratio between the value of silver and gold is stipulated among the nations for the purpose of international transactions. Then China would establish its credit in the principal foreign money markets such as London and New York by holding gold specie there and sell foreign bills of exchange for general purposes against this specie.

As the silver standard would still be maintained in the country there would be no danger of causing a sudden decrease in the demand of silver, and it would alleviate a situation which might otherwise claim a considerable amount of sacrifice due to an abrupt depreciation of silver. The system affords sufficient time for the people to properly dispose of the silver they hold without making a serious sacrifice. It has been actually tried and found feasible by various countries including India, the Straits Settlements and various countries in South America. These countries had used the silver currency but India abandoned it in favor of the gold exchange standard in 1893, the Philippines in 1903, the Straits Settlements in 1906 and various states in South America such as, for instance, the Panama Republic in 1904 and Mexico in 1905.

The gold exchange standard is advantageous from various considerations but the system is conditioned by the difficulty of maintaining a sufficient amount of gold specie in the foreign money market for the issuance of bills of exchange against it. It was demonstrated at the time of the World War when the Indian Government stopped the sale of gold exchange bills for Great Britain. It is all the more difficult for a country like China, whose foreign trade usually has an excess of in

ports over exports, to maintain a sufficient amount of gold specie in the foreign money market. Nevertheless, the theoretical significance of the system must be recognized as an intermediate measure to be practiced during a transition period from the silver to the pure gold standard.

The theoretical significance of the gold exchange standard as an intermediate measure has been recognized, with the exception of a few Chinese critics, by many who have been interested in the reform of the Chinese currency system. The Jenks proposal, the Vissering proposal and others support this standard. The difference among these proposals is found only in the method for the realization of the system. The principal point of interest is a concrete method by which this system may be put into practice.

PART (II) A PRACTICAL METHOD FOR THE REALIZATION OF THE GOLD STANDARD

Realizing that the gold standard is the ideal system for the Chinese currency but that it must be adopted in the form of a gold exchange standard in actual practice, the problem is how to make this gold exchange standard practical. The following points must be taken into consideration in order to make the gold exchange standard operative in China:

(1) *Adoption of a New Unit: The 'Sun' Unit*

The currency system must have some standard, but at the same time the establishment of a currency unit is of practical importance from the point of view of counting the money in circulation. As a new currency unit, I suggest the adoption of the "sun" (孫) unit, with 60.1866 centigrams of pure gold as its value.

The purpose for proposing the new unit is to bring about a unity in Chinese currency. The condition of Chinese currency with its variety of coins and units, which has already been explained as a feature of Chinese currency, has been a serious obstacle to the even flow of currency in business transactions, forfeiting the first and foremost principle

of currency. It is, therefore, essential to establish a standardizing unit to put Chinese currency in order.

It is true that the currency need not necessarily have a new unit for either the old Yuan or Tael unit will serve for the purpose. The tael unit is generally recognized as unfit and there is a movement to replace it by the yuan unit. Of the two units, the yuan is, indeed preferable, but neither is the yuan unit uniform. Under the circumstances, the new unit, the sun, would be adopted as a measure to renovate the general atmosphere of the currency, taking advantage of the currency reform. Inasmuch as a special arrangement would be made not to make much difference between the value of the new unit and that of the old, there would be no occasion for a serious disturbance in the practical economic circle. The new unit in its practical operation would prove to be more beneficial, affording a renovation of the spirit of the Chinese people towards currency.

At the same time with the adoption of the new unit, the matter of first importance calling for immediate attention is the rewriting of the old unit into the new one. This is important not only in connection with the price of commodity but for business documents. The currency value according to the yuan and tael units must be indicated by the sun unit, converting the old yuan and tael units into the new. The conversion of the old units into the new will not be difficult because the value of the new unit will be fixed at 60.1866 centigrams of pure gold as against the value of the yuan unit in gold.

In adopting the sun unit, attention is called to the importance of converting the yuan unit into the sun according to the rate prevailing in the market instead of fixing the rate by a law. Under this arrangement, any number of the yuan unit may be converted into the sun unit at any locality and time. As the adoption of the new unit is intended merely as the first step towards securing a unity of currency, there is no need of legalizing the exchange rate for the conversion of the yuan to the sun.

The new unit merely corresponds to a certain weight of pure gold and does not assume any concrete value of coin or paper currency. During the first stage of its introduction, the sun unit will be an abstract measure and will be designed to establish the money of account. The reason for advocating the new unit as feasible is that it was projected once before as a part of Kemmerer's proposal, that it is nearly the same in value as that represented by the yuan unit and that it is no more than an extension of the sphere of circulation because it has already been practiced partially as a money of account at the customs house in calculating the customs duty.

The new unit is to be adopted as the first thing in the scheme of currency reform to effect a unity of currency and at the same time to prepare for the issuance of a new currency which will actually represent the sun unit. The possibility of this arrangement is exemplified in the measure taken by the Austrian Government after the World War. The "krone," the currency unit of Austria, greatly depreciated during the World War. Under the circumstances, the Austrian Government found it necessary to lower the mint par of exchange, making 10,000 paper kronen correspond to one "schilling," the new Austrian currency unit, which represented 0.21172086 grams of pure gold. The schilling was proclaimed at first as the money of account and the authorities had the price of all commodities translated into this new unit, while the actual transaction of business was carried on with the paper kronen. When the schilling became gradually popular, the Austrian Government for the first time issued actual money which represented the new unit. Moreover, the schilling was at first represented in a form of paper money and then in the regular silver coin as auxiliary currency.

This arrangement may be opposed on the ground that the adoption of the new unit and the issuance of the coin at different times are troublesome when they might be realized simultaneously. But it has the advantage of facilitating the realization of a unified currency because the matter of the unit is treated separately, and also it enables the

people to have a better understanding of what is meant by the gold standard, while it provides the Chinese Government with sufficient time to prepare the necessary funds for the installation of the gold standard.

(2) *Preparation of the Funds*

(A) *An Extension of the Gold Certificate System Practiced in the Customs House Transactions*

The first condition for the realization of a unified currency for the establishment of the new gold standard system is the preparation of the funds necessary for it. An extension of the gold deposit system of the Chinese Central Bank and issuance of gold certificates should be taken into consideration. China has already put the customs tariff on a gold basis (Feb. 1, 19th year of the Chinese Republic, 1930), has been publishing the official quotation of silver in its relation with the gold sun and has been receiving silver on the basis of the value of gold. Since May of the same year, China has been practicing the gold certificate system.

According to this method, the customs duty is paid on the basis of gold, but when a merchant pays it in silver at the time most convenient for him in order to escape loss due to the fluctuation of silver, the Central Bank provides him with a credit according to the prevailing price of silver in its relation to gold or issues a gold certificate for the silver he produced to pay the customs duty. This gold certificate serves as the gold payment of duty.

In so far as the payment of customs duty is concerned, this method constitutes the foundation for gold payment. The gold certificate may be regarded, in part, as a paper currency on the basis of gold. It goes without saying that this method promises a conversion of silver neither into gold nor into foreign bills of exchange, being no more than a method of paying the customs duty, but the extension of this system will be a shortcut to the realization of the gold standard.

The deposit of silver with the bank which is made exclusively for

the purpose of paying customs duty is to be extended gradually as it increases in volume to function for all other purposes. The Chinese Central Bank under this condition is to issue the gold certificate for the silver deposit it receives and at the same time, buy foreign gold exchange bills issued on the London or New York money market. When a certain amount of profit is realized as commission resulting from the exchange of the gold certificate for silver and silver for old gold exchange bills, the gold certificate thus issued is placed on a secure basis. With the increase of customs revenue, the holding of gold exchange bills will gradually increase. The conversion of these gold exchange bills on the free gold market will naturally result in the increase and accumulation of the gold reserve fund. The issuance of gold certificates will likewise increase. An abundance of gold reserve will make it flow smoothly.

The condition of China's foreign trade in the past has always been an excess of imports over exports. As the amount of imports reached 1,195,969,000 Haikan Tael a year (1928), the revenue from the customs duty has been a sure and reliable source of China's revenue. The customs duty in the past has constituted an important source of China's revenue together with the proceeds from government monopolies and has also been an important basis as security for contracting loans. It is also an advisable plan to reserve a part of the customs revenue for the establishment of the gold standard reserve fund.¹

(B) *Supplementary Measures for the Preparation of
a Reserve Fund.*

In addition to the fundamental method of preparing the gold reserve, the following items which are some of the important and feasible measures pointed out in detail by Kemmerer's proposal for the reform of the Chinese currency, should be adopted :

1. Customs revenue from June, 1927 to May, 1928, totaled 19,725,000 yuan.

- (a) Profit resulting from the difference in value between the old and the new currency due to the rise in the value of the old currency.¹
- (b) Profit resulting from the transaction of bills of exchange.²
- (c) Interest resulting from the loans and deposits abroad.
- (d) Profit resulting from the operation of the gold standard.
- (e) Loan for the realization of the gold standard.³

(3) *Issuance of Paper Currency*

(A) *Reserve for Conversion*

When the reserve fund is accumulated to a certain amount, the issuance of gold certificates should be extended to enlarge the sphere of its circulation, always maintaining the ratio between the reserve for exchange and the gold certificate at 40 per cent or above.⁴

The gold certificate, in the nature of the thing, entails no obligation for conversion, and therefore, it is something like an inconvertible note, but it should maintain a direct relation with gold for a certain period of time according to the methods mentioned below.

As the gold certificate functions as gold in the payment of customs duty, there will be no danger of fluctuation so long as it is not issued at random. But nevertheless it requires the following conditions for it to become regular paper currency :

Within the country, this gold certificate must be invested as unlimited legal tender. When a party, who needs gold for the settlement of accounts abroad, produces this certificate, the Central Bank, its branch or agent must convert it into gold under either one of the following conditions it may choose :

1. The realization of this measure is possible only when the bank note and auxiliary money is issued after the establishment of the gold standard.
2. The profit depends on the decision concerning the rate of conversion when conversion begins.
3. Within the limit of feasibility, it may be appropriated to consolidate the gold reserve.
4. Reliable short term commercial notes may be appropriated as the reserve fund, providing that the silver does not exceed one quarter of the reserve in metal form.

1. By converting the gold certificate into gold bullion which is intended for the settlement of international accounts at the rate of 60.1866 centigrams for a sun, providing that the amount of conversion is not less than 15,000 sun.

2. By converting it into foreign bills of exchange for the country which holds the gold standard reserve. The exchange bill in this instance is either a telegraphic transfer, a bill on maturity or a sixty days' sight bill. The face value of the bill must not be less than 2,000 sun each time.¹

This method allows China to remain a country with a silver standard for domestic purposes, but at the same time in international transaction functions as a nation with a gold standard like other countries.

This is the method to be adopted when China has to pay to a foreign country with the gold standard. When the foreign country has to pay to China, the foreign bank with a credit for its reserve, sells exchange against its reserve in China, making it payable at the Chinese Central Bank, its branch or agent. The rate of exchange is to be fixed from time to time by the Chinese Central Bank.

(B) *The Obligation of the Central Bank to Buy Gold*

The Central Bank has the obligation to buy an unlimited amount of gold as a measure to prepare sufficient reserve fund for conversion by issuing gold certificates of the sun unit whenever it is offered at 60.186 centigrams of pure gold for one sun.

(C) *Withdrawal of the Silver Yuan (Silver Dollar) Under Circulation*

Along with the issuance of gold certificates, the silver dollar under circulation is to be exchanged for gold certificates at the prevailing value

1. The rate of conversion includes exchange fee. The amount of fee covers all expenses for the transfer of gold bullion from the point of issue in China to its destination.

of silver on the market. The old silver dollar is to be used for the purchase of gold exchange to provide the gold reserve for the gold certificates issued.

(4) *Minting of the Sun Coin*

As the gold certificates gradually extend their sphere of circulation according to the method cited, it is necessary to mint coins representing the sun unit for daily transactions. This sun coin constitutes the standard coin within the country, having approximately the same quality and value as the old silver dollar under circulation. The old silver dollar is to be withdrawn as the sun coin circulates. The relative value of the new and the old silver coins is to be left to the prevailing price of silver on the market.

It is better to exchange the old silver coin for the new one according to the prevailing price of silver on the market because if one sun is given for one yuan coin, it is bound to lead to the evil of speculation by men attempting to exchange a coin of undervalue for one of full value. It is a slow method of withdrawing the old coin but it will nevertheless accomplish its purpose. The old silver coin which has been withdrawn is to be reminted into the sun coin and put into circulation to accomplish the unity of silver coins within the country. The minting of the sun is a problem.¹

According to Kemmerer's proposal, the sun silver coin as the standard coin is to weigh 20 grams, containing 800 parts in 1,000 of pure silver, and corresponding to 16 grams of pure silver.

This value of the silver sun as stated in Kemmerer's report is based on the value of silver at 50 cents for one ounce. It was the one prevailing in the New York market at the time when the report was prepared. But at present the value has depreciated to such an extent (about 25 cents for one ounce) that when converted into gold, it is less than half the value.

1. For practical purposes the ratio depends upon the prevailing price on the market, but it is necessary to fix the relative value of gold and silver at a given time. This problem of ratio is a problem of the future.

Fixing the relative value of the silver sun as against the gold sun in this manner appraises silver extremely high in comparison with the market value, producing a considerable margin in favor of silver. Such a condition is subversive to the currency system and is bound to encourage the evil of putting spurious money into circulation.

If the silver sun is to be put into circulation according to its actual value, it is necessary either to lower the value of the unit or to increase the size of the coin. Under the circumstances, the minting of the silver sun at the present time when the value of silver is suffering such a heavy slump is inadvisable. It is better, to undertake such a project when the value of silver is restored to normalcy and has shown that it is stabilized, making it possible to fix the weight of the silver sun and the proportion of pure silver in it. In other words, the value of the silver sun should be fixed on the basis of the relative value of silver as against gold when the value of silver¹ has become properly restored and stabilized.

When this is realized, the silver sun currency and the gold certificate will become relatively equal and it will be possible to maintain the relative value of the gold sun, the silver sun and the gold certificate, making them perfectly interchangeable in accomplishing the function of currency. By this method China can succeed in adopting the stable gold exchange standard on the basis of gold.

Special Features of the Present Reform Plan

A general outline of the reform plan has been stated in the foregoing paragraphs and now the special features of the project may be isolated for inspection.

The reform plan as proposed by Dr. Kemmerer who is noted internationally as an authority on currency reform was formulated on the basis of research made by a special committee of experts.

1. A discussion of the value of silver is reserved for another time as it is a separate problem.

There are many things to learn from it. Various aspects of it have already been partially realized but it is still useful and will prove effective in the attempt to establish a new reform plan on the basis of this plan, making necessary revisions in it.

(A) Revisions in Kemmerer's Proposal.

The present reform plan is similar to Kemmerer's proposal in many respects. The adoption of the gold exchange standard as suggested by the present private plan, for instance, may be regarded as being according to a fundamental agreement with Kemmerer's proposal. The present plan is also similar to Kemmerer's proposal in that it proposes the adoption of the "sun" as the new unit, making its actual value correspond to 60.1866 centigrams of pure gold, circulating silver sun for domestic purposes and selling the gold exchange for international purposes.

(B) The adoption of the gold exchange standard as one of the features of the plan permits the maintenance of a silver standard for domestic purposes and prevents a sudden drop in the value of silver, thus keeping harmony with the silver standard.

(C) The present plan is direct in method.

The present plan proposes to realize the gold standard system directly in the form of the gold exchange standard. It seeks to unify silver coins and will not resort to any indirect method in its attempt for a reform.

Once I urged the advisability of first unifying the silver coins in China and then adopting the gold standard,¹ but since that time, circumstances in various aspects of Chinese currency have changed.

(D) Gradual Method Taken.

The ultimate object of the reform of the Chinese currency system is aimed at securing a unified currency under a single unit on the basis of gold. The realization of such an object cannot be accomplished in-

1. *A Proposal for a Reform of Chinese Currency*, in the second number of the *Shogakuronso*, November, 1930, by Mitsutaro Araki, the Research Room of Commerce, Rikkyo University.

stantly by a stroke of ordinance. This is especially true in a country with so vast a territory as China's. In the face of this fact, currency reform should be carried out in the districts where it is most urgently needed, such as large cities facing the sea or along rivers and canals where trade is flourishing; it is not needed in the hinterland which is sparsely inhabited and lags behind in culture and civilization.

But even in the districts where economic communication is busy, a universal realization of the gold exchange standard cannot be expected to be accomplished immediately. The easiest districts for the introduction of the scheme should be selected at first and then it should be gradually extended to the other districts.

In the realization of this plan, the gold sun should first be introduced as the money of account, then paper notes and coins should be put into circulation and finally gold exchange should be bought and sold, thus gradually perfecting the gold exchange standard. The present plan, geographically and systematically is designed to make a gradual advance towards the gold standard according to a well defined program. In this respect, the plan is comparatively easy to put into operation and effectively practiced.

(E) The Plan is Reasonable in Its Method of Establishing a Gold Reserve.

Success in the establishment of the gold standard system depends upon a sufficient preparation of gold reserve. From this consideration an accumulation of gold reserve has an important relation with the realization of the gold standard system. Kemmerer's proposal points out the profit resulting from reminting coin on the basis of the gold standard. As explained already, this profit is possible only on the condition that the old silver coins are withdrawn and new sun silver coins are put into circulation. The new sun silver coin has a fixed value according to Kemmerer's proposal but if its actual value does not correspond to more than two-thirds of the face value, the circulation of the new sun coin is practically impossible in China where the

people are accustomed to the circulation of coin according to its actual value and the profit from reminting will be reduced to a mere word.

(F) But according to the present plan the sun silver coin is to be put into circulation according to the prevailing market value. As the new coin is issued confidently in keeping with the regulation of the new currency system, the people will be willing to accept it, with the result that it will be easily absorbed in the world of business. When the old coin is brought in, it will not be released but must be replaced by the new coin. By this arrangement, the unification of the coins in the country will be accomplished easily and naturally. In this respect, the present plan is more practical than Kemmerer's proposal.

(G) The present plan is appropriate when the value of silver has depreciated to such an extent as at present, avoiding all confusion and the effect on the prices of commodities which might be caused if the new coin and new currency unit were introduced at the same time. As it is not a radical measure, it maintains an intimate relation with the prevailing value of silver. The plan is most feasible for a nation with a silver standard, affording time for the government to formulate the necessary policy towards silver.

(H) The new sun unit, as well as the gold certificate, has already been put into effect in so far as the customs duty is concerned. It is therefore not at all unreasonable to think that a geographical extension of this scheme, which has already been partially tried and is in the process of operation, is the most convenient plan and will prove to be fruitful.

Comments on Reform Proposals of the Past

Reform of the Chinese currency system is not a thing of recent proposal, many experts having advanced their plans from time to time for its realization. It has also been a matter of course for China to promise a currency reform whenever it floated foreign loans or con-

cluded treaties with other nations. Article Six of the Sino-Japanese supplementary treaty of commerce and navigation which was signed in October, 1903, for instance, is an example. According to this "China promises to undertake on her own accord to establish a unified currency system to provide the country with a currency which may be circulated universally in all parts of the country. This currency will serve as medium for the payment of taxes, and all other credits and obligations freely as the authorized currency for both Japanese and Chinese subjects in the country alike——." Such a promise has been repeatedly made and the first proposal for the realization of the scheme was officially announced in 1903.

(1) *The Reform Plan Advanced by Robert Hart*

In 1903, the 29th year of the Kuangsu era, Robert Hart, British, pointed out the deplorable condition of the currency system and made a representation to the Chinese Government, urging the necessity of effecting a reform of the complicated Chinese currency system. He recommended the adoption of the silver standard, under which the Chinese currency might be unified.

(2) *The Jenks Proposal*

The Chinese Government realizing the greatness of damage done by the fluctuation of the relative value of silver as against gold and the depreciation of silver in the foreign market, requested the United States Government jointly with Mexico to draft a plan in an effort to do away with this instability of the currency. At that time the American Government appointed Hugh H. Hanna, Charles A. Conant and Jeremiah W. Jenks as a commission to make an investigation of the Chinese currency system. On the other hand the Chinese Government dispatched Mr. Natung (那桐) to Japan to make an investigation of the currency system in this country.

The report of the commission was made in 1904 and perfected

later with a supplementary explanation added during the same year. After a consultation with England, France, Holland, Germany and Russia, Jenks having come to Japan himself for the purpose, the commission made a representation to the Chinese Government urging the necessity of adopting the gold exchange standard.

According to this plan, China should adopt a currency unit corresponding to the American 50 cents in value and mint silver coin to represent that unit. At the same time auxiliary coins each representing from 85 to 90 percent (silver) of its face value should be issued for circulation. For the settlement of foreign accounts, the gold exchange should be sold with a relative value of gold and silver at the ratio of 1 to 32.

The method of selling gold exchange according to this plan is to issue exchange for the value of gold corresponding to the amount of silver currency produced, plus commission for the issuance of the exchange, with London, New York and Yokohama as its destination (the amount must be above \$5,000 for an exchange) for the settlement of international account. The same method is followed for exchange directed toward China from the branch offices abroad. The reserve fund for the exchange must be held at the financial centers of the various nations concerned to pay for the exchange. In this manner it was proposed that China should adopt the form of a gold exchange standard.

Regarding the paper currency, China had to establish a Central Bank similar to those in the other countries such as, for instance, the Bank of Japan or the Bank of France, and by means of this institution make the issuance of paper currency independent, maintaining from 33.3 percent to 50 percent of gold as a part of the reserve for the currency. The rest of the reserve may be held in the form of gold certificates or loan on credit on the basis of (1) profit from mintage, (2) a sum proceeding from the release of the Boxer In-

demnity, (3) foreign loans, and (4) the output from the gold mines in the country.

(3) *Proposal made by Mr. Chang Chih-tung (張之洞)*

Many criticisms were directed against the plan above mentioned and Mr. Chang Chih-tung, who was the Governor-General of Kwangtung and Kwangsi, was one of the critics. He was opposed to the proposal on the ground that a realization of the gold exchange standard was still premature, and denounced the gold exchange standard as laying too much emphasis on the interest of foreign trade and neglecting to take into consideration domestic business transactions.

He insisted on unifying the currency in the country first on the basis of the silver standard. He proposed the issuance of 1 Kupin tael, 5 tsien, 2 tsien and 1 tsien. This theory was favorably considered by the Emperor Kuang-su (光緒帝) of the Ching Dynasty. It proposed to issue the so-called tael silver dollar on the basis of the silver standard, making the coin contain 0.96 percent pure silver. In addition to this 5 taïen, 2 tsien and 1 tsien were to be issued as auxiliary coins and put into circulation together with the copper coins which had been in existence in the past. In other words, the plan was the establishment of the silver standard on the basis of the tael unit. The unit corresponds to about 63 cents of the United States money. This reform plan was strongly urged at the time but was given up later upon the death of Mr. Chang.

(4) *Proposal Made by Mr. Cheng Suan-kuai (盛宣懷)*

Another reform plan worthy of attention was the gold exchange standard which was proposed in 1908 by Mr. Cheng Suan-kuai. The ultimate purpose of this plan was the establishment of the gold exchange standard but the initial method of unifying the currency was the adoption of the silver dollar. The new unit was to be the Kupin silver dollar

of 0.72 tael with a quality at 900, which corresponds to 42 cents of the United States currency.

(5) *Proposal Made by Mr. Gerard Vissering*

In 1912, the first year of the Chinese Republic, Mr. Gerard Vissering, a Hollander, was appointed as an adviser to China to reform the Chinese currency, and at once started to make a plan of reform. He aimed at the establishment of the gold standard, but he proposed that China should adopt the gold exchange standard for a period of about 20 or 30 years as a measure toward paving the way for the accomplishment of the ultimate purpose.

The main feature of this proposal was a practical method which called for no issuance of new currency during the first period of currency reform. The status of a gold standard nation was to be maintained abroad, however, by the establishment of a nominal unit which was to be 0.3644883 grains of pure gold corresponding to about 25 cents of United States money, and the central government was to sell the gold exchange on the ratio between gold and silver of 1 to 21. The second period of reform required the issuance of auxiliary currency, and the withdrawal of the old currency was to be undertaken in the third period of the reform.

The Central Bank was to be established under the supervision of the government and it was to issue paper currency with a reserve of from 35 to 40 percent. This proposal like the rest was not realized.

(6) *The Proclamation of the National Currency Ordinance.*

In 1913, the second year of the Chinese Republic, the Chinese Government abolished the Currency Reform Commission and the investigation concerning the reform was shifted to the hands of the National Council. The National Council decided the adoption of the silver standard and on the following year (February 7, the third year of the Chinese Republic) it issued a proclamation (Instruction No. 19).

According to this law the right of minting coin is monopolized by the government (Article 1). The unit is the yuan, containing 6 tsen, fen and 8 lin of the Kupin pure silver (Article 2). According to Article 12, "When a party desires to have yuan coins minted to the amount of silver bullion entrusted with the government, the government must comply with the request, providing that the party pay 6 Kupin lin for each coin minted to cover the expense of minting." This shows that the adoption of the silver standard is authorized by the law permitting the free minting of the yuan silver standard coin.

The law was put into effect but it was unable to bring any reform to the currency system. It was impossible to eliminate the bad effect on the international account resulting from the fluctuation in the value of silver by the operation of this law. Moreover the free minting of the silver standard coin was found practically impossible. Under the circumstances the necessity of currency reform in China still exists as such as in the past.

In 1915, Dr. Wagel, adviser to the Chinese Railway Ministry, proposed the silver standard, declaring that the gold standard in the form of the gold exchange standard under the present condition of China was impossible. A reform proposal which is worthy of attention was advanced in 1918 by Mr. Tsao Ju-lin (曹汝霖).

(7) *Reform Proposal Made by Mr. Tsao Ju-lin*

In 1918, Mr. Tsao Ju-lin, Minister of Finance, proposed a gold standard with its gold reserve distributed among six cities. According to this plan, the unit of value is the gold yuan, representing 0.752318 grams of pure gold. The gold coin is not to be minted at first but the Bank of China (中國銀行) and the Bank of Communications (交通銀行) are to issue paper currency as the central banks of China. The auxiliary money is to be issued according to the National Currency Ordinance of 1914 (the third year of the Chinese Republic), the relative values of gold and silver to be published from time to time. The fol-

lowing may be pointed out as the important items of the gold certificate ordinance.

*The Gold Certificate Ordinance (Proclaimed on August 10,
7th Year of the Chinese Republic).*

Article 1—The government may have gold certificates issued by the banks designated by the Currency Bureau (幣制局) as measure to prepare for the adoption of the gold standard to facilitate foreign trade.

Article 2—The unit of the gold certificate is one yuan. Each yuan must contain 0.752318 grams of pure gold or 2 fen (分), 6 szu (絲), 8 hu (忽), or 8 of the Kupin silver. One tenth of a yuan is called a chiue (角), one hundredth a fen (分), one thousandth a tsiao (釐), following the decimal system.

Article 3—Kinds of gold certificates ———.

Article 4—Before the gold yuan is issued, the holder of the gold certificate may draw a bill of exchange for domestic or foreign purposes at the bank designated by the government. After the issuance of the gold yuan, he may have it converted into gold yuan as well as draw a bill of exchange with it for domestic or foreign purposes.

(8) *Proposal Made by the Economic Conference*

When the Economic Conference was held in 1928, 17th year of the Chinese Republic, the conference adopted among many projects the silver standard. It was the silver standard with the old silver dollar as its unit, making it contain 23.9024808 grams (368.87 grains) of pure silver. The tael was abolished, adopting yuan in its place. In regard to the issuance of the paper currency, China was divided into four banking divisions (Tientsin, Hankow, Kwangtung and Shanghai), making the banks monopolize the right of issuing the paper currency.

As has been pointed out, many proposals for currency reform have been projected but none of them has been realized, with the result that the confusion of currency still continues as it was in the past. The

necessity for reform has always been prolific of arguments and the best reform proposal is the one advanced by Dr. Kemmerer.

(9) *The Kemmerer Proposal*

The report on the Chinese currency made by the Kemmerer financial commission was presented to Mr. Sung Tzu-wen, Financial Minister of the Chinese National Government, in November, 1929. The object of the report was the presentation of a draft law proposing to put into immediate effect the gold exchange standard system in China.¹

This draft law² comprises 40 articles and is classified under five headings—(1) The Standard and Unit of Value, (2) Coins and Coinage, (3) Legal Status of Gold-standard Currency, (4) Maintenance of the Gold-standard, the Administrative Organization thereof, and Manner of Its Functioning, and (5) the Gradual Substitution of Gold-standard Currency for Non-gold-standard Currency.

As has been stated, a reform of Chinese currency had been proposed more than once before. Kemmerer's project aims at (1) the replacement of the present confused state of the Chinese currency by a unified currency system which is applicable throughout China, and (2) the promotion of business transaction and the development of China by reducing the gold standard.

(a) *Theoretical Basis*

The currency system of a nation is primarily based on a standard gold unit. The form of a currency system differs according to the standard and unit adopted. The present project clearly aims at the gold standard, stating in Article 1 that "The National Government of China adopts the gold standard currency system and gradually extends its

1. The report was translated into Chinese and after being revised by Mr. Wang Yun-wu of the Central Research Board was published in the newspapers as a Project of a Law for the Gradual Introduction of a Gold-Standard Currency System in China.
2. Report, page 40.

scope throughout the Chinese Republic.¹

The project also proposes to abolish the old yuan unit and introduce a new unit the "sun,"² representing 60.1866 centigrams of pure gold as its value (Article 2). The sun stands for 100 cents, one cent being equal to 10 mills³ (Article 3).

The right of coinage is monopolized by the state, and coins are to be minted exclusively at the mint in Shanghai and its branches under strict surveillance (Article 4). The variety of coins to be minted at these mints are (1) sun silver dollar, (2) 50 cent silver coin [5角] and 20 cent silver coin [2角] as auxiliary coin, (3) 10 cent [1角] and five cent nickels, and (4) 1 cent, 5 mill and 2 mill copper coins. They are to be circulated exclusively in the country (Article 5).⁴ Although it is a gold standard system, the gold coin is not to be produced as in the case of the gold standard in the past. As the standard is not intended for a circulation of gold coin, it should be called a non-gold-coin-circulation gold standard.⁵

The standard coin, the sun silver dollar, is to weigh 20 grams, con-

1. Report, page 1.

Recognizes the gold-exchange standard as a gold standard.

2. Report, page 1.

The Chinese translation of the report makes the following statement regarding the use of the word "sun" (孫) or S., the abbreviation of the new unit "sun," as it appeared in the report:

Project of Law for the Gradual Introduction of the Gold Currency System in China.

Article 1. The Chinese National Government adopts the gold standard from the day on which the present law shall go into effect and will gradually enlarge its scope throughout the country.

Article 2. The unit of currency contains 60.1866 centigrams of pure gold, and is called the "sun" (孫) indicated by the abbreviation "S."

Article 3. One sun stands for 100 cents and 1 cent for 10 mills.

3. Report, page 1.

The reason for fixing the value of the sun unit at these figures is explained in the following sentence appearing in the report, page 40:

"This unit was selected largely because it is of practically the same value, in terms of gold, as the silver dollars now current in most parts of China."

4. Report, page 2.

5. Report, page 14.

aining 800 out of 1,000 parts of pure silver, corresponding to 16 grams of pure silver (Article 6), becoming unlimited legal money. The rest of the coins are to be limited legal money and are to be used for payment of all kinds (Article 14),¹ with the provision that the 2 mill copper coin may be minted only when the Minister of Finance recognizes it as advantageous and may be circulated only in the districts designated by him (Section 2 of Article 5).

The status of auxiliary coins is regulated as follows: The 50 cent silver coin weighs 10 grams, containing 720 out of 1,000 parts of pure silver and corresponds to 727 centigrams of pure silver. The twenty cent silver coin weighs 4 grams; containing 720 out of 1000 parts of pure silver and corresponds to 288 centigrams of pure silver (Article 7).

The weight of a 10 cent coin is $4\frac{1}{2}$ grams, and that of a 5 cent coin $3\frac{1}{2}$ grams, and both are to be minted in nickel. They are to be nearly pure nickel and the proportion of other metals in the composition of the coin is to be decided upon by the Minister of Finance after making inquiry of the authorities of the central mint. When once decided, the decision cannot be changed except by law (Article 8).

The one cent auxiliary coin is to weigh 5 grams, the $\frac{1}{2}$ cent coin 3 grams, and the 2 mills coin $1\frac{1}{2}$ grams. The proportion of the ingredients of these coins is the same, being 95 per cent copper and $2\frac{1}{2}$ per cent each tin and lead (Article 9).²

As gold is necessary for the payment of international accounts, though silver coins and paper currency issued by the Central Bank are used for domestic purposes, the Currency Department is required to convert them into gold, according to either of the following conditions which the Director of the Currency Department³ may choose, whenever

1. Report, page 6.

2. According to the provision of Article 11, "The limit of tolerance of silver coins in bulk shall be three one-thousandths in fineness and three one-thousandths in weight. The limit of tolerance for individual silver coins shall be 130 milligrams for the denominations of 1 sun and of 50 cents, and 100 milligrams for the denomination of 20 cents."

3. A bureau of the Ministry of Finance (Article 16.)

the coins corresponding to the legal weight under the gold standard are actually produced, at the government offices or agents at Shanghai, Nanking, Canton (廣州), Tientsin, Peiping, Hankow, Shenyang (瀋陽) and other points designated by the Minister of Finance.

(1) Gold bullion (the value of one gold bullion ranges from 15,000 to 25,000 sun) used for the settlement of ordinary international account is converted into sun at the mint par, making 60.1866 centigrams of pure gold one sun.

(2) Telegraphic transfer to the foreign bank with which the gold standard funds are deposited for the maintenance of the gold standard.

(3) Exchange on demand payable at the bank mentioned.

(4) Sixty days' sight bill of exchange for the bank mentioned.

The sun for the telegraphic transfer and the bill of exchange as mentioned must not be less than 2,000 sun at each time (Article 22).¹

Under this method of conversion, China can maintain the dignity of being a nation with a gold standard, settling all international accounts with gold bullion or gold exchange although it is internally a nation of silver coin.

But the present case deals with an instance when China should pay to other countries of gold standard. When the other countries should

1. When a conversion is sought, a commission is demanded by the receiver of said telegraphic exchange or exchange beyond the limit of the mint par of sun and the currency unit of the country or the district in which the bank accepting it is situated. The commission for the exchange, as indicated in this section, represents the expense for the actual transportation of gold coin, corresponding to all expenses incidental to the transportation of gold bullion from the district in China in which the exchange was drawn to its destination at which the said exchange is accepted and no more. When the amount of commission is to be fixed for the telegraphic transfer and the sixty days' sight bill, a proper amount of discount must be made, taking into consideration the interest on the bill on demand as standard. In the case of transfer of gold from San Francisco to New York at mint par, requiring no expense, according to the Federal Reserve System of the United States, the commission on the New York telegraphic transfer and exchange is charged according to the rate of the actual transportation of gold coins from the point of issuance to San Francisco. The rate of commission is fixed from time to time by the Gold Standard Exchange Committee. This committee is composed of the Minister of Finance, Director of the Currency Department, a director appointed by the Central Bank and a foreign exchange expert appointed by the Association of Banks in Shanghai with the Minister of Finance as chairman (the latter section of Article 21.)

way to China, Foreign Depository Banks¹ are required to sell their exchanges² against their funds in China payable at Shanghai.

The rate of selling and buying exchange is fixed from time to time by the Gold Standard Exchange Committee (Article 21).

According to the provisions of Article 23, "the Minister of Finance shall authorize and direct the Banks which act as depositories of the Gold-Standard Fund abroad, hereafter called "the foreign depository bank," to sell on demand, for cash in gold-standard money current in the foreign country in which they are located, cable transfers, demand drafts or 60 day sight drafts down on the Gold-Standard Fund, and which shall be payable in sun at the office of the Gold-Standard Fund in the city of Shanghai. These transfers and drafts shall in no case be for a sum of less than \$2,000."³ The gold exchange standard is to be realized by this method of domestic exchange, coupled with the method of foreign exchange as mentioned.

1. Foreign Depository Banks mean the banks with which the gold standard fund abroad (in China) is deposited.
2. Telegraphic transfer exchanged on demand or the sixty days' sight bill may be sold.
3. "The Minister of Finance may, moreover, at his discretion, also authorize and direct any or all foreign depository banks abroad to sell cable transfer and draft on the Fund, of the kinds above-mentioned, drawn on the offices or agents of the Fund in which gold-standard coins are being redeemed under the provisions of Article XXI of this law.

Cable transfers and drafts of the kinds above described shall be sold abroad on the Gold-Standard Fund in China only at premia representing the shipping points for gold, and said premia above the gold par of the sun with the monetary unit of the country in which the cable transfers or drafts are sold shall always be sufficient, but not more than sufficient, to pay all legitimate expenses involved in the shipment of gold bars from the foreign city in which the cable transfer or draft is sold, to the Chinese city in which it is payable. Provided, That so long as transfers of gold credits can be made, at par and without charge, between New York and San Francisco, through the Federal Reserve System of the United States, the premium rates fixed for cable transfers and drafts sold in New York and drawn upon the Gold-Standard Fund in China, may be based upon the costs of shipping gold from San Francisco to the city in China on whose Gold-Standard Fund depository the cable transfer or draft is drawn.

In determining the premia for cable transfers and for 60 day sight drafts due allowance shall be made for the item of interest, the demand draft rate being taken as the basic rate.

The premium rates to be charged for such drafts shall be fixed from time to time by the Gold-Standard Exchange Committee mentioned in paragraph 3 of Article XXI of this law and shall be publicly announced in China and abroad."

In such a system the Gold Standard Fund plays a very important part. The fund is placed under the management of the Currency Department in the Ministry of Finance (Article 16 and 17) with an object of establishing the currency system on the basis of a gold standard and maintaining the mint par of the currency (Article 18.) It is also required that the Fund should not go below 35 per cent of the total amount of gold standard currency under circulation including the coin reserves of all banks. The following revenues are applied to constitute the basis of the fund :

(1) The seigniorage of the government resulting from the mintage of coins for the gold standard.

(2) The profit resulting from the sale of exchange as provided in Article 21 and 23 of this law.

(3) Interest received on such parts of the Fund as are deposited or invested in foreign countries.

(4) The income resulting from the patent tax imposed on the Central Reserve Bank by the Central Reserve Bank Law as well as the deficiency reserve tax (the tax on the excess issue) imposed by the same law.

(5) The fund to be received by the Government, resulting from the sale of a part or all of the Central Bank shares.

(6) The other incomes to be received by the government, resulting from the establishment and maintenance of a gold-standard coinage and from the functioning of the gold-standard coinage system.

(7) Net profit resulting from the loan floated to secure stability of currency following the enforcement of the law.

The Gold Standard Fund thus realized from various financial sources may be classified under two headings (Article 19).

The first part comprises (a) the earmarked gold bullion and gold coin held specially for the purpose in China or abroad, (b) the gold deposits in foreign banks of high standing located outside of China, and (c) high grade foreign banker's acceptances drawn on banks and bankers

located in those financial centers in the banks in which gold standard fund money may be deposited under the provisions of the last paragraph of this article.

The second part includes (a) the gold standard coins of China, which are physically held in the vaults of the Gold Standard Fund or in those of various agents of the Gold Standard Fund in China appointed under the provisions of Article 20 of this law, (b) silver, nickel, copper and other kinds of metal purchased by the government of China to be used for coining gold standard money, such metal to be held at its purchase price or *market* value according to whichever is lower, (c) newly minted coins still in the custody of the mint of China and (d) gold standard coins under process of shipment from one office or agent of the Gold Standard Fund to another (Article 19).

This Gold Standard Fund is not allowed to be deposited with Chinese banks in China, foreign banks in China or branches of Chinese banks abroad. Moreover, even in the case of foreign banks abroad, there is a condition that the institutions with which the fund is to be deposited must exclusively be those situated in the three financial centers of the world with the broad international market as well as the perfect free market of gold for their exchanges (Article 19).

Of these two classes of funds, the more important is in the first part, chiefly the reserve for the conversion of the gold standard coin. The provision of Article 24 regarding the conversion states, "Under instruction from the director of the Currency Department, the offices and agencies of the gold standard fund in China shall be provided with a supply of different denominations of gold standard coins. These offices and agencies shall exchange, with charge for the public on demand, in sums of S 10 fen (分) or multiples thereof, coins of any denominations of gold standard money for the coins of any other denominations, in so far as they shall have funds available for the purpose."

As for paper currency, there are all kinds and varieties of them in China as stated before, and the plan is made to unify them by replacing

them with those issued by the Central Bank. Speaking of the gold standard money, it includes not only the metallic money but the convertible note issued by the Central Bank as well. When the Central Reserve Bank of China is established, it is a matter of course that the paper currency as issued by the bank will serve for the purpose (Article 12).

(b) *The Basis of Functioning*

The matter of first and foremost importance in the practical functioning of the new law is the date on which the new law is to be put into practice and the relation between the new and old money.

The draft law proposes the direct adoption of the gold standard system and attempts to extend the system throughout the country through the five stages of development. They are (1) the Gold Standard Currency Circulation Date for the Province, (2) the Gold Standard Legal Tender Date, (3) the Debt Adjustment Date, (4) the Copper Coin Stabilisation Date and (5) the Final Note Retirement Date.

(I) PERIODS OF THE CURRENCY REFORM

(a) *The Gold Standard Currency Circulation Date*

The matter of first importance for the enforcement of the new law is the date on which the law is to be put into operation. The first of the five items means this date. According to the provision of the draft law (Article 12 and the Report, page 121) the Minister of Finance is required to publish several times the name of the province and the date on which the gold standard system is to be enforced in that province at least 60 days ahead of the time. Upon the arrival of that date, all the daily business transactions as well as bank deposits, debts and credits and other legal contracts must be paid with the gold standard money. The gold standard currency is likewise used for the payment of all kinds of taxes, commissions and other accounts and for articles disposed of by the government, postage stamps and railway fare. The

rate of conversion is one sun for an old silver yuan dollar so long as the National Currency System Committee does not decide differently (Article 12).¹

As this law, however, is not a compulsory one, it does not prevent the use of the gold standard currency along with the non-gold standard currency (Report, page 122).

(b) *The Gold Standard Legal Tender Date*

According to the provisions of Article 13, the Minister of Finance has the obligation of fixing the Gold Standard Legal Tender Date within one year² of the adoption of the gold standard for the gold standard province, and of duly proclaiming it. The proclamation however, merely permits the use of the new gold standard currency and has no power to enforce it. As it is necessary to unify the currency by gradually increasing the circulation of new money in the gold standard province, the new money is to be invested with the legal status, making it the sole legal currency in the future for the daily transaction of business, settlement of outstanding accounts and public obligations generally.

A period of one year after the adoption of the gold standard system is regarded as necessary for the enforcement of the Gold Standard Legal Tender Date in order for the people to become familiar with the new currency (Report, page 123). Thus the gold standard money will be the only legal and compulsory currency after the enforcement of the date. Under this condition, sun silver coins will be paid for all purposes irrespective of amount, being the so-called unlimited legal currency. A limit is set on the amount of payment at one time in smaller denomina-

1. This rate of conversion may be changed and duly proclaimed by the Minister of Finance at any time for the public interest, but such a change is to go into effect at least 10 days after the date of proclamation (Article 12, section 5 and 6.)
2. The date for the enforcement must be six months after the proclamation of the Gold Standard Legal Tender Date and one year after the enforcement of the gold standard currency law.

tions of auxiliary coins as a measure to protect the interest of the party receiving the payment in the same sense as such a measure regarding the auxiliary money is interpreted generally in other countries. According to this regulation, a payment in 50 cent or half yuan coin at one time may be made up to 25 sun, 20 cent coin up to 6 sun, 10 cent and 5 cent nickels up to 2 sun; and one cent, half cent and 2 mills up to 20 cents as limited legal coin (Report, page 125, Article 14).

(c) *Debt Adjustment Date*

The Minister of Finance, according to the motion made by the Currency Committee, proclaims the Debt Adjustment Date in various districts and provinces.

After the proclamation of this date, all the debts which were to be paid with the old money are to be paid with the new money by converting the old into new currency according to a fixed rate of conversion.

The conversion of the old money into the new must be made in the payment of debt whether to the central government, to the local government or to people in general. Any contract which calls for a payment of debt in tael is to be settled by converting the tael into the new money after the enforcement of the Debt Adjustment Date.

A difficulty, however, lies in fixing the rate of conversion from the old into the new money because of the fact that the money differs in different localities and fluctuates in value.

Under the circumstances, it is necessary that the rate must be fixed locally. In fixing the rate of conversion, the opinion of the national and local currency committee must be taken into consideration but it is necessary as the basic principle to take as standard the average of quotations prevailing in the money market for a period of 90 days previous to the enforcement of the date.

As for the conversion of the tael, 23.90957 grams pure silver of silver yuan is to be the standard measure and is to be proclaimed 30 days before the enforcement of the date (Article 15, page 128).

(d) *Copper Coin Stabilization Date*

One cent copper coins which are now under circulation in China must be unified. With the enforcement of the Copper Coins Stabilization Date, therefore, the Minister of Finance, upon consultation with the government currency committee, is to retire them. The retirement is to be made at a rate of 200 cents to one sun or above until the market rate is stabilized at below 200 to 1.

When the value of copper coin is thus stabilized in more than three provinces, the Minister of Finance is to issue a proclamation of the Copper Coin Stabilization Date in those provinces. At the same time the new one cent copper coin with a face value of one cent or 2 fen (分) is to be put into circulation to retire the old coin (Article 31).¹

At the same time the transportation of the old copper coins between provinces, and their export and import to or from foreign countries is to be prohibited, pending the proclamation of the Minister of Finance to the effect that the stabilization of the value of copper coins is secured throughout the province (Article 31).²

(e) *Final Note Retirement Date*

The foregoing paragraphs are concerned with the metallic money, but in China as has been mentioned, there is no unity in paper currency, all kinds of notes issued by the central government and the local governments being in circulation. A large proportion of them have depreciated in value. Under the circumstances, it is impossible to hope for a currency reform in China without effecting a readjustment of paper currency.

The Government Currency Committee is to advise the Minister of Finance to effect a constant retirement of paper currency and to put

-
1. The copper coins withdrawn are to be melted by the government (Article 32).
 2. If any one violates this ban, he is liable to be deprived of his copper coins and subjected to a fine of 25 sun, as penalty.

into circulation the gold standard coins and bank notes issued by the Central Bank of China (Article 33).¹

In accordance with this advice, the Minister of Finance is to issue a proclamation of the Final Note Retirement Date. The date is fixed for the provinces separately, providing that there should be a period of one year of grace before the enforcement of the date. But the date must not be enforced before the Debt Adjustment Date and yet must be within two years of the enforcement of that date (Article 34).

When the law is adopted, all the provinces, local organizations and banks which have been issuing notes are required to stop the issuance and at the same time to begin the retirement of paper notes previously issued (Article 35).

In the event that the notes in some locality should happen to depreciate at the time of withdrawal, the Minister of Finance, with the approval of the Government Currency Committee, may for the benefit of the general public fix the rate of conversion for the retirement of notes depreciated in value below the mint par.

If the retirement is not completed by the Final Note Retirement Date, the provincial government or local government is to deposit with the Central Bank, its branches or agents a certain amount of gold standard money corresponding to the amount of unwithdrawn notes² to continue the further withdrawal. After a period of three years from the enforcement of the Final Note Retirement Date, a surplus of money deposited is to be returned to the depositor. From this time on, the

-
1. As a measure to unify the paper money, there is a draft plan proposed by the Commission of Financial Experts for a reform of the old Central Bank of China and the establishment of the Central Reserve Bank of China. According to this plan, the Central Reserve Bank monopolizes the right of issuing paper currency and issues bank notes on the basis of the gold standard coin (Report, page 170 and page 47).
 2. The amount of deposit money on this occasion is decided according to the prevailing quotation of silver on the money market on the Final Note Retirement Date (Article 35).

the local government itself is to undertake the withdrawal until it is relieved of its responsibility according to the law (Article 35).¹

In the absence of deposit money, the Minister of Finance, upon investigation by the Government Currency Committee, may accept bonds issued for the purpose by the locality concerned (Articles 35, 37 page 172).

(II) THE NATIONAL CURRENCY COMMISSION²

The National Currency Commission has considerable significance in connection with the adoption and operation of the present law. According to the provision of Article 25, the National Currency Commission of the Ministry of Finance is in a position of importance, having the right to retire the old money and exchange the old money for the new.

The National Currency Commission is composed of three members and according to the provision of Article 16, the director of the Currency Department is to be one of the members in virtue of his post. The Minister of Finance is to appoint the other two members from among experts who have a special interest and knowledge in the matter of the currency system. The term of service is two years and the members may be reappointed (Article 26).

The commission devotes all its efforts toward the accomplishment of its business, but as it is impossible to look after all matters which fall within the scope of its jurisdiction, auxiliary organizations are to be maintained to assist it.

One of them is a body of Foreign Currency Experts who are to be appointed by the Minister of Finance (Article 26).

The other auxiliary organ is the Provincial Currency Commission. China is a vast country with different customs according to locality and

1. The issuance tax is levied on the remainder of notes at the progressive rate after the Final Note Retirement Date (Article 36).

2. Articles 25 to 30. Article 21 is about the Gold Standard Committee.

there are many things that the central organ cannot decide upon alone. Under the circumstances, each province is to establish its own Provincial Currency Commission to assist the National Currency Commission in the matter of local currency reform.

The Provincial Currency Commission is also composed of three members, and the Minister of Finance appoints those recommended by the National Currency Commission for the post for a term of one year (Article 27). Its duty is to assist the National Currency Commission directly.

With the assistance of the auxiliary organs, the National Currency Commission taken up all kinds of business for the reform of the currency system. The principal business of the commission is composed of:

(1) Plans for local currency reform (Article 28) such as promoting propaganda about the object and method of currency reform through newspapers, posters, lectures, pamphlets etc.

(2) Research and report on the condition of local currency (Article 29).

In other words, the National Currency Commission is to make research on the condition of local currency with the assistance of the auxiliary organs and accomplish its duty of reporting the result of research work to the Minister of Finance whenever requested.

(3) The National Currency Commission is to propose to the Minister of Finance the rate of exchange of the old money for the new (Article 30).

The rate proposed by the National Currency Commission for the exchange of old money for the gold standard money, for which the Chinese government is responsible, is liable to change because the value of the old money differs according to locality, time and differences among themselves.

The basis for determining this rate is the prevailing quotation in the important international metal bullion market on the metal contained in the said money as well as the quotation prevailing during the previous

90 days in the Chinese province concerned. The decision on the rate will be made on this basis with certain modifications from a consideration of the public interest. When the Minister of Finance recognizes the rate thus fixed as justifiable, he is to publish it. This is the final decision on the rate for the withdrawal of old money and no one is allowed to object to it.

I have explained the general outline of Kemmerer's currency reform proposal and will make a few comments on it in my concluding chapter.

CONCLUSION

A survey of the tendency of fluctuation in the value of silver shows that the value has been depreciating very much since the middle of the 19th century. The tendency of various nations to replace the silver standard by the gold casts a dark shadow on the future value of silver.¹

The depreciation will tend to bring about the depreciation of silver exchange, causing a serious financial blow to countries with the silver standard, because the fluctuation of the rate of silver exchange is generally in accord with the fluctuation of silver in the countries with the gold standard. It is apparent that it constitutes a grave obstacle for

L. Table of Quotations on Silver (London Market). Unit is d.

1860.....	61.11/16 d
1870.....	60.9/16
1880.....	52.1/4
1890.....	47.11/16
1900.....	28.1/4
1910.....	24.5/8
1915.....	31.11/16
1920.....	61.7/16
1921.....	36.7/8
1922.....	34.7/16
1923.....	31.15/16
1924.....	34.
1925.....	32.1/8
1926.....	28.11/16
1927.....	26.1/32
1928.....	26.3/8
1929.....	24.7/16
1930 (Aug. 31) ...	16.1/2

the well being of the financial and foreign trade conditions of that country.

A glance at foreign trade conditions shows that China is a nation whose imports exceed its exports, while the countries with which it carries on trade are nations with the gold standard. As the result, the depreciation of silver makes China's obligations in the settlement of accounts excessively heavy. On the other hand, the depreciation of the silver exchange puts China in a very disadvantageous position making it sacrifice its wealth for the interest of other nations.¹

For China which has to pay an enormous foreign debt in gold,² the depreciation of silver results in a relative appreciation of gold exchange,

1. Table of Chinese Foreign Trade (Haikan tael unit)

Year	Net Imports	Exports	Total
1900.....	211,070,422*	158,996,752	370,067,174
1905.....	447,101,791	227,887,199	674,988,988
1910.....	462,964,892	380,388,328	843,796,222
1915.....	454,475,719	418,861,164	873,336,883
1920.....	762,520,230	541,631,300	1,303,881,530
1925.....	965,090,593	776,352,937	1,741,443,630
1928.....	1,195,969,000	991,355,000	2,187,000,000

* Re-exportation not included.

2. The Yokohama Specie Bank Reports, No. 18, page 18.

meaning an increase in the amount of public loans and the obligation of the Chinese people.¹

When considered internationally, the adoption of the gold standard for China must be the first step forward in the development of national power for that country.

Speaking of the gold standard, we may mention three kinds (a) the gold coin standard, (b) the gold bullion standard and (c) the gold exchange standard.

The gold coin standard is the gold standard which adopts the minted gold coin as the medium of transaction, and which was practiced up to the outbreak of the World War by Japan as well as by Great Britain, the United States and Germany. It was, historically considered, the first form of the gold standard.

Since the World War, the gold standard has assumed a new aspect, the nations having adopted the gold bullion standard in place of the gold coin standard. This cannot be regarded as a mere matter of change in form. In this I find a great change in the economic significance of the gold standard.

1. Amount of China's foreign debts. Statistics Appearing in the Shanghai Bank Weekly of May, 18th Year of the Chinese Republic.

Countries from which loans were obtained	Amount of debts (Yuan dollar)
Japan	511,824,000
Great Britain	461,505,000
Russia	290,605,000
France	231,488,000
Germany	179,281,000
United States	127,260,000
Italy	123,013,000
Belgium.....	108,813,000
Holland.....	6,679,000
Denmark	4,162,000
Others	1,925,000
Total	2,056,555,000

To provide the nation with a currency of stable value for domestic use was considered of utmost importance in the past. In this sense, the gold coin standard with the gold coin as its medium of operation practiced before the World War was nearly an ideal standard for the early period of the gold standard system.

Recent economic development has intensified the interdependent relation of the nations of the world, making it impossible for a nation to develop unless it maintains its interdependence with the rest of the nations as a part of the economic whole, just as it is impossible for any member of a community to live an economic life unless he maintains an interdependent relation with the other members of the community. The situation may be regarded as a step forward in the tendency of the movement from national toward international economic life.

Such a development toward a world economic life demonstrates how great an effect the life of one nation has upon the other.

This condition becomes all the more apparent when seen through the currency system of a nation.

In the early stages of international economic development, the gold coin standard, which supplied gold coin of stable value for domestic use, had great significance. But in an age when the economic life of one nation has become closely related with those of the other nations, when they react upon one another as they do today, it has become impossible to think of a stability of currency without taking into consideration the economic conditions of the others. From this point of view the single gold standard as a measure to provide a nation with a stable currency for its domestic use has lost its significance.

If stability of currency is sought only for domestic purposes, the gold coin standard need not necessarily be the method for it. Stability of the value of currency for domestic purposes can be secured by issuance of inconvertible notes to a certain limit. The managed

currency as proposed by Mr. Keynes of England may be one of the methods to obtain such an effect.¹

Considered from the angle of foreign relations, the medium of settling international account is gold. It is for this reason that a nation must establish its currency on the basis of gold, which is the international currency, in order to maintain the international value of its currency. In other words, maintenance of the stability of the rate of foreign exchange will minimize the effect of international fluctuations on the currency at home, making it possible to bring about a stability of currency in the country. The significance of the gold standard of the present generation must be sought in this international nature of gold.² In another words, the importance of the gold standard lies in its international significance.

Both the Cunliffe Commission³ and the Chamberlain Commission⁴ of England in charge of the reform of the currency system stated in their reports following the World War that the minting of gold coins for the operation of the gold standard is not of vital importance. The reports clearly indicate that the gold standard has shifted from national to international significance. It is because of this reason that all the nations of the world returned to the gold standard in the form of the gold bullion standard following the World War.

Nevertheless, the realization of the gold standard in the form of the gold bullion standard in China might be regarded as practically impossible. From a theoretical viewpoint, the gold standard will bring about advantages in stabilizing the currency, in foreign trade and in administration of national finance. For China which is under the old

1. G.M. Keynes: *A Tract on Monetary Reform*.

2. *The General Condition of Currency Systems in Foreign Countries*, by the Author, page 68.

3. Instituted in January, 1918 by the Minister of the Exchequer with Lord Cunliffe, former president of the Bank of England, as chairman.

4. Instituted in June, 1924, with Chamberlain as chairman.

silver standard, however, the adoption of the pure gold standard would inevitably cause a sudden drop in the value of silver due to the abolition of the silver standard. Under such conditions, China, which has an enormous amount of silver, would be unable to stand the damage it would have to suffer. The alternative is the adoption of the gold standard in the form of the gold exchange standard.

The possibilities of the gold exchange standard as a measure to be adopted during the transition period from the silver to the pure gold standard was actually demonstrated when that system was practiced by British India, Straits Settlements, and various countries of South America.¹ As the silver standard is maintained for domestic use, the gold exchange standard alleviates more or less the situation which otherwise demands a great sacrifice due to the depreciation of silver, and affords a time for the holder of silver to dispose of it properly. On the other hand, however, it is conditioned by the difficulty of maintaining a sufficient amount of gold specie in the foreign money market for the issuance of exchange against it. This difficulty is apparent in the fact that the Indian Government had to suspend the sale of exchange payable in England during the World War.²

It is questionable, therefore, whether China, whose foreign trade always shows an excess of imports over exports, can properly manage to maintain its exchange fund abroad. The gold exchange standard, therefore, may be recognized merely in a theoretical sense as an intermediary system to be had during a period of transition from the silver to the gold standard.

The theoretical significance of the gold exchange standard as an intermediate measure has been recognized by many who have been in-

-
1. The countries which have adopted the gold exchange standard are India, 1893; the Philippines 1903, Panama 1904, Mexico 1905, Straits Settlements 1906.
 2. Suspension in the sale of British money exchange in 1916. The gold exchange standard was upset on September 29, 1920. See *The General Condition of Currency Systems in Foreign Countries* by the Author, pages 233 and 235.

terested in the reform of the Chinese currency system. The Jenks proposal, the Vissering proposal and others excepting a few Chinese critics support this standard,¹ and it is not too much to say that the difference among them is no more than the difference in methods of application. The principal point of argument concerning this project is how to put it into practice.

The reason that the gold exchange standard has never been realized in China in the past despite the fact that it has been repeatedly proposed is the fact that the method of application has not been practical.

It is necessary to make a thorough-going research to ascertain the actual condition of a country for the application of this system, and in the case of China, the following two points must be considered carefully as the most important characteristics of the conditions of that country in contrast with those of the European countries :

- (1) Money is circulated in China according to its intrinsic value instead of according to its face value.
- (2) China is a vast country and the different localities have different interests according to their various circumstances.

These are some of the important points to be remembered in planning a Chinese currency reform.²

As is obvious from the condition of the Chinese currency in circulation, many different kinds of money with different shapes, quality and weights are appraised each according to its intrinsic value although they are called under the same name. They all may be called yuan or tael but their relative value may vary widely. Under the circumstances, any nominal money, such as we have, which is not in keeping with its actual value, is something unfamiliar to the Chinese people. This fact may be pointed out as a particular feature of the Chinese conception of currency.

1. Mr. Wagel insists on the silver standard. See *Chinese Currency and Banking*.

2. See Vissering, *On the Chinese Currency*, pages 18, 21.

The vastness of territory is another feature of China. It has been a subject of serious concern not only for critics who are interested in the reform of Chinese currency but also for those who are interested in political and economic affairs as well. The vastness of territory gives rise to the development of local characteristics and increases the opportunity for a conflict of interests, making it difficult to unify the currency throughout the country by the application of uniform method.

With these thoughts in mind, let us turn to Kemmerer's reform plan.

The basis for the adoption of the gold exchange standard system according to the draft law proposed by Dr. Kemmerer¹ is a sufficient preparation of funds. Whether or not the fund may be raised through the method suggested by the Kemmerer plan will determine the fate of the proposed law.

The first financial source for the preparation of the fund pointed out by the draft law is seigniorage resulting from the minting of new coins under the gold standard. This was also proposed by the Jenks Plan in 1903. The minting of coin under the new law becomes possible only on the condition that the old coins are to be withdrawn, but the necessary condition for the retirement of the old money is that the new coins will circulate. The first problem which presents itself, therefore, is whether the new coin will be well received by the Chinese people or not.

The Chinese money which has been used in the past is the so-called money by weighing, and functions according to its intrinsic value irrespective of its face value. In this respect, the custom is different from that of the Japanese and the Western peoples who in the present stage of culture have become accustomed to the coin with an intrinsic value which is not quite up to its face value.

The sun which is the standard unit under the new law suggested

1. The Report states that it is a Qualified Gold-Exchange Standard (Report, page 130).

corresponds to 40 cents of American money, representing 60.186 centigrams of pure gold. In actual practice, however, the sun silver coin with its weight at 20 grams and its quality at 800, containing 16 grams of pure silver, is to be minted instead of the gold coin. The conversion of the old yuan coin for the new sun is to be made at par. It is questionable, however, whether it is feasible to make the Chinese people, who are accustomed to counting money according to its intrinsic value, accept the new coin at par with the yuan dollar despite the difference in actual value between the two.¹ It is all the more so when the auxiliary coin which is lower in intrinsic value than its face value is to be circulated at its face value. There is a danger of the sun coin's being melted and destroyed by the people on account of the discrepancy between its intrinsic and face values caused by the depreciation of silver. It will be impossible to practice this plan without taking necessary precautions against such a situation. If the new coin should fail to function properly on account of such circumstances, the retirement of the old coin cannot be hoped for and the proposed seigniorage

1. *A View on the Currency Reform* by K. Tsuchiya (Shanghai Weekly, pages 11 and 21, April 20, 1930). *A View on the Currency Reform Once More* (Shanghai Weekly, page 13, April 20, 1930). *The Toa* (東亞), (Published by the Toa Economic Research Bureau) No. 5, Vol 3, page 114.
2. The Peking Times in the issue of April 10, 1930, criticises it severely as follows:

"The Commissioners consider (page 94) that the Philippine or 'Direct' plan could be carried through with a small loan, which would be rapidly repaid from the enormous seigniorage profits. Frankly we are entirely sceptical. There is nothing substantial upon which this wild project may be erected. A mythical gold unit (page 102) is conjured up in the imagination of impractical theorists, and upon this is built an imposing edifice of potential profit. In substance Dr. Kemmerer advises the Central Government to imagine themselves the possessors of an unlimited amount of 'Theoretical uncoined gold units' and immediately they can issue one billion two hundred million dollars in light-weight silver. From this circulating medium, Nanking will derive \$240,000,000 in profit (seigniorage). Those who are interested in this financial ledgerdom will find these interesting figures on pages 90-92. Unfortunately page 89 is for some reason missing, but undoubtedly it also contained valuable information upon this most interesting system of obtaining something for nothing." (*The Toa*, No. 8, Vol. 3, p. 114).

will be a thing of more fantasy, casting a dark shadow on the very foundation of the gold standard.¹

The gold standard fund may be prepared, but the proportion of the reserve fund at 35 per cent. of the issue may be too low in order to secure credit for the new gold standard.² The standard ratio of the fund to the issue must be discovered through practical experience and there is nothing to be quoted as a theoretical basis, but when the ratio adopted by various foreign countries in Europe since the World War ranges from 40 to 55 percent, the said ratio for the Chinese people who are not accustomed to coins counted at their face value may be too low.³

Next is the problem of direct application of the gold standard system. The plans for Chinese currency reform in the past may be classified into groups advocating the direct and indirect application of the gold exchange standard. Some of the plans of indirect application propose to adopt the tael unit and others the yuan unit, and both seek to unify the currency under the silver standard first and then the gold standard.

According to the draft law, the indirect method requires two currency reforms with a period of time intervening, meaning just so much more trouble and damage resulting from financial disturbances. The change to the gold standard after unity has been secured under the silver standard is bound to cause a new financial disturbance. It must be expected, therefore, that some of the Chinese people would become satisfied with the unity of currency under the silver standard, or, even if they were not satisfied, they might argue that they would rather have

-
1. The same journal criticises the report to the effect that the reading of it makes one feel like wandering about insane with Alice in Wonderland. (*The Toa*, No. 5, Vol. 3, page 115). See also the article by Mr. Tsuchiya above mentioned.
 2. *A View on the Currency Reform* by K. Tsuchiya, *Shanghai Weekly*, page 21, April 20, 1930.
 3. Table of ratio of reserve adopted by various countries: Belgium 40%, Sweden 50%, Chile 50%, Germany 40%, Holland 40%, Switzerland 40%, Greece 40%, Columbia 60%, United States 40%, and Italy 40%.

the unified currency under the silver standard remain as it is for the time being rather than be subjected to another financial disturbance. Under such circumstances, either the currency reform in favor of the gold standard will not be accomplished at all or the occasion for adopting the gold standard will be unduly delayed even if the second period of reform were not abandoned altogether. The special merit of the direct method is emphasized under such a consideration. If the direct method is enforced in the district where this may most easily be done and then is gradually extended to the others, it will prove, some aver, to be most feasible, avoiding a wide spread sudden change.

Considering the present condition of China and the state of China's international account under the present depreciation of silver, the enforcement of the gold standard directly from the first in a few appropriate provinces is plausible for the same reason as that stated in the Kemmerer report, but the method cannot escape criticism for having ignored the general tendency obtaining in China of the tael unit to be abolished and the yuan unit to gain a wider circulation,¹ and also the tendency toward progress, though slow, in the establishment of local central banks to unify notes on the silver basis.²

1. Edward Kann insists on a unification of the currency on the basis of silver (Shanghai Weekly, June 30, 1930, page 12; July 16, page 7 and July, 30, page 13).

"The abolition of the tael and adoption of the yuan is the first problem which calls for a solution and it is necessary to unify mints in China for the solution of that problem," as quoted from *China's Customs Tariff and Currency Reform* by Torao Yoshida, (Diplomatic Review, March 1, 1930, page 43).

2. Wagel is one of the advocates of the silver standard, maintaining that the standard is the best and final one for China. (*The Report of Research* issued by the Yokohama Specie Bank, No. 18, page 29).

Pages 31, 37 and 75 of the same Report.

"The principal points embodied in the resolution adopted by the conference of the Financial, Industrial and Commercial Ministries appear to be (1) the abolition of the tael and a unification of currency under the silver yuan and (2) the making of preparations for a period of six years pending the adoption of the gold standard which is to begin functioning at the same time when the Constitution is to be put into operation." *Problem of Gold Standard for China* by Masutaro Kimura, Diplomatic Review, February 15, 1930, page 66.

There are some critics who declare that the physical aspect of currency reform may be effected by introducing new money but a half of the labor for reform will be lost unless the immaterial aspect of reform is carried out by abolishing the tael and unifying the currency under the yuan unit. (*Difficulties in the Reform of Chinese Currency* by Tadashi Negishi, National Economics, January, 1906, page 5-6.

Would it not be a natural order to follow for the currency reform in China to encourage this tendency and arouse the spirit for unification of the currency until the time when China is ready for the gold standard?¹

The international disadvantage of the Chinese people due to the fluctuation in the value of silver will continue until the gold standard is adopted, but it is natural that the reform should progress from disorderliness to unity and unity to ideal in its development, while China escapes from violent economic disturbances and damages.

When there are so many kinds of coins with different intrinsic values in circulation at different relative values as at the present time, the confusion resulting from the complication of coins on the basis of the gold standard circulating in a district which is surrounded by other districts using the old coins, would aggravate the situation, beyond endurance.² It is after a unity has been achieved in some form that this gradual method will show its merit to a greater degree.

For the Chinese people who are quite unaccustomed to the circulation of currency with the intrinsic value below the face value, education to a proper conception of currency is, of course, necessary as is stated in the Report; but, on the other hand, I believe that the influence which expedites the development of internal communications, extends the scope of local economic centers and urges them to establish an intimate relationship among themselves, is necessary for the unification of the currency.³

-
1. See page 78 of Dr. Kemmerer's report regarding the possibility of direct and speedy realization of the gold standard. Also see *Problem of Chinese Currency Reform*. (The Report of Research issued by the Yokohama Specie Bank, No. 18, page 5). *China's Customs Tariff and Currency Reform*, by Torao Yoshida (Diplomatic Review, March 1, 1930, page 42).
 2. *The Currency Reform Project* in the Jiji Shimpō, Shanghai, (a journal of Chiang Kai-shek), April 4, 1930, appearing in the Toa, May, 1930, page 136, (Shanghai Weekly, April 23, 1930).
 3. Report, page 98.

The declaration—"It is proper to suggest that the Report now published appears to be a scholarly and reasoned treatise from the studio of a *dilettante*. It is theoretical and largely influenced by the work of former investigators. It has no practical value to China at the present time"¹—is too severe a criticism, but does it not indicate a lack of research concerning the condition of China?

After all Dr. Kemmerer and others interested have no objection to the speedy establishment of the gold exchange standard as the measure for the realization of currency reform in China, but it is regrettable that the method contains many questionable matters in the realization of the scheme.

According to a report, "the Minister of Finance, Soong, at the farewell party held in honor of Dr. Kemmerer in appreciation of the service he and his party had rendered, regretted the impossibility of immediately adopting the plan drafted by the experts on account of his inability to do so,"² but this statement should not be attributed to his modesty alone. It might have been a reflection of the general sentiment of the Chinese people as a whole regarding the impracticability of the project.³

-
1. Peiping-Tientsin Times, April 10, 1930, as quoted by *The Toa*, No. 5, Vol. 3.
 2. *Private Plan for the Currency Reform* by Kessu Tsuchiya in the *Shanghai Weekly*, May 6, 1930, page 14. "The currency reform in the past was proposed because of stimulation from without, but in the case of the Kemmerer commission, the reform project is believed to have been a measure to secure a foreign loan, particularly from America." *Dr. Kemmerer and China*, by Yukitoshi Tanaka (Diplomatic Review, February 15, 1930, page 107).
 3. "When *A Draft Law for a Gradual Adoption of the Gold Standard by China* was published by the Minister of Finance, Soong, all Chinese and foreign newspapers in China undertook to criticize it and as a whole agreed that the project ignored national circumstances and social conditions." *The Toa*, May, 1930, page 136.

A View on Prof. Kemmerer's Currency Reform Plan by Edward Kann in the *Shanghai Weekly*, June 30, 1930, page 12.

A PRACTICAL MONETARY POLICY
FOR
THE OTTAWA CONFERENCE

18

BY
E. BEDDINGTON BEHRENS,
M.C., Ph.D. (Econ.), M.A.

With a Foreword

by

The Right Hon. L. S. AMERY, P.C., M.P.
(former Secretary of State for Dominion Affairs and for the Colonies)

X6.1-3.N3

G2

FOREWORD

BY

The Right Hon. L. S. AMERY, P.C., M.P.

(former Secretary of State for Dominion Affairs and for the Colonies)

No factor has exercised a more profound effect on the economic and political life of nations than the monetary factor. Changes in the price level have throughout history, as the Macmillan Committee has pointed out, been the chief secret of social trouble. They have created, as they are creating to-day, the most difficult international issues. The world at this moment is fast drifting towards bankruptcy owing to the breakdown of a monetary system which served it well enough in earlier days, but has been unable to meet the strain of post-war conditions.

What is to be done? An immediate restoration of an international standard, on a gold basis or any other, is impossible. That would require not only an immediate solution of war debts and reparations, but something much bigger, a complete change in the fiscal policy and investment habits of the United States. The only possible solution, for the time being at any rate, is for countries that are already closely associated in other ways, whose trade is in the main complementary and who are prepared to adopt a policy of fiscal co-operation rather than one of fiscal antagonism, to get together and establish their own monetary system. That is the task which the nations of the British Empire have to take in hand at Ottawa, and they are immensely helped by the fact that, for most of them, sterling is already the basis of their monetary system and London the chief centre of their finance. All that is needed is that they should agree to restore sterling prices to a reasonable level and maintain steadiness of exchange between themselves.

How this result can be achieved is set out by Mr. Beddington Behrens in his admirably lucid and well-balanced pamphlet. There is a far too prevalent notion that monetary policy is something entirely beyond the comprehension of the ordinary citizen, a domain to be left to the "expert" on the one hand and the "money crank" on the other (with some misgivings as to which is which). Those who peruse this booklet will not only find it eminently readable, but will also realise that there is nothing in its subject matter which is not within the comprehension—as it is within the responsibility—of the ordinary citizen.

June 20, 1932.

A PRACTICAL MONETARY POLICY FOR THE OTTAWA CONFERENCE.

The world is groping through the depression and anxiously waiting for some sign of constructive leadership. Though little tangible results can be expected from the Lausanne Conference, much may be achieved at Ottawa. The pessimists who point out the repeated failure of European Conferences as an indication of what is likely to happen at Ottawa; may this time be confounded. Lausanne is the meeting place of industrialised and competitive countries who have, through history, been periodically at war with one another. The nations represented at Ottawa will be members of a single Commonwealth, racially related, alike in the means and origin of their development, and dominated by a traditional political unity. Properly conceived and directed, the Conference may well be the turning point in the history of the British Empire. If the Empire can be more closely united by new economic ties, a new era of imperial prosperity may develop, comparable to that which has taken place in the United States of America since the middle of the 19th Century, due not only to natural resources, smaller than those of the British Empire, but to the strength inherent in a very large population able to exchange goods without tariff barriers between them.

The Ottawa Conference will achieve little, however, if it only deals with customs and tariffs. Great Britain has been momentarily helped by the new tariffs; but, if world prices continue to fall for another six months, tariffs will seem but a vain palliative unable to stem the force of an overwhelming economic disaster. If the Ottawa Conference is to achieve success, it must not only deal with the question of a tariff policy within the Empire, but it must give the world a lead in dealing with monetary policy.

In the past business-men, politicians and the general public alike have considered monetary policy as a mysterious science, unsusceptible to the ordinary control of constructive statesmanship. Through habit and ignorance they have left the decision of this essential question to Treasury officials

and the financial experts directing our central banking institutions. And thus a strange political paradox arises. Continual changes of government have taken place as different parties have been successful in their advocacy of the traditional political questions of the day. Yet the question of monetary policy, whose effect may nullify any social reform, and exert a more potent influence on the daily life of the individual than almost anything else, has been left quite outside political control and public interest.

Every thoughtful member of the community, whether business-man, trades union leader, politician, or wage-earner, should endeavour to study questions relating to monetary policy anew, forget all former prejudices concerning them, and refuse to allow the decision to rest with others. On the proper direction of monetary policy may depend the whole economic future of the country.

Sir Basil Blackett recently insisted that "finance should be the handmaid of industry." This, in its broadest acceptance, means that monetary policy should be regulated, not by the requirements of the money market and the acceptance houses, but by the needs of productive industry. This is in line with the trend of British and Imperial development since the War. Before the War Britain's wealth was derived from the great exporting industries, her invisible exports in the form of banking and other services, and the interest she received on her large foreign investments. The volume of our export trade has been greatly diminished by the intensification of national production in other countries during the War, and by the ever-increasing tariff barriers against us. Britain's former financial power has been lessened by the transference of the greater part of the world's gold supply to France and the United States of America. Events beyond our control, such as the default of foreign countries, have considerably reduced the national income derived from foreign investment. An Empire tariff policy which will help to find new markets, and a monetary policy to assist industrial development at home, is therefore essential.

The deflationary policy of Great Britain since the War has had a devastating effect on industry and employment; yet hardly a voice has been raised against it, either by the

trade unions, industrial leaders, or any political party. It has now become the traditional ingrained policy of the Treasury and the Bank of England.

Even when the rest of the world was enjoying prosperity, Great Britain, thanks to its monetary policy, was experiencing a depression of its own. The Board of Trade Index of Prices fell from 103 just before our return to the Gold Standard in 1925, to 81.6 by the middle of 1929, or approximately 20 per cent.* Amongst its effects were the coal stoppage and the collapse of our heavy industries. The damage was made more acute by an investment policy which lent money to Central Europe, which could only be repaid by a successful intensification of the competition against our own industries.

In the summer of 1931 the National Government was formed to keep the £ on the Gold Standard. A few weeks later, circumstances beyond the control of the Bank of England or the Government forced Great Britain off the Gold Standard and its monetary dependence on France and the United States of America. This action, forced by circumstances, has turned out to our great advantage, despite the forebodings of evil of the Government's orthodox advisers.

British monetary policy, since its departure from the Gold Standard, has been largely one of drift, with a tendency towards further deflation. The consequences may be disastrous. Nor is it fair to attempt to put the blame on the Bank of England, for it is the Government whose decision should be final on this question; and in any case the Bank could not long pursue a policy without the full and active co-operation of the Treasury.

Public opinion must demand in future that the Government of the day should have a defined and constructive monetary policy, and have the courage to state it.

The Ottawa Conference should give Great Britain an opportunity to define her monetary policy, and the opportunity to achieve sufficient support within and without the British Empire to make it effective.

*The world trade cycle collapse has further increased the fall in the Board of Trade Index for general prices. May, 1932, is 63—a further 22.7% fall since 1929 and a total fall of 39% since 1925.

The policy suggested hereafter is one which could be *immediately* applied by members of the British Empire; and countries off the Gold Standard (often called "within the sterling area"), and whose yard-stick of value-measure is based on the £ sterling, would be asked to join. It would find no difficulty of acceptance by the United States of America, which, on account of internal troubles, is unable to take the initiative. If a constructive monetary policy is endorsed at the Ottawa Conference, the British Empire will, by its action, turn the tide of trade depression, and by so doing assume a leadership in world affairs, relinquished, in recent years, with such unfortunate consequences, to the dictates of French policy.

RAISE PRICES.

Most authorities have given lip service to the conclusions of the Macmillan Report on Finance and Industry (par. 275) which advocates, as an immediate objective, the necessity for (1) raising the price level substantially, (2) when this is achieved, to maintain the price level as stable as possible. But no endeavour has been made to put those objectives into effect.

The price level cannot be substantially raised except by inflation. Unfortunately, this is a word which those in public life seem frightened to make use of, even if it is camouflaged under the name of "re-flation." Its associations are unfortunate. It often brings to mind the orgy of uncontrolled inflation and the crazy turning on of the printing press in Central Europe after the War. Bad as were the effects of this frenzied inflation, they can hardly have been worse than the consequences of the equally disastrous policy of uncontrolled deflation that has taken place in the world these last few years. Deflation has run riot. It has brought international trade to a standstill, driven nearly every country of the world to bankruptcy, forced commodities and foodstuffs to prices at which they cannot be profitably produced, and, in a world of plenty, destroyed the purchasing capacity of the community.

A few years ago the word "protection" was "taboo" on British ministerial platforms. Statesmen did not dare publicly to endorse a full-blooded protectional policy, even if

in their heart of hearts they believed in its efficacy. Lord Beaverbrook, with characteristic courage, swept existing prejudices aside when he started his Empire Protectionist Campaign, and within a very short time protection has become an accomplished fact. Whilst most politicians are waiting to see which way the wind will blow, Lord Beaverbrook has again come forward as a realist and an advocate of a reasonable inflation. And it may be prophesied that, within a short space of time, public opinion will be no more frightened by the word inflation than it is now by the policy of protection. When this time comes, the policy will be judged on its merits without prejudice.

It is repeatedly stated that inflation should be prevented because, as in Germany, it will ruin the *rentier*, and therefore not only destroy them as a class but eliminate the buying power which their savings have made possible. This is true only of uncontrolled inflation; if the price-raising movement were organised, as in Germany it was not, and if prices were raised, say, to the levels of 1926, the *rentier* would be no worse off than he is now. Already the owner of fixed interest-bearing securities has lost his interest on a large part of his foreign loans, and on the first charges of industrial concerns which have gone down with the economic depression. It is an illusion to suppose that interest on governmental debt can continue to be paid if the fall of prices goes appreciably further. The only alternative to a controlled inflation, as here advocated, is an uncontrolled inflation. This will arise, as it did in Central Europe, if the question of monetary policy is not taken in hand: it will be forced on governments by their inability to meet daily payments in any other way.

Nor is the *rentier's* income safe under a policy of deflation. In Germany, when Britain left the Gold Standard, the Reichsmark was only saved by Dr. Bruening's drastic deflationary decrees. These ruthlessly scaled down the interest on the internal debt, and reduced interest-rates, mortgages, rents, land-values and wages: thus every class of fixed income was drastically reduced at a moment's notice.

In fact, while deflation is in progress, the *rentier* tends to grow richer. But he does so at the expense of other classes, and he is actually biting the hand that feeds him.

A point comes beyond which neither government debt nor other fixed payments can continue: and, when this point is reached, the *rentier* is ruined.

The Midland Bank, in its Monthly Review for May, put the situation without equivocation. The policy of the Government "is only half a policy, it cannot succeed unless accompanied by essential measures calculated to secure trade recovery on which the fulfilment of budget hopes depend. What then is at the heart of the question whether business shall recover or relapse? The answer is clearly: the domestic price level. If British prices rise, then the volume of business will expand, employment will increase, profits will be restored and investment stimulated. In such circumstances, the budget will certainly balance; without them it cannot."

The same comment and answer might be made of the budgetary position of every nation at the present moment.

There is no special merit in inflation, any more than in deflation. The former is the expression of a policy calculated to raise prices, the latter of one calculated to lower them. Inflation is now required to raise prices, just as later, in order to "maintain the price-level as stable as possible," a measure of deflation may be needed. Our knowledge of how to deflate, learnt painfully these last few years, should be a guarantee to those who fear that once a measure of inflation is initiated it cannot be arrested. A sound monetary policy should endeavour to control prices, and prevent the extremes. Only by the control of credit-policy can this be achieved.

EXPAND CREDIT FACILITIES.

In the endeavour to raise prices, credit expansion by Central Banks should be the first step taken. It is important for the proper working of such a policy that there should be the closest co-operation between the banks of issue of all countries within the Group, so that credit expansion should be at a parallel rate all round. This does not lead to control by, say, the Bank of England any more than under the old Gold Standard; but it requires effective co-operation.

Credit expansion through Central Bank policy makes more credit available. If it were initiated in Great Britain it would have none of the special difficulties to contend with

that have so far impeded the policy of the Federal Reserve Bank (June, 1932).

The policy of credit expansion through the Central Bank policy has been much criticised lately owing to the apparent failure of the Federal Reserve Bank policy, though it is not sufficiently realised that even if the policy has not *yet* succeeded in effecting a rise in prices, without it probably nothing would have prevented a general collapse of leading American banking institutions. The Federal Reserve Bank have weekly made large purchases of Government securities, thus increasing by a corresponding amount the cash balances of the Member Banks. The Member Banks have largely retained them instead of passing them on to commercial borrowers. It is only natural for the Member Banks to have welcomed the opportunity of consolidating their cash position. The amount of new credit available was diminished by a heavy loss of gold¹ occasioned by fear of the consequences of the failure of Congress and the Senate to agree on a budgetary policy. Lack of confidence had caused a run on a large number of banks all over the country; in 1931 over 2,000 banks suspended payments.² The political uncertainty moreover had forced a further liquidation of securities and thus impaired the collateral of bank loans.³ Also the Member Banks in U.S.A. have a right to discount commercial bills on the Federal Reserve Bank, and in many cases had fully discounted their facilities. Altogether the position was strained, and consolidation was the first essential.

There is always a time-lag between the provision and the use of Central Bank credit. A lot of credit has to be pumped into the banks without any apparent effect until, at last, public psychology changes and there is a sudden burst of commercial activity. This is strikingly illustrated at the present time. Manufacturers complain that, though they can get all the credit they need, there is not demand

¹ Gold stocks of the U.S.A. :—

15th April, 1932	...	...	...	\$4,380,000,000
16th June, 1932	...	...	...	\$3,908,000,000

² Year. Bank failures. Deposits of Suspended Banks.

1929	...	642	...	...	\$234,532,000
1930	...	1,345	...	...	\$864,715,000
1931	...	2,298	...	...	\$1,698,510,000

(“Federal Reserve Bulletin,” Feb., 1932.)

³ Dow Jones Index of American securities registered a fall from 378 in 1928 to 44.10 June 2nd, 1932, or approximately an average fall of 88 per cent.

enough for their products to justify them in using it. The trouble is psychological, and it will not be remedied until the expansionist policy is pushed forward with determination and unity of purpose. Then, and not till then, business men will lose their fear of a further fall in prices; and the reasons which at present make them cautious in their policy will at last have ceased to apply.

When the change first comes, it will be because business men believe that prices are not likely to fall lower. The initial rise may be expected to be rapid; but too sharp a rise must be prevented, so that the movement is gradual and reasonable. For instance, an average rise of two per cent. per month for a year would bring retail prices to about five per cent. below the level of three years ago, which seems a reasonable progression to aim at.

Statements are constantly made of the impossibility of a considerable rise in prices owing to the present excessive stocks of raw materials. It should be borne in mind, however, that the manufacturer is everywhere working on the smallest possible stock. During the last few years, the continued fall in prices has made it dangerous and expensive to carry a large stock: under deflation it has paid far better to reduce inventories to the lowest possible level. As soon, however, as the manufacturer sees that he cannot repurchase his raw material at the same price, he will carry, as he used to do, a few months' stocks in hand. When the manufacturer does that, he will take off the producer's shoulders a large amount of stock which at present overhangs the market. Thus, for psychological reasons, without any appreciable increase in consumption, stocks of raw materials will be greatly diminished, and a rise in price will be facilitated.

CHEAPEN MONEY.

Every effort should be made to reduce the price of money so as to make idle balances at the bank unusable and divert savings into business and industrial use.

MAKE CREDIT AVAILABLE TO THE CONSUMER.

Apart from the amount of credit available, one of the chief influences on trade and prices is the speed at which money circulates. A business may be making heavy losses because it is only able to turn its money over once a year, whilst its competitor may be able to make large profits, even with less money available, if he is able to turn that money over in the shape of goods several times in the same period. Thus not only is it necessary to make credit available, but to put it as quickly as possible in the hands of the consumer.

One of the reasons that depression in Great Britain has not been so pronounced as in the United States of America is that the much-abused "dole" to the unemployed has acted as a brake to the fall of purchasing power of the public. The United States of America is now pledged to embark on a similar scheme of direct assistance to the unemployed (under another name) through the medium of the Reconstruction Finance Corporation.

There was something pathetic in the expression of triumph vented by certain eminent Members of Parliament in the contribution they had made to solve the country's economic difficulties by voting against the rebuilding of Waterloo Bridge—a project which responsible authorities had considered essential to lessen the traffic problem of London and the uneconomic waste that results from it.

The cutting down of unnecessary wastefulness in public administration, the reduction in the cost of education per child by an increase in its efficiency, the elimination of unemployment benefit abuses, are practical methods of economy that should be insisted upon. But it is far better that public works should be put in hand in periods of depression than in good times, especially if they are on a profit-earning basis; and they can be undertaken at a much lower cost to the public authorities.

Cutting down public expenditure is always difficult and unpopular, and can often only be put through owing to the pressure of public opinion in periods of trade depression. But it must be borne in mind that such action—dismissing staff and thus making them join the ranks of the unemployed, cutting down expenditure of public buildings and thus reducing available constructive work—adds a further load to the

diminishing purchasing power of the community. This can only be compensated by an inflationary policy and governmental assistance of industrial development, to enable industry to take care of those displaced by direct or indirect government or municipal employment.

The policy of State guaranteed loans for constructive purposes, such as those issued under the Trade Facilities Act should be revived. Cheap money could thus be made available for industrial enterprise of a kind which is not immediately remunerative as to be able to obtain capital direct. Schemes of afforestation, long advocated by Roy Commissions, could be financed by such means, in addition to purely industrial developments. The British Government's loss under its previous guarantees amounted to only a fraction of one per cent., and the amount of work achieved by this form of finance provided employment for a very large number of persons.

To achieve a rise in prices Governments must not only use the technical methods, they must succeed in getting on their side the enormous forces of anticipation. There must be no half-hearted measures or statements. A bold, decisive statement of policy, and a determination to put it through would get all the latent forces of anticipation in motion. In the end it may be found that not such a very large increase in credit was required; for dormant credit will be put into use as soon as confidence is restored. Once the belief is engendered that prices are likely to rise, money will circulate more rapidly, and the existing credit-system will once more function freely in oiling the wheels of industrial development.

STABILITY OF EXCHANGES.

Stability of exchange rates is highly desirable, but it is not likely to be attained before outstanding questions of international finance, such as reparation and inter-governmental debts, have been settled. These are matters beyond the scope of the Ottawa Conference, though certain preliminary steps can be taken which will facilitate the final action.

The first stage that must be reached is the provision of ample facilities for dealing in foreign currencies; this will include the creation of a free market in forward exchange so that a trader can cover his liabilities for three to six months ahead.

Each country in the Empire would retain its own currency, but a Central Exchange Pool might be formed in London, in which the various participating countries would have credits, so that seasonal demands for exchange could be met without leading to large fluctuations. The British Government has already laid the foundation-stone for this pool, in the form of an Exchange Equalisation Fund of £150 millions. Other countries should, and probably would, follow the lead of the British Government with similar contributions towards the Central Pool. If one of the participating countries became financially insolvent through large crop failure, financial mismanagement, or other causes, it would fall out of the group, which, in essence, must be self-supporting. The strength of the Central Exchange Pool would be derived from the combination of organised effort in each country; it should not attempt to bolster up an insolvent partner. Other countries would be invited to join the Exchange Pool under similar conditions, and this would lead to an extension of facilities for international credits and trade.

A parallel monetary policy in each country, as outlined previously, would be an essential condition for participation in a Central Exchange Pool. At present international trade in many parts of the world is at a standstill owing to every country desiring to improve its trade balance by the prohibition of imports and the utmost encouragement of exports—a policy which must in the long run defeat itself. Important transactions are at present done through direct barter, as the recent contract of Brazilian coffee bought by payment of German coal. There are numerous variants of the barter system—Czecho-Slovakia, for example, prohibits imports from individual countries beyond the amount which those countries themselves purchase in Czecho-Slovakia.

The formation of a Central Exchange Pool would restore normal foreign trading conditions to a large number of countries, for trade is too diverse for barter transaction to be successful except in the case of a few isolated essential commodities.

CONTROL OF FOREIGN INVESTMENTS.

Governments should be given the power of vetoing undesirable foreign investment, such powers to be vested in a Committee, comprised of representatives of the Treasury and leading bankers.

The Federation of British Industries, in a remarkable document entitled "A New British Financial Policy," has rightly laid stress on the desirability of a policy of complementary, as opposed to competitive, foreign investment. For instance, British loans to Germany and Austria have only enabled these countries for a comparatively short period to pay back interest on an unproductive debt, or by creating new industrial plant to intensify still further their competition against our own industries. Germany, once freed from the burden of reparation, should be able to adjust her economic situation without further loans from abroad. Austria—a capital without a country—is not an economic unit at all. Since the war, her chief means of subsistence has been the foreign loans made either to the state, the Central Bank, or the Credit Anstalt. Instead of lending more money, the interested Powers should insist on political reorganisation, allowing the map of Europe to be so re-drawn as to allow Austria to exist as an economic unit.

From 1921 to 1931, British investors have subscribed to £1,056 millions overseas. Of this amount £677 millions were invested in the Empire (Governments £442 millions) and £378 millions in foreign countries (Governments £159 millions). No Dominion Government has yet defaulted on its Bonds, whilst the interest of a large part of foreign loans both for government and other purposes are in default.¹ So by lending to foreign countries indiscriminately, British investors have made a bad bargain and in many cases helped direct competition with British industries. This freedom of finance is a fault in our Imperial machinery; our surplus savings should be used to enhance, not to detract from, the prestige and solidity of the nation's industrial position.

THE QUESTION OF GOLD.

In any discussion on monetary policy the question arises as to whether gold should be the basis of new currency or

¹ "Economist," June 18, 1932, p. 1361.

not. In considering this, one should bear in mind the fact that, according to the Report of the Gold Delegation of the League of Nations, there will be a decreasing amount of gold available in future years. Leading authorities estimate that, owing largely to diminishing life of the South African mines, the yearly output of gold available for currency by 1940¹ will be reduced to \$170 millions, as compared with the present rate of \$220 millions. Taking figures over the last century it has been computed that currency should increase approximately 3 per cent. a year to maintain the normal rate of the world's material progress and development. On this basis, the world will be needing in 1940 about \$300 millions of new gold each year, as compared with a probable output of \$170 millions.

There is a danger, therefore, that if the future basis of currency and credit is to be upon gold, under the former rules of the "gold standard" the world will be doomed to a further period of deflation through diminishing production of the precious metal.

Few people would call it inflation if some wonderful new gold field were discovered which would add enormously to our gold resources, and the currency were increased in ratio to increased gold deposits. Is the future prosperity of the world to wait for the chance discovery of a new gold field? It seems strange that in China, where the currency is based on silver, internal prices have been more stable through the last few years of Civil war, depression and a falling price for silver, than they have in gold-standard countries.

One proposal which, if adopted, might solve many difficulties is for the currency of the Sterling Currency Union to be based on gold but for the gold ratio of the £ sterling to change at periodical intervals to enable internal prices to remain stable. The price to depend on the credit requirements and supply of gold. An ounce of gold might be worth £4 during a period of great trade activity, and £5 an ounce during a period of trade depression. These changes would be decided simultaneously by all the central banks within the Sterling Currency Union, and would therefore be largely a book-keeping entry.

¹ Statistics arrived at after allowance made after deducting gold required for the arts.

The question of returning to gold, even if thought eventually desirable, cannot be a matter of immediate issue at the Ottawa Conference. A return to gold cannot take place except after a permanent settlement of debts and reparations, an agreement with France and the U.S.A. and a redistribution of existing gold supplies and the elaboration of new methods for working the Gold Standard. In the meantime countries within the "Sterling Area" can proceed with their own monetary policy without a return to gold and their success in doing this would be their best bargaining point in making a future Gold Standard effective.

The present crisis and its consequences have shown that the most important thing is to maintain internal prices, and that fluctuations in exchange are of less consequence provided normal transactions can be done for forward periods, as is now the case between England, France and America.

CONCLUSIONS.

In brief, therefore, the policy suggested consists of controlled inflation, credit expansion and the establishment of a free market in exchange. Prices must be raised, and the forces of anticipation must be set to work. A vague or undecided policy will not have the desired effect; positive action must follow positive declaration.

Britain must accept her position as an industrial nation, leader of a great political and financial unit. A Central Exchange Pool—a natural outcome of the present Exchange Equalisation Fund—must be used to foster exchange-stability and to prevent sharp and sudden fluctuations. The Central Banks of the participant nations will act on the basis of a concerted policy, and their actions will be as closely related as are, for example, those of the great Joint Stock Banks in England. As the need arises, inflation or deflation could be easily applied; the international price-level will be under control.

Britain, in the meantime, would control and direct the stream of her citizens' overseas investments. In this way, her own prudence would contribute to her own prestige, and British trade would improve through the creation of economic ties. By concerted action throughout the Empire, credit would be cheapened, public works would be put in hand, and

Trade Facilities procedure revived. Only by a bold policy can confidence be restored: the world is prepared for recovery, if the forces of anticipation can once be put in motion.

If a monetary policy on the above lines were agreed by the British Empire and endorsed by other countries in the "Sterling Area," the unit would be so large and self-supporting that it could boldly go forward with that policy irrespective of other countries.

The United States of America, which is pledged to a policy of attempting to raise prices, would be bound to fall into line, and would welcome a lead from a country not beset with internal political difficulties that have impeded its own efforts of recovery.

The policy recommended is a practical one that could be put into immediate operation if endorsed by Great Britain and Dominions at the Ottawa Conference.

It has been urged that no decision should be taken at Ottawa on monetary policy, on the plea that nothing can be effectively accomplished except by a further conference and a world agreement on the subject. This is the counsel of ignorance or despair. In a time of crisis action is necessary and a bold handling of affairs. The crisis is as serious as any that confronted the British Empire during the War. And, as in war, time is a vital factor for success.

At the Ottawa Conference will be gathered together men united by a common unity of purpose and outlook, and it lies with their decision to give the world the lead it is anxiously awaiting.

A World Economic Conference is to be held in London in October to discuss monetary policy. If that Conference is confronted with a united purpose and a policy on the part of the sterling group of countries, a world agreement is possible.

TWENTY-FIRST ANNUAL REPORT
OF THE
FEDERAL RESERVE
BOARD

COVERING OPERATIONS
FOR THE YEAR 1934

19



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON: 1935

X6212.73v

G5

FEDERAL RESERVE BOARD

DECEMBER 31, 1934

EX-OFFICIO MEMBERS

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury, Chairman.
J. F. T. O'CONNOR,
Comptroller of the Currency.

MARRINER S. ECCLES, *Governor.*
J. J. THOMAS, *Vice Governor.*
CHARLES S. HAMLIN.
ADOLPH C. MILLER.
GEORGE R. JAMES.
M. S. SZYMCAK.

LAWRENCE CLAYTON,
Assistant to the Governor.
CHESTER MORRILL, *Secretary.*
J. C. NOELL, *Assistant Secretary.*
LISTON P. BETHEA, *Assistant Secretary.*
S. R. CARPENTER, *Assistant Secretary.*
WALTER WYATT, *General Counsel.*
GEORGE B. VEST, *Assistant Counsel.*
LEO H. PAULGER,
Chief, Division of Examinations.
FRANK J. DRINNEN,
Federal Reserve Examiner.
E. A. GOLDENWEISER,
*Director, Division of Research and
Statistics.*

LAUCHLIN CURRIE,
*Assistant Director, Division of
search and Statistics.*
WOODLIEF THOMAS,
*Assistant Director, Division of
search and Statistics.*
E. L. SMEAD,
Chief, Division of Bank Operatio
J. R. VAN FOSSEN,
*Assistant Chief, Division of Bc
Operations.*
CARL E. PARRY,
Chief, Division of Security Loan
O. E. FOULK, *Fiscal Agent.*
JOSEPHINE E. LALLY,
Deputy Fiscal Agent.

CONTENTS

TEXT OF REPORT

	Page
Introduction.....	1
Gold and silver in 1934.....	5
Altered reserve situation in 1934.....	12
Member bank credit.....	17
Progress of banking reconstruction.....	24
Business conditions.....	28
Industrial advances by Federal Reserve banks.....	33
Securities Exchange Act of 1934.....	35

Earnings and expenses of Federal Reserve banks.....	39
Building operations of Federal Reserve banks and Federal Reserve Board.....	42
Branches and agencies of Federal Reserve banks.....	43
Federal Reserve interdistrict collection system.....	44
Changes in membership.....	45
Amendments to the law relating to the Federal Reserve System.....	45
Additions to and changes in Federal Reserve Board's regulations.....	52
Extension of the period for advances to member banks.....	53
Credit agreements with foreign central banks.....	53
Bank examinations.....	54
Trust powers of national banks.....	56
Reductions in capital stock of member banks.....	56
Administration of sections 8 and 8A of the Clayton Antitrust Act.....	57
Administration of section 32 of the Banking Act of 1933.....	57
Affiliates of member banks.....	58
Private banks.....	60
Meetings of Federal Open Market Committee.....	62
Meetings of the Federal Advisory Council.....	62
Organization, staff, and expenditures.....	62

TABLES

FEDERAL RESERVE BANK CREDIT

RESERVE BANK CREDIT AND RELATED ITEMS:	Page
No. 1. Annual averages, 1918-34.....	67
No. 2. Monthly averages, 1930-34.....	68
No. 3. Weekly averages, 1933-34.....	69-70
No. 4. By weeks (Wednesday series), 1928-34.....	71-77
No. 5. End of month series, 1917-34.....	78-81
No. 6. Call dates, 1920-34.....	82
RESERVE BANK CREDIT:	
No. 7. Annual averages, 1915-34.....	83
No. 8. By months, 1932-34.....	83
No. 9. Deposits, total gold reserves and other cash, Federal Reserve note circulation, and cash ratio, by months, 1932-34.....	84
No. 10. Bills discounted for member banks—holdings of each Federal Reserve bank, by months.....	85
No. 11. Industrial advances and commitments to make industrial advances, by Federal Reserve districts.....	85
No. 12. Applications for industrial advances and commitments to make industrial advances, cumulative, by weeks.....	86
No. 13. Reserve balances of member banks in each district, by months.....	86
No. 14. Bills discounted for member banks in each State, by months.....	87
No. 15. Federal Reserve banks—assets and liabilities (in detail), Dec. 31, 1934.....	88-89
No. 16. Assets and liabilities of Federal Reserve banks (in detail) at the end of each month.....	90-91
No. 17. Condition of each Federal Reserve bank at end of 1933 and 1934.....	92-95
No. 18. Number of member banks discounting paper at Federal Reserve banks, by months, 1914-34.....	96
No. 19. Number of member banks discounting paper at Federal Reserve banks, by Federal Reserve districts, 1926-34.....	96
No. 20. Number of member banks discounting paper at Federal Reserve banks, by States, 1926-34.....	97
No. 21. Bills discounted by Federal Reserve banks—holdings at the end of each month, by classes.....	98
No. 22. Bills discounted—holdings of each Federal Reserve bank on Dec. 31, 1934, by classes.....	99
No. 23. Bills discounted—holdings of each Federal Reserve bank on Dec. 26, 1934, by maturities.....	99
No. 24. Bills bought by Federal Reserve banks—holdings at the end of each month, by classes.....	100
No. 25. Acceptances payable in foreign currencies—holdings of Federal Reserve banks, 1924-34.....	100

CONTENTS

	Page
RESERVE BANK CREDIT—Continued.	
No. 26. Holdings of bills discounted and bills bought by Federal Reserve banks, by maturities, 1933-34.....	101
No. 27. Holdings of United States Government securities by Federal Reserve banks at end of each year, 1930-34, by classes....	102
VOLUME OF OPERATIONS OF FEDERAL RESERVE BANKS:	
No. 28. Volume of operations in principal departments, 1930-34....	103
No. 29. Volume of operations in principal departments of each Federal Reserve bank, 1934.....	104
No. 30. Volume of operations of branches of Federal Reserve banks...	105
GOLD SETTLEMENT FUND:	
No. 31. Summary of transactions through the fund, 1926-34.....	106
No. 32. Summary of transactions through the fund, by districts, 1934..	106
FEDERAL RESERVE AGENTS' GOLD FUND:	
No. 33. Summary of transactions through the fund, 1926-34.....	107
No. 34. Summary of transactions through the fund, by districts, 1934..	107
MEMBERSHIP IN PAR COLLECTION SYSTEM:	
No. 35. Number of banks on par list and not on par list, by districts and by States, on Dec. 31, 1933 and 1934.....	108
FEDERAL RESERVE BANK PREMISES:	
No. 36. Cost of bank premises of Federal Reserve banks and branches to Dec. 31, 1934.....	109
EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS:	
No. 37. Earnings of Federal Reserve banks, by sources, 1914-34....	110
No. 38. Total earnings, current expenses, and net earnings of each Reserve bank, and disposition made of net earnings, 1914-34.....	111
No. 39. Earnings and expenses of the Federal Reserve banks during 1934.....	112-113
No. 40. Reimbursable expenditures of the Federal Reserve banks during 1934.....	114
FEDERAL RESERVE NOTES:	
No. 41. Federal Reserve agents' accounts at the end of each month..	115
FEDERAL RESERVE BANK NOTES:	
No. 42. Federal Reserve agents' accounts at the end of each month..	116
GOLD STOCK, GOLD MOVEMENTS, AND MONEY IN CIRCULATION	
GOLD:	
No. 43. Monetary gold stock of the United States, 1914-34.....	119
No. 44. Analysis of changes in monetary gold stock, by months, 1921-34.....	120
No. 45. Gold held under earmark by Federal Reserve banks for foreign account, by months, 1926-34.....	120
No. 46. Gold movements to and from United States, by countries, 1931-34.....	121
No. 47. Gold movements to and from United States, by months, 1921-34.....	122
MONEY IN CIRCULATION:	
No. 48. United States money in circulation, by months, 1914-34....	123
No. 49. Kinds of money in circulation, 1919-34.....	124
No. 50. Paper currency of each denomination in circulation, 1930-34..	125

VI ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

DISCOUNT RATES AND MONEY RATES

DOMESTIC MONEY RATES:		Page
No. 51. Federal Reserve bank discount rates.....		129-132
No. 52. Federal Reserve bank buying rates on acceptances—changes from Jan. 1, 1931, to Dec. 31, 1934.....		133
No. 53. Average rates earned by Federal Reserve banks on bills and securities, 1930-34.....		133
No. 54. Open-market rates in New York City, by months, 1931-34.....		134
No. 55. Open-market rates in New York City, by weeks.....		135
No. 56. Money rates in New York City—prevailing rates charged customers, 1930-34.....		136
No. 57. Rates charged customers by banks in principal cities (weighted averages), 1922-34.....		137
MONEY RATES IN FOREIGN COUNTRIES:		
No. 58. Discount rates of foreign central banks, 1933-34.....		138
No. 59. Open-market rates in foreign countries, by months, 1933-34.....		138
MEMBER AND NONMEMBER BANK CREDIT		
ALL BANKS IN THE UNITED STATES:		
No. 60. Number of banks, and deposits other than interbank deposits, 1914-34.....		140
No. 61. Loans and investments of member and nonmember banks, 1914-34.....		141
ALL MEMBER BANKS:		
No. 62. Condition of licensed banks on Dec. 31, 1934, by classes of banks.....		142-143
No. 63. Classification of loans, investments, and deposits of licensed member banks on Dec. 31, 1934, by classes of banks.....		144-145
No. 64. Principal assets and liabilities on call dates, 1920-34.....		146-147
No. 65. Classification of demand and time deposits on call dates, 1928-34.....		148-149
No. 66. Classification of member bank loans and investments on call dates, 1928-34.....		150-151
No. 67. Deposits subject to reserve, reserves required, reserves held, and borrowings at Federal Reserve banks, by months, 1934.....		152
No. 68. Net demand and time deposits, by months.....		153
No. 69. Net demand and time deposits of member banks in larger and smaller centers, 1933-34.....		154
No. 70. Licensed member banks in New York City, Chicago, and other reserve cities—deposits subject to reserve, reserves required, reserves held, and borrowings at Federal Reserve banks, by weeks, 1934.....		155-157
REPORTING MEMBER BANKS IN LEADING CITIES:		
No. 71. Principal assets and liabilities, by weeks and months (91 cities).....		158-159
No. 72. New York City banks—Principal assets and liabilities, by weeks, and months.....		160-161
No. 73. Banks outside New York City—Principal assets and liabilities, by weeks and months.....		162-163

CONTENTS

VII

	Page
BROKERS' LOANS:	
No. 74. Loans to brokers and dealers, secured by stocks and bonds, made by reporting member banks in New York City, by weeks.....	164
No. 75. Brokers' borrowings, 1933-34.....	165
BANKERS' ACCEPTANCES AND COMMERCIAL PAPER OUTSTANDING:	
No. 76. Dollar bankers' acceptances and commercial paper outstanding, 1928-34.....	165
No. 77. Dollar bankers' acceptances held by group of accepting banks, 1927-34.....	166
BANK DEBITS:	
No. 78. Debits to individual accounts, by banks in 141 principal cities, by months, 1925-34.....	166
BANK SUSPENSIONS:	
No. 79. Banks suspended and reopened, by years, 1921-32.....	167
No. 80. Number, classified according to capital stock and size of community, 1921-32.....	167
No. 81. Banks suspended, by districts and by States, Jan. 1-Mar. 15, 1933.....	168
No. 82. Licensed banks suspended, by districts and by States, in 1933 and 1934.....	169
No. 83. Nonlicensed banks placed in liquidation or receivership, by districts and by States, Mar. 16-Dec. 31, 1933.....	170
No. 84. Nonlicensed banks placed in liquidation or receivership, by districts and by States, in 1934.....	171
No. 85. Number of banks licensed and not licensed, by districts and by States, on Apr. 12, 1933.....	172
No. 86. Deposits of banks licensed and not licensed, by districts and by States, on Apr. 12, 1933.....	173
No. 87. Number of banks licensed and not licensed, by districts and by States, on Dec. 31, 1934.....	174
No. 88. Deposits of banks licensed and not licensed, by districts and by States, on Dec. 31, 1934.....	175
No. 89. Number and deposits of licensed and unlicensed member and nonmember banks.....	176
CHANGES IN MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM:	
No. 90. Changes, by class of bank, in 1933 and 1934.....	177
EARNINGS, EXPENSES, AND DIVIDENDS OF MEMBER BANKS:	
No. 91. Earnings, expenses, dividends, and operating ratios, 1925-33.....	178-179
BUSINESS CONDITIONS	
CAPITAL ISSUES AND SECURITY PRICES:	
No. 92. Capital issues, 1919-34.....	183
No. 93. Security prices, 1919-34.....	184
No. 94. Bond yields, 1919-34.....	185
INDEX NUMBERS OF PRODUCTION, EMPLOYMENT, TRADE, AND PRICES:	
No. 95. Production, employment, and trade, 1919-34.....	186-191
No. 96. Production of manufactures, by groups, 1919-34.....	192
No. 97. Production of minerals, by industries, 1919-34.....	192

VIII ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

APPENDIX

	Page
Recommendations (and directory) of the Federal Advisory Council.....	201-205
Directory of the Federal Reserve Board.....	206
Salaries of officers and employees of the Federal Reserve Board.....	206-209
Receipts and disbursements of the Federal Reserve Board.....	210-211
Governors and directors of Federal Reserve banks.....	212-215
Salaries of officers and employees of Federal Reserve banks.....	216
State bank and trust company members of Federal Reserve System:	
List of members, with location, loans, investments, etc.....	216-232
Summary classification according to capital stock.....	233-235
Fiduciary powers granted to national banks.....	236-255
Description of Federal Reserve districts.....	256-261
Description of Federal Reserve branch territories.....	262-263
Map of Federal Reserve districts.....	264

LETTER OF TRANSMITTAL

FEDERAL RESERVE BOARD,
Washington, June 24, 1935.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

Pursuant to the requirements of section 10 of the Federal Reserve Act, I have the honor to submit the Twenty-first Annual Report, prepared by direction of the Federal Reserve Board, covering operations during the calendar year 1934.

Yours respectfully,

M. S. ECCLES, *Governor.*

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

Outstanding developments in the monetary and banking field in 1934, the year covered by this the Twenty-first Annual Report of the Federal Reserve Board, were revaluation of gold at a rate of \$35 per ounce; a large volume of gold imports; expansion of bank deposits, reflecting chiefly Government spending; and further progress in the work of rehabilitating the banking structure. As a result of large gold imports during the year, reserve balances held by member banks of the Federal Reserve System rose to a new high level. Notwithstanding an increase in reserves required as a result of the increase in deposits, balances held by member banks in excess of requirements rose to the highest level on record.

Federal Reserve bank holdings of United States Government securities remained unchanged during the year, while their holdings of discounts and acceptances declined to a small figure, reflecting the abundance of reserves which enabled member banks to repay borrowings at the Reserve banks and created a market outside of the Reserve banks for all available acceptances.

In line with general declines in money rates, most of the Federal Reserve banks reduced their discount rates in the early part of 1934 and again in the last few weeks of that year or the early weeks of 1935. On February 1, 1935, the rates were $1\frac{1}{2}$ percent at 1 Reserve bank, 2 percent at 7 banks, and $2\frac{1}{2}$ percent at 4, whereas at the beginning of 1934 the established rates ranged from 2 percent to $3\frac{1}{2}$ percent, with 5 banks at the highest of these levels. In December the Federal Reserve Board fixed at $2\frac{1}{2}$ percent the maximum rate of interest that member banks may pay on time and savings deposits after January 31, 1935. This was a reduction from 3 percent, the rate in effect since November 1933.

Developments in 1934 were all in the direction of easier credit conditions. The expansion in excess reserves during the year, which was caused chiefly by gold imports, was not accompanied by an increase in bill or security holdings of the Federal Reserve banks that could be sold for the purpose of absorbing the excess reserves, if that should become desirable. With this limitation on the System's power to reduce member bank reserves by the sale of assets in the open market, the System's ability to restrict credit expansion, if it should become excessive, rests chiefly on new powers conferred upon

it by recent legislation. Among these are the power in an emergency and with approval of the President to raise reserve requirements of member banks, provided in the act of May 12, 1933; authority to restrain speculative activities of member banks under different provisions of the Banking Act of 1933; and control of margin requirements on security loans by brokers and by banks, granted by the Securities Exchange Act of 1934.

Duties and activities of the Board and of the Federal Reserve banks have been considerably enlarged by legislation passed during recent years, and a large part of the work of the System in 1934 arose out of this new legislation. These additional duties were imposed by the Banking Act of 1933, the Securities Exchange Act of 1934, and an act permitting direct loans for industrial purposes by Federal Reserve banks.

Federal Reserve banks were authorized by an act of Congress approved June 19, 1934, to make advances within prescribed limitations for the purpose of providing working capital to established industrial and commercial enterprises. Special efforts were made by the Federal Reserve banks to discover needs for such loans and to give prompt attention to applications. By the end of the year more than \$50,000,000 of applications for advances and for commitments to make advances had been approved by the Federal Reserve banks, \$15,000,000 had been disbursed under these approved applications, and \$10,000,000 of commitments were outstanding.

The Banking Act of 1933 increased in various respects the scope of the Federal Reserve Board's authority over the activities of member banks. Under this act holding company affiliates of member banks are required to obtain from the Board permits to vote stock in member banks; as a consequence of broadening the scope of the provisions of the Clayton Act governing interlocking directorates the Board was required to pass upon a largely increased number of applications; and it was also required to pass upon interlocking directorates and correspondent relationships between member banks and dealers in securities. Many questions arising in connection with the separation of security company affiliates from banks have been referred to the Federal Reserve banks and to the Board. Examinations and other preparations were made by the Board and Federal Reserve agents, under provisions of the Banking Act of 1933, to certify State member banks for participation in the permanent plan of the Federal deposit insurance fund, but in view of the extension of the temporary deposit insurance fund for 1 year the Board was not called upon for such certifications in 1934. A number of private banks, subject to examination under the Banking Act of 1933, have elected to be examined by Federal Reserve banks.

The Securities and Exchange Act imposed new duties on the Federal Reserve Board in connection with the fixing of margin requirements and the regulation of loans made for the purpose of purchasing and carrying securities. In September the Board issued a regulation (regulation T) on this subject.

In addition to these new activities of the Board it has had to pass upon numerous reorganizations of member banks and applications for reduction of capital stock. Reorganizations of national banks have often necessitated new applications to the Board for the performance of trust powers. Performance of fiscal agency and other duties for the United States Treasury Department and various governmental credit agencies also increased the work of the Federal Reserve banks in 1934.

By the end of 1934 banks closed during the bank holiday in March 1933 had nearly all been licensed to resume operations, reorganized, or placed in the hands of receivers for liquidation. The number of active banks belonging to the Federal Reserve System increased in 1934 by 431, in consequence of the licensing of additional banks, the organization of new national banks, and the entrance of nonmember banks into the System. The reopening of banks was facilitated by purchases of preferred stock and capital notes and debentures by the Reconstruction Finance Corporation, and the Corporation also hastened the paying off of depositors of closed banks by making loans on the remaining assets of these banks. The number of suspensions of licensed banks in 1934 was smaller than for any year since 1920. During the year most of the commercial banks in the country became members of the Federal Deposit Insurance System.

Under the terms of the Gold Reserve Act of 1934, on January 30 title to all gold held by the Federal Reserve banks was transferred to the United States Government at a valuation of \$20.67 an ounce in exchange for an equivalent amount of gold certificates. On January 31 the President by proclamation reduced the weight of the gold dollar from 25.8 grains to 15 $\frac{1}{2}$ grains of gold nine-tenths fine, thereby establishing the gold content of the dollar at 59.06 percent of its former weight and raising the price of gold from \$20.67 to \$35 a fine ounce. The resulting increase in the value of gold held by the United States, amounting to about \$2,800,000,000, accrued to the Treasury. The Secretary of the Treasury announced that beginning February 1 he would be prepared until further notice to purchase gold and under certain conditions to sell gold for export at the new price.

As a result of revaluation of the dollar, of the inclusion of gold purchased in previous weeks by the Government, and of large gold imports after January, the monetary gold stock of the United States increased in 1934 by \$4,200,000,000. Imports of gold from abroad

reflected in part an excess of merchandise exports and in part a flow of capital to this country.

Member bank reserve balances increased by about \$1,400,000,000 during the year, of which \$450,000,000 was absorbed in meeting increased reserve requirements arising from the growth in bank deposits. Reserves in excess of legal requirements rose to nearly \$1,800,000,000, an increase of about \$950,000,000 during the year.

Member banks employed a part of their available funds in increasing their investments, principally their holdings of United States Government securities. Holdings of open-market commercial paper and acceptances also increased somewhat, but repayment of customers' loans continued to exceed new loans made.

Deposits at member banks, exclusive of interbank and United States Government deposits, increased by about \$4,000,000,000 during 1934. The increase in deposits, other than bankers' deposits, was relatively larger at banks in small towns and in the agricultural sections of the country than at banks in larger cities. Country banks, however, having no direct access to the open market, held a larger proportion of their new deposits as idle balances, while city banks invested a somewhat larger proportion of the increase in their deposits in Government securities and open-market paper.

The abundance of funds seeking employment was reflected in continued declines in interest rates, which at the beginning of 1934 were already at exceptionally low levels. Open-market rates on 90-day bankers' acceptances declined to one-eighth of 1 percent, and rates charged customers by banks in financial centers throughout the country declined to new low levels for the post-war period. Yields on long-term Treasury bonds declined to below 3 percent and yields on high-grade corporate bonds were at approximately the lowest levels of this century.

New issues of corporate securities continued to be in small volume during 1934. Issues by States and local governments increased considerably and were substantially larger than in 1933 and somewhat larger than in 1932. Issues by the Federal Government and its agencies were larger than in any year since the war, far exceeding in amount all other new securities offered in the year. Prices of high-grade bonds advanced, while stock prices showed little change.

Volume of production and trade for the year 1934 as a whole was larger than in 1933 and at the end of the year was at a higher level than at the beginning. Output of industrial products and employment in factories showed wide fluctuations during the year, although the movements were narrower than in 1933. Crop production, which had been relatively well maintained throughout the depression, showed a marked reduction in 1934 as a consequence of prolonged drought and of acreage reductions, but with higher prices, increased marketings of livestock, and Govern-

ment rental and benefit payments farm income was larger than in 1933. Construction work on public projects showed a considerable increase, while private construction continued in small volume. Retail trade increased in the course of the year and was considerably larger in rural areas than in 1933. Wholesale prices of agricultural products and foods advanced sharply in 1934, as in 1933, while prices of other commodities showed little change from the level reached at the end of 1933, which was higher than at the beginning of that year.

GOLD AND SILVER IN 1934

Important factors in the monetary situation in 1934 were legislative enactments and administrative measures in reference to gold and silver. Among these were the enactment of the Gold Reserve Act, the subsequent revaluation of the dollar, the passage of the Silver Purchase Act, and the acquisitions of silver under authority of this act.

The provisions of the Gold Reserve Act of 1934 are summarized in a subsequent section of this report. The act was passed and approved on January 30, 1934, and on that date title to gold held by the Federal Reserve banks was transferred to the United States Government.

The President's proclamation of January 31, 1934.—By virtue of the powers granted in the act approved May 12, 1933, as amended by the Gold Reserve Act of 1934, the President issued a proclamation on January 31, reducing the weight of the gold dollar from 25.8 grains to 15½ grains of gold nine-tenths fine. In the proclamation the President reserved the right, within the limits prescribed by the law, to alter or modify the weight of the gold dollar as the interest of the United States might require. On January 31 the mints were authorized by the Treasury regulations issued under the Gold Reserve Act of 1934 to purchase (a) gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof, which shall not have entered into monetary or industrial use, (b) unmelted scrap gold, and (c) gold imported into the United States after January 30, 1934. Purchases were to be made at the rate of \$35 per fine troy ounce less a handling charge of ¼ percent and the usual mint charges. The Secretary of the Treasury stated that whenever our exchange rates with gold standard currencies should reach the gold export point he would, until further notice, also sell gold for export to foreign central banks at the rate of \$35 per fine troy ounce plus a handling charge of ¼ percent. Most of the purchases of imported gold as well as sales of gold for export were to be made through the Federal Reserve Bank of New York as fiscal agent of the United States.

Increase in monetary gold stock of the United States.—Reduction in the gold content of the dollar immediately increased the value of the reported gold holdings of the Treasury by approximately \$2,800,-

000,000. At the same time the reported monetary gold stock of the country was further increased by the addition of about \$200,000,000 of gold purchased by the Government in connection with its gold-buying program of previous months. At the outset these increases in the gold stock of the country were retained as an addition to the cash holdings of the Treasury and had no effect upon Federal Reserve bank or member bank reserves. During the remainder of the year, however, the Treasury transferred some of this additional gold to the Federal Reserve banks in the form of gold certificate credits, thus increasing its deposits with Federal Reserve banks. As these deposits were reduced by Treasury expenditures in the course of the year, member banks obtained additional reserve funds.

In the months following revaluation there were large imports of gold, as well as substantial purchases of newly produced and other domestic gold. In the course of the year the gold stock was increased by a total amount of \$4,202,000,000, comprising the increment of \$2,812,000,000 resulting from revaluation, \$1,217,000,000, of net imports and releases from earmark, including imports of gold purchased by the Government prior to January 31, 1934, and \$174,000,000 obtained from production, Government holdings in this country not previously reported, return of coin by the public, purchases of scrap, old gold, and the like.

There were substantial changes in the distribution of the monetary gold stock during the year, as shown in the table below. The Treasury turned over \$2,000,000,000 of the increment resulting from reduction in the gold content of the dollar to the exchange stabilization fund and placed \$812,000,000 in a special balance held separately as a part of the general fund. Subsequently, \$200,000,000 of gold from the exchange stabilization fund was deposited by the Treasury with the Federal Reserve Bank of New York for use by the fund and about \$8,000,000 from the \$812,000,000 balance was transferred to the Federal Reserve banks under section 13b of the Federal Reserve Act, which authorized the Secretary of the Treasury to pay to the Federal Reserve banks certain amounts against advances and commitments to provide working capital for industrial and commercial concerns.

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

CHANGES IN DISTRIBUTION OF MONETARY GOLD STOCK, 1934

[In millions of dollars; at value of \$20.67 per fine ounce on Dec. 30, 1933, and \$35 per fine ounce on Dec. 31, 1934]

	Dec. 30, 1933	Dec. 31, 1934	Change in 1934
Total monetary gold stock.....	4,036	8,238	+4,202
Federal Reserve gold and gold-certificate reserves ¹	3,569	5,143	+1,574
Gold certificates in circulation.....	213	180	-33
Gold coin in circulation ²	34		-34
Reserves held by Treasury against United States notes and Treasury notes of 1890.....	156	156	
Exchange stabilization fund.....		1,800	+1,800
Gold in general fund of Treasury ³	74	1,008	+934
Held against specific liabilities ⁴	46	27	-19
Balance of increment obtained from reduction in weight of dollar ⁵		804	+804
Other.....	29	177	+148

¹ Gold and gold certificates on hand and due from United States Treasury plus redemption fund against Federal Reserve notes.

² Excluding \$287,000,000 of gold coin reported as in circulation on Jan. 31, 1934; all gold stock and money in circulation figures since 1913 have been adjusted to exclude this amount. The \$24,000,000 represents the amount that returned from circulation in January 1934; all gold coin returned after Jan. 31, 1934, resulted in an increase in the gold stock.

³ Does not include gold held against gold certificates outstanding or gold certificates held in certain Federal Reserve accounts with the Treasury.

⁴ Amount held in addition to other lawful money against liabilities requiring reserves of lawful money.

⁵ Excluding \$2,000,000,000 transferred to exchange stabilization fund and \$1,000,000 transferred to Federal Reserve banks under section 13b of the Federal Reserve Act.

Return of gold certificates and gold coin from circulation and release of gold held in the general fund against specific liabilities provided an additional amount of \$125,000,000 of gold available for use by the Treasury or for the Reserve banks' gold-certificate funds. As a result of the gold thus released, of that made available from the revaluation increment, imports, earmarked supplies, new production, and new monetary holdings of the public, Federal Reserve bank gold-certificate reserves and Treasury gold not reported as held in special balances showed a total increase of \$1,722,000,000. The increase in Reserve bank gold-certificate reserves amounted to \$1,574,000,000.

Gold imports.—Following revaluation of the dollar and announcement of the Treasury's willingness to buy and sell gold, there was a large flow of gold to the United States. Net imports in the year amounted to \$1,134,000,000 and net releases from earmark to \$83,000,000. Of the net imports \$500,000,000 came from England, \$260,000,000 from France, and the rest from Holland, Canada, India, Mexico, and other countries.

These imports of gold were, in considerable measure, an outcome of the definite fixation, at a lower value, of the dollar in terms of gold and foreign currencies. Definitive revaluation in January 1934 followed 9 months during which the prevailing tendency of the dollar on the exchanges was downward. The premium on foreign currencies after April 1933 was an inducement to American sales of merchandise in foreign markets and a corresponding discouragement to American purchases abroad. The tendency to increase the export

surplus in the country's merchandise trade with the world, however, was not immediately apparent, for the initial decline of the dollar in the spring of 1933 was accompanied by a wave of domestic buying that involved the purchase of foreign products as well. A rapid increase of imports at that time—chiefly in the form of raw materials—reversed the country's balance of trade for the period May through September as a whole. As the buying movement subsided, however, and the stimulus to American sales abroad began to have some effect in increased shipments of American manufactures and other products, the export surplus reappeared. By November 1933 it was on a considerable scale, and in the 12 months ending October 1934 the surplus of the country's merchandise trade with the world reached a figure of \$510,000,000 as compared with \$180,000,000 in the preceding 12 months. The increased demand for dollars to pay for this growing surplus of merchandise exports was more than offset in the closing months of 1933 and in January 1934 by gold purchases abroad for account of the Reconstruction Finance Corporation and the Treasury. Although these purchases served to balance the international transactions of the country, they had no immediate effect on member bank reserves since the funds employed were borrowed from the market. It was not until the new gold legislation in 1934 became effective that these purchases were taken up into monetary gold stock.

Under the Gold Reserve Act of 1934 and the President's proclamation of January 31 the international gold value of the dollar was fixed by administrative action somewhat below the level to which it had already fallen on the exchanges. The enlarged surplus of merchandise exports continued, and its effects were intensified to an important degree by a movement of capital to the United States. This movement was particularly great in the 2 months that followed establishment of a new gold level for the dollar. The \$650,000,000 of gold acquired by the Treasury at that time reflected for the most part a return of American funds from abroad and a movement of foreign capital into dollar balances and securities. Subsequently gold continued to move into the United States, although on a much diminished scale, until August when a moderate reversal of the movement occurred.

The interruption to the inward flow of gold appears to have been due in some measure to the more active silver policy adopted under the powers conferred by the Silver Purchase Act. This Act is discussed in a subsequent section. Following nationalization of silver on August 9 there was a temporary tendency for capital to move abroad, and American purchases of silver in London, Shanghai, and other centers, as evidenced by shipments to this country, attained a volume of about \$20,000,000 a month. For a time these factors were sufficient to carry gold out of the country; but the advent of the large surplus of

merchandise exports in the fall, when Europe was receiving little from American tourists, and the development of political difficulties in certain countries of the gold bloc, led to a further substantial movement of gold to the United States in the closing months of the year. Silver imports at this time were in diminished volume, China having suspended the free operation of the silver standard in October.

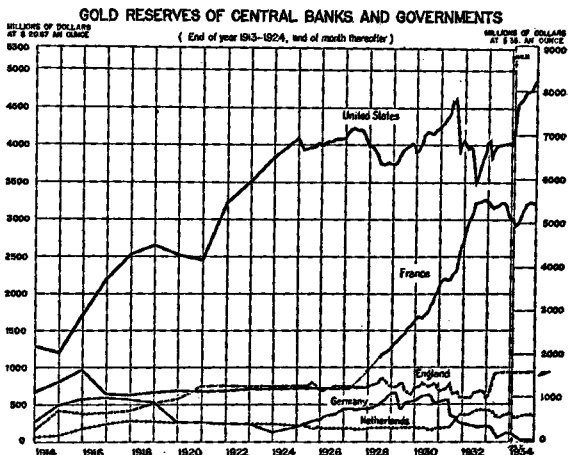
World gold reserves.—The increase in monetary gold stock of the United States during 1934 was not accompanied by a reduction in the aggregate of central bank reserves abroad. On the contrary, the reported gold reserves of foreign central banks and governments increased by \$130,000,000, valued at \$35 an ounce.

Additions to central gold reserves of the United States and other countries during 1934 came largely from the following sources, expressed in terms of the dollar at its new valuation: The total output of the world's gold mines in 1934 had a dollar value of \$940,000,000; gold dishoarded in the Orient during the year amounted to \$250,000,000; and about \$100,000,000 of domestic scrap gold from ornaments and other personal possessions and from industrial uses was sold to the United States Treasury in 1934. The combined total of scrap sold to the Treasury, gold released from oriental holdings, and world mining output thus accounts for about \$1,290,000,000 of the \$1,580,000,000 increase in reported gold reserves of central banks and governments of the world during 1934. The remainder, amounting to nearly \$300,000,000, affords a rough indication of the amount of gold coming out of unreported holdings in western countries. Included in unreported holdings are those of the British exchange equalization fund.

Although reported gold reserves of foreign countries as a whole increased somewhat during 1934, in a number of countries there were substantial declines. Reserves in Germany declined \$124,000,000; in Italy \$114,000,000; in the Netherlands \$54,000,000; in Belgium \$53,000,000; in Switzerland \$29,000,000; and in New Zealand \$16,000,000. Reserves in Czechoslovakia increased \$26,000,000; in Japan \$35,000,000; in the Union of Soviet Socialist Republics \$40,000,000; and in South Africa \$43,000,000. By far the largest increase, however, occurred in gold reserves of the Bank of France, which, notwithstanding considerable fluctuations, were \$333,000,000 larger at the end of the year than at the beginning. They were still, however, somewhat below the peak attained in December 1932.

Since the outbreak of the World War the greatest increases in gold reserves have been in the United States and France. The chart shows the movements in central gold reserves of five leading financial countries during a 20-year period. It is so arranged as to value reserves since January 1934 at \$35 an ounce and previously at \$20.67, without destroying the continuity of the series.

In the early years of the period gold holdings of the Federal Reserve banks were increased not only by gold imports but by the transfer of reserves from member bank vaults, and reserves of central banks in England, France, and Germany were increased by the recall of gold from monetary circulation to aid in prosecuting the war. Both the United States and the Netherlands received large amounts of gold during the war in payment for purchases of materials by the belligerents. In the early post-war period gold continued to flow to the United States, which occupied a creditor position and was the most important free market for the metal until the general return to the gold standard that began toward the end of 1924.



After de facto stabilization of the franc at the end of 1926, the gold movement for 5 years was predominantly toward France. The movement reflected the fact that France during the period of currency depreciation had experienced a continuous outflow of capital which had been balanced in her international payments by a large excess of exports over imports. When after de facto stabilization capital began to flow back to France, the Bank of France accumulated both gold and foreign exchange. The rapid increase in gold reserves of the Bank of France after England's departure from the gold standard in September 1931 reflected mainly the bank's conversion into gold of these previously acquired foreign exchange holdings in order to avoid further losses through currency depreciation abroad. The

increase at the same time of gold reserves in the Netherlands, Belgium, and Switzerland was in part of a similar character. Since the only important foreign exchange holdings on which central banks could freely realize were in New York, most of the gold acquired was drawn from the United States. The movements were concentrated in the fall of 1931 and the spring of 1932. From that time until the end of 1934 foreign countries added little gold to their reported holdings, while the United States gained large amounts of gold in the last half of 1932 and again in 1934.

Silver Purchase Act of 1934.—Monetary silver stock of the United States increased considerably in 1934. Most of the increase took place as a result of the Silver Purchase Act. The act, which became law on June 19, declared it to be the policy of the United States that the proportion of silver to gold in metallic monetary stocks in the United States be increased with the ultimate objective of having and maintaining one-quarter of the value of such stocks in silver. To attain this objective the Secretary of the Treasury was directed to purchase silver at home or abroad at such rates and at such times and upon such terms and conditions as he might deem reasonable and most advantageous to the public interest, provided, however, that no purchase should be made at a price in excess of the monetary value of the silver (approximately \$1.29 per fine ounce) and that no purchase of silver situated in the continental United States on May 1, 1934, should be made at a price in excess of 50 cents per fine ounce. The President was further given the power to order the delivery to the mints of any or all silver by whomever owned or possessed. Currency was to be exchanged for such silver to the amount of its monetary value, less such deductions for seigniorage and other charges as the President should approve, provided that in no case should the amount of currency exchanged be less than the value of silver at the time of the order as determined by the market price over a reasonable period of time.

Acting under these powers the President on August 9 ordered that with certain exceptions all silver situated in the United States on that date should be delivered to the mints within 90 days in exchange for currency at the rate of approximately 50 cents per fine ounce of silver. Among the types of silver to which the order did not apply were silver held for industrial, professional, and artistic use, and silverware; as well as newly mined domestic silver not subsequently processed to a fineness of over 0.8, which could be sold to the mints at 64½ cents under the President's proclamation of December 21, 1933. Through January 4, 1935, silver with a net cost value of about \$56,000,000 had been turned in under the nationalization order. Other operations under the Silver Purchase Act are not reported separately, but from the time of the nationalization order to the end of the year there were

net imports of silver into the United States costing about \$74,000,000. In addition, during 1934 silver with a net cost value of about \$14,000,000 was acquired by the Treasury from domestic mines. Against the cost of the silver acquired from such sources and against silver held in the Treasury on June 14 with a monetary value of about \$80,000,000, the Treasury issued silver certificates and a small amount of coin. Certificates outstanding increased from less than \$500,000,000 at the beginning of the year to \$700,000,000 at the end. Silver certificates and coin combined increased by \$225,000,000.

ALTERED RESERVE SITUATION IN 1934

Largely as a result of the inflow of gold, member bank reserve balances, which at the end of 1933 were nearly \$400,000,000 larger than in 1929, were further increased by about \$1,400,000,000 in 1934. At the end of the year reserve balances held by member banks totaled \$4,100,000,000, the largest amount ever held, and were \$1,800,000,000 in excess of requirements.

Factors in growth.—The table shows the principal factors that influenced the volume of member bank reserve balances and their changes during the 4 years from the end of 1929 to the end of 1933 and also during the year 1934. The table is arranged to bring out the fact that increases in Reserve bank credit, in gold stock, and in Treasury and national bank currency outstanding have the effect of increasing the supply of funds available for bank reserves, while decreases in these items reduce this supply. Increases in money in circulation, in Treasury cash and deposits with Federal Reserve banks, in nonmember deposits at Federal Reserve banks, and in other Federal Reserve accounts, on the other hand, reduce, and decreases in these items increase, the supply of funds available for bank reserves. The chart shows weekly movements of these various items during the past 6 years.

FACTORS INFLUENCING MEMBER BANK RESERVES

[In millions of dollars]

	Dec. 31, 1929, to Dec. 30, 1933		Dec. 30, 1933, to Dec. 31, 1934	
	Changes that added to reserves	Changes that reduced reserves	Changes that added to reserves	Changes that reduced reserves
Items, increases in which add to reserves:				
Reserve bank credit.....	+1,105			-225
Monetary gold stock.....	+39		+4,202	
Treasury and national bank currency.....	+281		+210	
Items, increases in which reduce reserves:				
Money in circulation.....		+941		+18
Treasury cash and deposits with Federal Reserve banks.....		+42		+2,863
Nonmember deposits.....		+102		+37
Other Federal Reserve accounts.....		-53	-119	
Total.....	1,465	1,086	4,531	2,165
Net change in member bank reserve balances.....	+374		+1,367	

¹ Including increment of \$2,812,000,000 resulting from reduction in the weight of the gold dollar.

The expansion of reserves during the 4 years of depression—1930-33—occurred in the face of a net withdrawal by the public of about \$900,000,000 of currency from the banks and repayment by the banks of over \$500,000,000 borrowed from the Federal Reserve banks in the preceding period of activity. That member bank reserves had

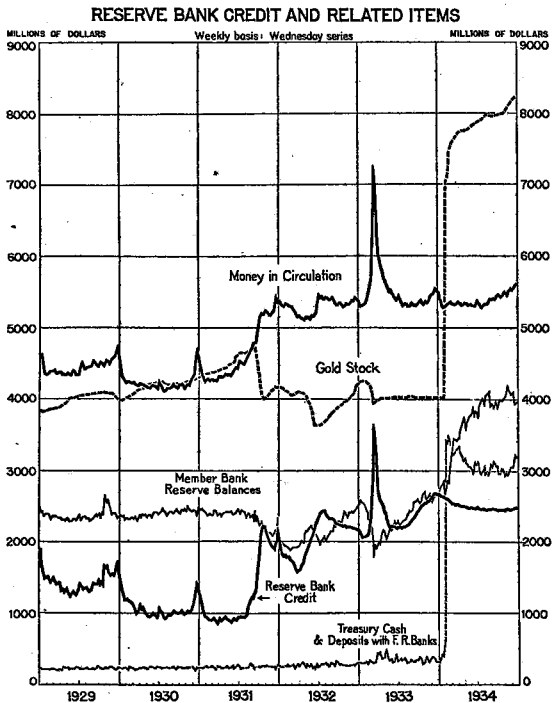


Figure for money in circulation and gold stock do not include \$287,000,000 of gold coin reported as in circulation prior to January 31, 1934.

nevertheless increased above the levels of 1929 was attributable to the open-market operations of the Federal Reserve banks. With a view to establishing and maintaining easy money conditions, the Federal Reserve banks had increased their holdings of United States Government securities by the end of 1933 to \$2,400,000,000.

During 1934 there were no further open-market purchases of securities by the Federal Reserve banks; yet member bank reserves were increased by a larger amount than in the preceding 4 years to a level about 70 percent higher than in the years of active business before the depression. In addition, funds were created in the Treasury by operations under gold and silver legislation during the year. This growth of reserves in 1934 largely resulted from the increase in gold stock described in the previous section and, in contrast with increases in reserves in the preceding 4-year period, occurred without any expansion in the holdings of securities by the Federal Reserve banks. With the reserve funds obtained from gold imports member banks were able to pay off practically all of their remaining borrowings at the Federal Reserve banks, and banks and private lenders also absorbed all of the bankers' acceptances on the market, with the consequence that Reserve bank holdings of acceptances declined to a small volume.

Member bank excess reserves.—As a result of the increase in reserve balances during 1934 excess reserves of member banks rose to new record levels. At the close of 1933 excess reserves amounted to about \$850,000,000. During 1934 member bank reserve balances increased by approximately \$1,400,000,000, but since reserve requirements increased \$450,000,000 the actual rise in excess reserves amounted to \$950,000,000, bringing the total volume of excess reserves at the end of the year to \$1,800,000,000. Weekly fluctuations in the volume of excess reserves in recent years are shown on the chart.

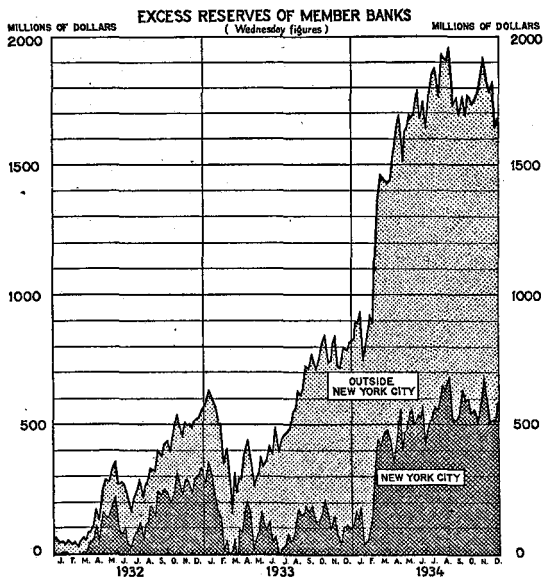
In August excess reserves at times amounted to over \$1,900,000,000, but declined somewhat in the autumn. At the end of December

EXCESS RESERVES OF MEMBER BANKS
(In millions of dollars)

	Dec. 31, 1933	Dec. 31, 1934	Increase
New York City banks.....	186	665	469
Chicago banks.....	194	215	21
Other reserve city banks.....	276	444	168
Country banks.....	201	266	65
All member banks.....	857	1,791	934

reserve balances actually held by member banks were almost as large as at the peak in August, reflecting additions to the supply of reserve funds resulting from gold imports and silver purchases, which were offset by a seasonal increase in money in circulation and by an increase in Treasury holdings of cash and deposits with Federal Reserve banks. The decline in excess reserves after August resulted from an increase in required reserves, which reflected a considerable expansion in member bank deposits.

Excess reserves continued to be well distributed among the major groups of banks in the country. About \$650,000,000 were held by New York City banks, \$760,000,000 by banks in Chicago and other reserve cities, and \$370,000,000 by country banks. The largest increase in the year—\$500,000,000—occurred at New York City banks, reflecting in large part the increased holdings by banks in New York of balances for other banks. Holdings of excess reserves



Figures for banks outside New York City partially estimated.

by class of banks, as reported on member bank condition statements as of the end of 1933 and 1934, are shown in the accompanying table.

Substantial increases in excess reserves occurred at member banks in all Federal Reserve districts. The largest relative increases were in the Boston, New York, and Philadelphia districts. The smallest increases occurred in the Atlanta, Chicago, and St. Louis districts. As shown in a subsequent section of this report many of the interior banks increased their balances due from other banks during the year. Thus city banks in effect were holding some of the excess reserves of the country banks.

Money in circulation.—The amount of money in circulation showed little net change for 1934 as a whole, and fluctuations during the year were more in accordance with the usual seasonal pattern than at any time since the latter part of 1930. There were, however, changes in the composition of money in circulation by denominations and by kinds of money. Currency continued to return from hoarding in 1934, though in smaller volume than during the latter part of 1933, and this return flow was offset by a growing demand for currency for active use, reflecting partly an increase in wage payments and retail trade and partly a tendency to use cash rather than checks as a consequence of the tax on checks and increased service charges on checking accounts.

Although there was a considerable reduction in the amount of hoarded currency in 1934, the amount of currency not in active use continued at a high level. An indication of the continued return of currency from hoarding is contained in the data for large denominations. Currency with denominations of \$20 and over declined by \$120,000,000 during the year. The smaller denomination currency, on the other hand, and also subsidiary silver and minor coin showed a net increase for the year. The following table shows by denominations the amount of paper currency outside of Federal Reserve banks and Treasury offices. Figures for December 31, 1934, are compared with those for October 31, 1930, just prior to the large increase in hoarded currency, as well as with those for December 30, 1933.

DENOMINATIONS OF PAPER CURRENCY OUTSIDE OF FEDERAL RESERVE BANKS AND TREASURY ¹

[In millions of dollars]

Denomination	Dec. 31, 1934	Change since—	
		Oct. 31, 1930	Dec. 30, 1933
\$1.....	423	+34	+21
\$2.....	32	-11	-1
\$5.....	771	+110	+82
\$10.....	1,298	+250	+50
\$20.....	1,228	-77	-16
\$50 and over.....	1,254	-610	-106
Total.....	6,086	+1,274	+10

¹ Includes also holdings of unsorted currency in Federal Reserve banks and Treasury amounting to \$104,000,000 on Oct. 31, 1930, to \$9,000,000 on Dec. 30, 1933, and to \$11,000,000 on Dec. 31, 1934.

In the 4-year period the \$1 bills showed an increase of 9 percent and \$5 bills showed an increase of 17 percent. The larger denominations, however, all showed increases which ranged from about 25 percent in the case of \$10 and \$20 notes to about 95 percent for notes in denominations of over \$50. A portion of the increase in smaller denomination currency is probably attributable to a growth

in the demand for currency as a result of the lack of banking facilities in some communities, as well as to other factors causing an increase in the use of currency instead of checks. A portion also probably reflects a continuance of hoarding, and it is likely that most of the increase in currency in denominations of \$20 and over reflects the hoarding influence.

There was also some shift during 1934 in the kinds of currency in circulation. Reductions of about \$100,000,000 each occurred in gold certificates, Federal Reserve bank notes, and national bank notes. The decline in gold certificates represented a continuation of their retirement from circulation under Treasury order, Federal Reserve bank notes were retired by the Reserve banks with the passing of the emergency which occasioned their issue, and the decline in national bank notes reflected the fact that national banks, having a large volume of excess reserves, had no incentive for incurring the expense, including the $\frac{1}{2}$ percent tax, of keeping their notes outstanding. The reduction in these classes of currency was partly offset by an increase of nearly \$200,000,000 in silver certificates and of more than \$100,000,000 of Federal Reserve notes in circulation.

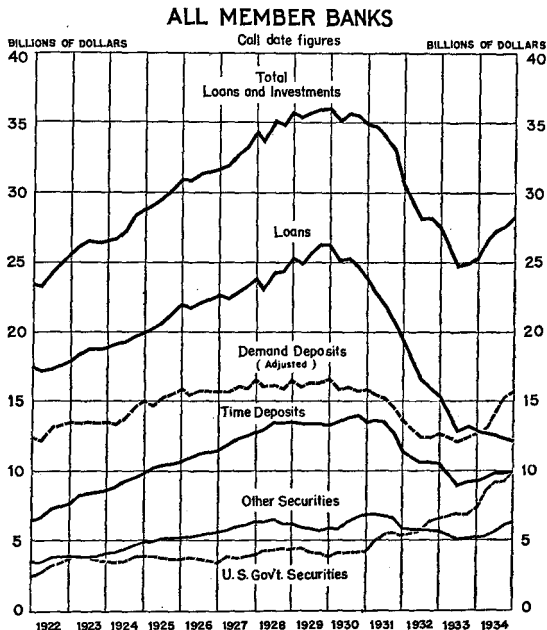
MEMBER BANK CREDIT

On the basis of the increased reserves received in 1934, member banks further increased their investments. The increase was principally in holdings of Government securities, and the funds thus supplied, after being expended by the Government, were used either to repay bank loans or were deposited at banks.

At the end of the year total deposits of all member banks were larger than at any time since the autumn of 1931, while total loans and investments were larger than at any time since the first half of 1932. The increase in loans and investments was not so large as that in deposits, owing principally to the fact that banks held a larger portion of their funds in the form of excess reserves. Country and reserve city banks also increased their balances with other banks, and the growth in interbank deposits comprised a large part of the increase in total deposits. Although city banks showed relatively larger increases in investments, country banks in rural areas reported proportionately larger increases in deposits, reflecting principally distribution of funds throughout the country by Treasury expenditures, as well as the increase in agricultural income in 1934.

Loans and investments.—Changes in loans and investments of member banks during 1934 are shown in the following table and changes from the beginning of 1922 are shown on the chart. The

including those guaranteed as to principal only as well as those guaranteed as to interest and principal. The guaranteed obligations were in part purchased and in part obtained in exchange for mortgage loans. Holdings of other securities also showed some increase. The decrease in loans reflected declines in loans to banks and to other



Figures taken from the condition reports of all member banks and beginning June 30, 1933. Include licensed banks only. Demand deposits adjusted are derived by subtracting checks and other cash items reported as on hand or in process of collection from demand deposits, including in demand deposits certified and officers' checks and cash letters of credit and travelers' checks outstanding but excluding interbank deposits and United States Government deposits.

customers, while holdings of open-market commercial paper and acceptances increased. Customers' loans made primarily for business purposes showed an increase of \$230,000,000 in the third quarter of the year and a corresponding decrease in the last quarter. These changes were largely of a seasonal nature and occurred at city banks.

LOANS AND INVESTMENTS OF MEMBER BANKS

[In millions of dollars]

	Dec. 30, 1933	Dec. 31, 1934	Change in 1934
Loans and investments—total.....	26, 220	28, 150	+2, 930
Loans—total.....	12, 833	12, 028	-805
Open-market loans.....	1, 231	1, 363	+132
Loans to banks.....	287	155	-132
Loans to other customers.....	11, 315	10, 509	-806
U. S. Government direct obligations.....	7, 254	9, 906	+2, 652
Securities fully guaranteed by U. S. Government.....	1 100	363	+263
Other securities.....	5, 032	5, 227	+195

¹ Actual holdings by banks not reported as of Dec. 30, 1933, figure shown represents approximate amount of Reconstruction Finance Corporation notes outstanding, excluding notes given in purchase of gold which amounted to about \$30,000,000 on Dec. 30, 1933, and were retired Feb. 1, 1934.

² Includes \$11,000,000 of securities guaranteed as to interest but not as to principal by the U. S. Government.

Growth in deposits.—During 1934 total deposits at member banks showed an increase of about \$6,700,000,000, to an aggregate of approximately \$33,850,000,000. A substantial part of the increase during the year represented a growth in interbank balances and United States Government deposits, and in addition at the end of 1934 checks on other banks and other items in process of collection held by banks were, largely for temporary reasons, considerably larger in amount than at the end of 1933. When adjustment is made for increases in these items, the growth of customers' deposits during the year amounted to about \$4,000,000,000. The aggregate of deposits thus adjusted was approximately \$25,000,000,000, as compared with about \$21,000,000,000 on December 30, 1933, and was larger than that for any report date since the autumn of 1931. In 1929 and 1930 the corresponding figure was close to \$30,000,000,000. A small part of the increase in deposits since 1933 reflects additions to membership in the Federal Reserve System. Changes during 1934 in various types of deposits are shown in the following table.

DEPOSITS AT MEMBER BANKS

[In millions of dollars]

	Dec. 30, 1933	Dec. 31, 1934	Change in 1934
U. S. Government.....	967	1, 635	+668
Postal Savings.....	778	463	-315
Interbank balances ¹ (United States and foreign).....	3, 586	4, 935	+1, 349
States, counties, and municipalities.....	1, 520	2, 094	+574
Other customers:			
Demand.....	12, 109	14, 951	+2, 842
Time.....	7, 957	9, 020	+1, 063
Certified and officers' checks, cash letters of credit, and travelers' checks outstanding.....	339	790	+451
Total deposits.....	27, 167	33, 848	+6, 681
Adjusted deposits ²	20, 893	24, 932	+4, 039

¹ Includes both demand and time deposits.

² All deposits, other than U. S. Government, Postal Savings, and interbank deposits, minus checks and other cash items reported as on hand or in process of collection.

The largest element in the growth in deposits in 1934 was in demand deposits of customers other than banks or governments. These deposits showed an increase of \$2,840,000,000, a part of which represented checks in process of collection, while time deposits of the same group of customers increased in the year by about \$1,060,000,000. United States Government deposits with member banks showed an increase of nearly \$670,000,000 in the year, while Postal Savings deposits were decreased by \$325,000,000, reflecting the unwillingness of some banks to hold such deposits, largely because of the rate of interest required to be paid on them. Deposits of States, counties, and municipalities increased by about \$470,000,000. There was an increase of \$1,500,000,000 in balances due to banks, which at the end of the year aggregated nearly \$4,900,000,000, the largest amount ever reported. This increase, nearly all of which occurred in balances payable on demand, occurred notwithstanding the prohibition against the payment of interest on demand deposits, and represented further accumulation of idle funds by banks.

Factors in growth of deposits.—The most important factors in the increase in deposits during the year were Treasury expenditures, which were made from funds raised by the sale of securities to banks, by the deposit with the Reserve banks of gold certificates based on newly acquired gold, and by the issuance of silver certificates. The Treasury during 1934 purchased about \$1,400,000,000 of gold and \$200,000,000 of silver. The sale of this gold to the Treasury, which paid for it by drafts on the Reserve banks, increased member bank reserve balances. Except to the extent that gold purchases abroad by importers of the gold were paid for by drawing down balances held abroad by banks in this country, the increase in the gold stock resulted in an increase in deposits at commercial banks. In connection with the silver purchases, silver certificates were issued in an amount corresponding approximately to the purchase price of the silver bought, and these certificates were either paid into circulation directly by the Treasury or deposited with the Reserve banks. In the former case deposit of an equivalent amount of currency at member banks and by them at the Reserve banks, and in the latter case the expenditure of the Treasury balance with the Reserve banks, resulted in an increase of deposits and of reserves of member banks.

In addition to deposits created by Government purchases of the precious metals, additional deposits resulted from sales of United States Government obligations to banks and the subsequent disbursement of the funds by the Treasury. As previously shown, member bank holdings of direct obligations of the Government increased by \$2,650,000,000 during the year. Purchases of Home Owners' Loan Corporation bonds and Federal Farm Mortgage Corporation bonds by

banks gave new funds to former holders, who had mostly received the bonds in exchange for outstanding mortgage loans.

Deposits by classes of banks and by districts.—Although the growth in deposits at member banks during 1934 was spread throughout the country, there were differences in changes at various classes of banks, largely as a result of the Treasury in effect borrowing from banks in one locality and expending the money and thus creating deposits in other sections of the country. Deposits created in this manner, however, did not always return to the banks that purchased the securities. The following table shows increases during 1934 in deposits at member banks in New York City, in other reserve cities, and elsewhere. New York City banks showed proportionately the largest increases in total deposits, but in the adjusted customers' deposits the increase was greatest at country banks. Country banks in places with a population of under 15,000 in 21 agricultural States showed an increase of 26 percent in deposits, as compared with an increase of 17 percent at other country banks and of 21 percent at reserve city banks (including central reserve city banks in Chicago).

GROWTH OF DEPOSITS AT MEMBER BANKS IN 1934, BY CLASSES OF BANKS

	Increase (in millions of dollars)		Percent of increase	
	Total deposits	Adjusted deposits ¹	Total deposits	Adjusted deposits ¹
All member banks.....	6,681	4,059	25	19
New York City banks.....	2,228	705	31	34
Other reserve city banks.....	2,797	1,817	24	21
Country banks.....	1,656	1,537	20	21

¹ All deposits other than United States Government, Postal Savings, and bankers' deposits, minus checks and other cash items, reported as on hand or in process of collection.

Although country banks showed a larger increase in adjusted customers' deposits in 1934 than did city banks, the net decline since 1929 was much larger in the case of country banks, amounting to about 27 percent as compared with a net decline of about 7 percent for all central reserve and reserve city banks. This difference was due in part to the larger volume of failures among country banks since 1929, and some of the increase in deposits at country banks in 1934 was due to the reopening of a number of unlicensed banks which were not included in the reports for 1933.

By geographical areas, the largest increases during 1934 in the adjusted customers' deposits occurred in the Chicago, Atlanta, Cleveland, Minneapolis, and Kansas City districts, while the smallest were in the New York, Boston, and Philadelphia districts. In nearly all districts country banks showed larger increases in deposits than did

city banks. More detailed information by localities indicates that deposits expanded most at rural banks in the Corn Belt and the eastern cotton- and tobacco-growing States. In the States most affected by drought, increases among rural banks were relatively smaller, although in most cases substantial.

These regional differences in the growth of deposits reflect largely the influence of Treasury operations, together with increased agricultural income and increased activity in certain industries during the year. The Treasury raised more funds in the larger cities than it expended in those cities, while in the predominantly rural regions Treasury disbursements were considerably in excess of receipts. The excess of Treasury disbursements over receipts was in the neighborhood of \$300,000,000 each in the Minneapolis, Kansas City, and San Francisco districts, and around \$150,000,000 each in the St. Louis, Atlanta, and Dallas districts. In each of these districts, except Atlanta and San Francisco, this excess alone was more than sufficient to account for the increase in adjusted deposits. Withdrawals by the Treasury were concentrated largely in the New York district, where receipts exceeded disbursements by about \$1,300,000,000. Deposits in this district, however, were increased by large gold imports received during the year. Agricultural income, even when Federal Government rental and benefit payments are excluded, was somewhat larger in 1934 than in other recent years and especially so in those agricultural regions not affected by drought. In the Chicago and Cleveland districts increased activity in the automobile, agricultural implement, and meat-packing industries was also a factor in increased deposits.

Use of funds by banks.—During 1934 member banks in addition to increasing their investments, as previously shown, also increased considerably their excess reserves with Federal Reserve banks and their balances due from other banks. For individual banks both of these items represent the accumulation of idle funds. For the banking system as a whole only the volume of excess reserves represents the supply of idle banking funds, while changes in interbank balances represent merely the shifting of excess reserves among the member banks. During 1934 there was considerable shifting of this nature, and an analysis of bank statements by classes of banks and by regions indicates the manner in which funds were distributed throughout the country during the year and also the extent to which the different groups invested their available funds or held them in idle balances.

The following table shows changes during 1934 in loans and investments and certain other balance sheet items by classes of banks. The extent to which available funds were put to active use or permitted to remain in inactive balances varied among the different

groups of banks. It would appear that country banks showed a relatively larger increase in deposits of local customers than did city banks, but that country banks invested a smaller portion of their additional funds and carried a larger portion in idle balances than did city banks.

CONDITION OF ALL MEMBER BANKS—CHANGES DURING 1934

[In millions of dollars]

	Changes during 1934			
	All member banks	New York City	Other reserve cities ¹	Country banks
Loans.....	-805	-204	-313	-133
Investments.....	+3,736	+1,050	+1,765	+911
Total loans and investments.....	+2,931	+786	+1,452	+778
Reserves with Federal Reserve banks:				
Required.....	+449	+174	+101	+84
Excess.....	+654	+499	+280	+165
Cash in vault.....	+133	+39	+49	+50
Due from banks in United States.....	+1,118	+10	+581	+527
Total reserves, cash, and due from banks.....	+2,660	+722	+1,111	+826
Adjusted deposits.....	+4,039	+705	+1,817	+1,527
Balances due to other banks.....	+1,539	+213	+790	+503
United States deposits.....	+683	+369	+232	+47
Postal Savings deposits.....	-326	-51	-184	-91

¹ Including both central reserve city and reserve city banks in Chicago.

² All deposits, other than United States Government, Postal Savings, and interbank deposits, minus checks and other cash items reported as on hand or in process of collection.

Country banks, which showed an increase of over \$1,500,000,000 in deposits of local customers and a decrease of \$200,000,000 in loans, increased their investments by about \$900,000,000. Their balances with other banks and cash holdings and reserves showed a total increase of over \$820,000,000, of which about \$80,000,000 represented an increase in required reserves. These banks had an increase in available unused balances of about \$740,000,000 in the course of 1934, as compared with an increase of approximately \$900,000,000 in investments.

Reserve city banks, other than central reserve city banks in New York, showed increases of over \$1,800,000,000 in adjusted customers' deposits and of nearly \$800,000,000 in balances due to other banks and a decrease of about \$300,000,000 in loans. They increased their investments by over \$1,750,000,000, while their balances due from other banks, cash holdings, and excess reserves with Federal Reserve banks showed a total increase of over \$900,000,000. The ratio of funds invested to those held in idle balances was considerably larger than in the case of country banks. It should be noted, furthermore, that these banks were holding a larger amount of balances for other banks, which are subject to immediate call and therefore are ordinarily kept in

readily available form. When allowance is made for this factor the balance of idle funds available to these banks increased by little more than \$100,000,000 in the year.

Member banks in New York City showed increases of about \$700,000,000 in adjusted deposits, \$600,000,000 in bankers' balances, and \$350,000,000 in Government deposits, while their loans declined by nearly \$300,000,000. They increased their investments by \$1,060,000,000 and their cash and excess reserves by \$550,000,000. The increase in balances due to banks exceeded the increase in idle funds at New York City banks. The growth in bankers' balances in New York would indicate that in the course of the year New York City banks in effect received a large part of the excess reserves of other banks.

Analyzing similar figures by districts it appears that banks in the New York, Chicago, St. Louis, and San Francisco districts placed a larger portion of their available funds in investments and a smaller portion in idle balances than did banks in other districts, while banks in the Boston, Philadelphia, Kansas City, and Dallas districts accumulated relatively larger idle balances. In the majority of districts country banks showed more of a tendency to accumulate reserves and balances with other banks, while city banks invested a relatively larger portion of the increase in deposits of their customers.

It would appear that the incidence of Treasury borrowing and expenditures during 1934, together with agricultural and industrial developments, was instrumental in distributing funds throughout the country. Country banks received an increase in deposits, but did not increase their purchases of Government securities by the same amount. Instead they built up balances with banks in the larger cities. These country-bank deposits received through the clearing system were added to the credit of the city banks at the Reserve banks. Most of the increase in excess reserves during 1934, therefore, although carried by city banks, was represented by balances held by these banks for their country correspondents and was at the disposal of and subject to call by country banks.

PROGRESS OF BANKING RECONSTRUCTION

During the year 1934 banking facilities available to the public increased considerably. About 19,000 banking offices of unrestricted institutions, including mutual savings and private banks, were in operation at the end of the year, of which 3,000 were branches. This represented an increase of 1,000 head offices and about 200 branches during the year.

Active membership in the Federal Reserve System increased by 431 banks to 6,442 by the end of the year. The increase was accounted for in part by licensing of restricted banks, in part by organization of

new banks, and in part by admission to membership of nonmember State banks. Deposits in member banks as of December 31, 1934, amounted to \$33,850,000,000, which was about 86 percent of the deposits in all commercial banks, exclusive of mutual savings banks, and about 69 percent of the deposits in all banks, inclusive of mutual savings banks.

Bank suspensions in 1934.—Bank suspensions in 1934 were fewer than in any year since 1920. The suspensions during the year comprised 57 licensed banks with deposits of \$36,937,000,* one of which, with deposits at time of suspension of \$40,000, was a member of the Federal Reserve System. There were eight other suspensions among banks participating in Federal deposit insurance.

Unlicensed banks.—By the end of 1934 the number of unlicensed banks had been reduced to relatively unimportant proportions. After the bank holiday in March 1933 more than 4,500 banks with deposits of about \$4,200,000,000 were reported as not licensed to conduct an unrestricted business. By the beginning of 1934 these had been reduced to about 1,800 banks with deposits of approximately \$1,000,000,000, and by the end of the year only about 160 banks with deposits of approximately \$90,000,000 were reported as remaining unlicensed, after deducting 927* banks placed in liquidation or receivership during the year. Most of the remaining unlicensed banks were not members of the Federal Reserve System, as is shown by the following table:

UNLICENSED BANKS

	Jan. 1, 1934		Dec. 31, 1934	
	Number	Deposits (000 omitted)	Number	Deposits (000 omitted)
National.....	453	\$455,000	5	\$8,300
State member.....	83	92,000	4	1,500
State nonmember.....	1,267	500,000	149	80,000
Total.....	1,799	1,047,000	168	90,300

* Revised.

Disposition of unlicensed banks.—During the 22 months following the banking crisis the number of unlicensed banks was reduced in a variety of ways. Many, after receiving new capital, were reopened, while others were merged with active institutions. In some cases the best assets and a proportionate amount of deposits were drawn into newly chartered institutions and the old banks were placed in liquidation. Many were placed directly in liquidation.

An accounting for all of the 4,500 banks which were unlicensed in March 1933 is not yet possible. The Comptroller of the Currency, however, has made public figures with respect to the disposition of

* Revised.

the 1,417¹ national banks which had not been licensed to operate on an unrestricted basis after the banking holiday of March 1933. By December 31, 1934, 1,088 unlicensed national banks had been reorganized under old or new charters or merged with other national banks; 30 had given up their national charters; 294 had been disapproved for reorganization and placed in receivership; and 5 remained unlicensed.

Loans to closed banks.—Since its organization in February 1932, the Reconstruction Finance Corporation has been active in releasing funds to depositors of closed banks by making loans to conservators and receivers. Authorizations of loans of this character aggregated \$1,045,000,000 from February 2, 1932 to December 31, 1934, and of this three-fourths had actually been disbursed. As repayments of \$318,000,000 had been received, a balance of \$444,000,000 of such loans was outstanding at the end of 1934.

New capital for banks.—Many unlicensed banks were able to reopen during 1934 and many active banks were strengthened by the addition of capital funds, a large part of which was furnished by the Reconstruction Finance Corporation. During the year the program for strengthening the capital structure of the banking system initiated in the summer of 1933 was pressed through the joint efforts of Federal and State agencies. The program was furthered by the Comptroller of the Currency in the case of national banks, by the Federal Deposit Insurance Corporation in the case of nonmember banks whose deposits were insured by the Corporation, and by the Federal Reserve Board and the Federal Reserve banks in the case of State member banks. When the program was initiated in 1933, the Federal Reserve Board requested the Federal Reserve agents to keep in touch with such banks in their respective districts as might require assistance, and during the year 1934 Federal Reserve officials continued to cooperate with the various supervisory authorities in developing and consummating plans for strengthening the capital of member banks.

On December 31, 1934, the Reconstruction Finance Corporation had an aggregate investment of \$845,960,000 in the capital structure of banks and had lent in addition \$19,124,000 to local interests in order to enable them to make purchases of preferred stock. The investments included \$585,858,000 in preferred stock and \$260,102,000 in capital notes and debentures. In addition, the Corporation had authorized, contingent upon the performance of certain conditions, investments of \$209,076,000 more in the capital structure of banks. Altogether 6,900 banking institutions had had their capital structures strengthened by the Reconstruction Finance Corporation.

¹ Includes 6 national banks which were licensed on Mar. 15, 1933, but whose licenses were subsequently revoked, and 1 which was closed before the banking holiday and was placed in conservatorship subsequent thereto; also includes 10 nonnational banks in the District of Columbia subject to the supervision of the Comptroller of the Currency.

The largest part of the investments of the Corporation in the capital structure of banks was made after the beginning of 1934, at which time the total investments did not exceed \$250,000,000.

Condition reports of member banks as of December 31, 1934, indicated that the capital structure of member banks included \$553,574,000 of preferred stock and \$118,515,000 of capital notes and debentures, an aggregate of \$672,089,000. Most of this was held by the Reconstruction Finance Corporation.

Federal deposit insurance.—An important contribution to stability in the banking structure during the year was the insurance of bank deposits by the Federal Deposit Insurance Corporation. On January 1, 1934, the Corporation began the administration of a temporary fund, which insured the deposits of all participating banks up to \$2,500 on the net approved claim of each depositor. All licensed banks belonging to the Federal Reserve System were required to become members of the insurance fund, and State banks which were not members of the Federal Reserve System were permitted to participate after examination and after certification of State authorities that they were in solvent condition.

Under the Banking Act of 1933, it was provided that the temporary fund should be effective from January 1, 1934 through June 30, 1934, after which the permanent plan, which would cover a larger percentage of deposits, would become effective. By the act of June 16, 1934, the temporary plan was extended to operate from July 1, 1934, through June 30, 1935, but provision was made to insure each depositor during this period up to \$5,000. Mutual savings banks which continued membership were given the option of covering their deposits up to \$2,500 or up to \$5,000. A number of mutual savings banks discontinued participation in the fund on July 1, 1934, in part because of the establishment of a State fund for mutual savings banks in New York.

When operations began on January 1, 1934, 12,617 banks were members of the fund and this number increased to 14,205 banks by the end of the year. Of these, 5,462 were national banks; 980 State banks which were members of the Federal Reserve System; 68 mutual savings banks; and 7,695 other banks. It was reported that on October 1, 1934, 44 percent of the total deposit liability of insured banks was protected. This ratio varied considerably for the different classes of banks, being as high as 72 percent for commercial banks not members of the Federal Reserve System, due to the fact that these banks as a group have a preponderance of small accounts. Among State bank members of the Federal Reserve System, 33 percent of deposits was covered by insurance.

Computations made as of October 1, 1934, indicated that 98 percent of the 51,245,000 depositors in insured banks were fully pro-

tected under the provisions of the law. The remaining depositors who were only partially insured, however, had 823,000 accounts with total deposits of about \$25,000,000,000, about two-thirds of all deposits of all banks participating in the insurance fund. An important proportion of these large accounts was in New York State and in many cases probably represented deposits of correspondent banks and other corporations. Because of the concentration of so many of the large accounts in New York, the percentage of insured deposits was considerably smaller for that State than for the country as a whole. Among New York State commercial banks 24 percent of the deposits were insured, as compared with 44 percent for the country as a whole, including New York.

BUSINESS CONDITIONS

The general course of business in the United States during the past 7 years is indicated by the accompanying table.

COURSE OF BUSINESS, 1928-34

[Index numbers. 1923-25 average=100]

	Industrial production	Factory employment	Factory pay rolls	Construction contracts awarded (value)	Freight-car loadings	Department-store sales (value)	Wholesale commodity prices †
1928.....	111	99	102	135	103	108	97
1929.....	119	105	109	117	108	111	96
1930.....	96	92	89	92	93	102	84
1931.....	81	77	68	63	74	92	73
1932.....	64	64	45	26	56	69	65
1933.....	76	69	49	35	58	67	66
1934.....	79	79	62	33	62	73	74

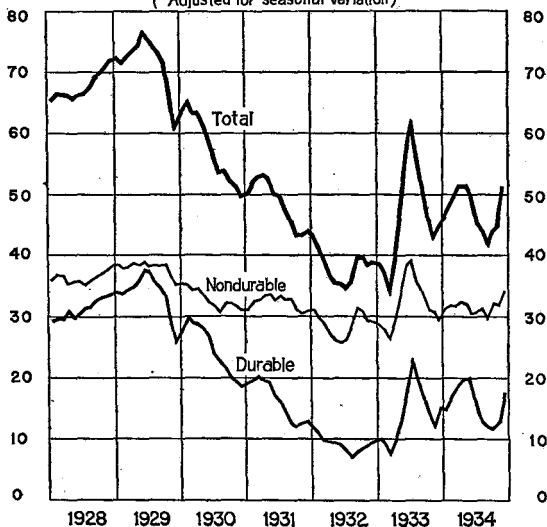
† 1926 average=100.

In 1934 output of industrial products, including both manufactures and minerals, was at 79 percent of the 1923-25 average as compared with 76 in the preceding year and with the low point of 64 in 1932. At the same time crop production, which had been relatively well maintained throughout the depression, showed a marked reduction as a consequence of a prolonged drought and of acreage reductions in connection with the program of the Agricultural Adjustment Administration. Owing to higher prices received by farmers, increased marketings of livestock, and larger rental and benefit payments by the Agricultural Adjustment Administration, however, total farm income was larger in 1934 than in 1933. Construction work on public projects showed a considerable increase. Profits of industrial corporations, which had recovered considerably in 1933, made further advances in 1934, and were higher than in any year since 1930. Public-utility profits, however, were smaller in 1934 than in the previous year, and the deficit of railroads increased. Value of department-store sales

in 1934 was 75 percent of the 1923-25 average as compared with 67 in 1933, and other branches of retail trade also increased, particularly in rural areas.

Production, employment, and trade.—The increase in industrial output in 1934 reflected chiefly larger output of manufactures, but there were fairly marked increases in the production of such minerals as zinc, lead, and silver, and a moderate increase in the output of coal.

MANUFACTURES—DURABLE AND NONDURABLE
 AGGREGATE PHYSICAL PRODUCTION IN COMPARABLE UNITS
 (Adjusted for seasonal variation)



"Durable" includes pig iron, steel, automobiles, lumber, vessels, locomotives, nonferrous metals, cement, polished plate glass, and coals. "Nondurable" includes textiles, leather and products, foods, tobacco products, paper and printing, petroleum refining, and automobile tires and tubes.

The chart shows fluctuations since 1928 in output of durable and nondurable manufactures, as indicated by the components of the Board's index.

Among the industries producing durable manufactures the most marked increase during 1934 was in the automobile industry, where output was 43 percent larger than that of 1933 and double that of 1932. Activity in the steel industry also showed a further increase,

while lumber production continued at an unusually low level, reflecting in considerable part continued inactivity in residential building.

In the group of industries producing nondurable manufactures, output showed little change in the aggregate but continued at a higher level relative to the 1923-25 average than output of durable products. Activity at meat-packing establishments showed a marked increase, while textile-mill activity was generally at a lower level than in 1933. Output of tobacco products showed a considerable growth, and there were increases also in the leather and tire industries.

Fluctuations in industrial output were considerable in 1934, although not so large as in 1933. A growth in activity in the early part of the year was followed by a decline during the summer, and output during the autumn months was at about the same level as a year earlier. The increase in industrial output to 86 percent of the 1923-25 average in May reflected chiefly increased output of automobiles and steel. During the second quarter stocks of steel were accumulated in anticipation of price increases announced for third-quarter deliveries, and in consequence steel production showed a sharp decline in July. Textile output was also at a low level during the summer months and was further reduced in September by a strike. Subsequently output in the textile industry increased somewhat. Activity in the meat-packing industry, which had increased sharply, accompanying large marketings of cattle on account of drought conditions, declined in the autumn. In December, with a sharp increase in automobile production, expansion in activity at steel mills, and a growth in activity at woolen and silk mills, industrial output increased, contrary to seasonal tendency, and the Board's adjusted index advanced to 86 percent of the 1923-25 average as compared with 75 percent in November and with a low point for the year of 71 in September.

By the beginning of 1934 a substantial volume of contracts for Public Works Administration projects had been awarded, and actual expenditures on such projects showed a rapid rise during the spring and summer months. Subsequently there was a decline, reflecting the completion of many projects, particularly on highways. The value of contracts awarded for privately financed projects was at about the same low level in 1934 as in each of the 2 preceding years. The record on contracts awarded in the past 3 years is shown below by 6-month periods.

CONSTRUCTION CONTRACTS AWARDED

[F. W. Dodge data for 37 Eastern States. In millions of dollars.]

	Total	Publicly financed	Privately financed
1932:			
First half.....	667	335	332
Second half.....	684	432	252
1933:			
First half.....	432	161	271
Second half.....	824	594	300
1934:			
First half.....	854	572	282
Second half.....	689	404	285

Factory employment and pay rolls in 1934 were at higher levels than in 1933, and at the end of the year factory employment, as well as factory output, was in about the same volume as at the end of 1930. In nonmanufacturing industries employment in December was at about the same level as at the end of 1933.

In 1933 employment and pay rolls increased considerably more than production in comparable manufacturing industries, reflecting in large part the spreading of work and the increasing of wage rates under the industrial codes. In 1934 production, employment, and pay rolls all fluctuated closely together.

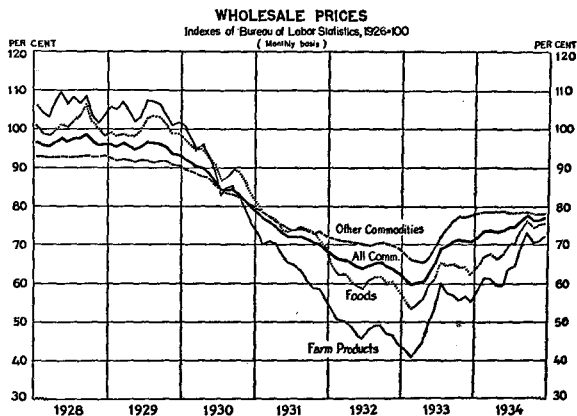
In 1934 distribution of commodities showed an increase and was generally maintained with less marked fluctuations than were reported for industrial output. Value of commodities distributed through department stores was 12 percent larger than in 1933 for the country as a whole, with the most marked increases reported in the Atlanta, Dallas, Richmond, and Chicago districts, while the smallest increases were in the Boston and New York districts. Distribution of commodities through chain stores also showed an increase, and there was considerable growth in sales reported by general-merchandise stores in rural areas. Total volume of freight-car loadings increased somewhat, reflecting a growth in the volume of rail shipments of all classes of freight except grain products and merchandise in less-than-carload lots.

Commodity prices.—During 1934 wholesale commodity prices continued to advance, reflecting increases in prices of farm products and foods, while other commodities as a group showed little change. The record for the past 7 years, according to the index of the Bureau of Labor Statistics, is shown on the accompanying chart.

The principal increase during 1934 in the price of farm products came during the summer months. At that time drought conditions prevailed over wide areas, reducing the yields of grain crops to exceptionally low levels. Prices of grains and dairy products advanced sharply. The immediate effect of the drought on the livestock situation, however, was to increase the volume of cattle and sheep

marketed, which tended to reduce prices of livestock and meats. Government purchases of cattle and sheep during this period were a factor in maintaining existing levels of prices. While marketings of cattle and sheep showed a large increase during the summer months, marketings of hogs declined, partly as a result of seasonal factors and partly on account of small supplies available on the farms. At the same time cotton prices advanced as it became evident that the crop would be reduced to about 10,000,000 bales, largely as a consequence of smaller acreage but also in part on account of the drought in Texas, Oklahoma, and western Arkansas.

In September and October prices of most leading agricultural products declined somewhat. Toward the end of the year livestock



prices showed marked increases, and prices of cattle continued to increase rapidly after the turn of the year, reflecting reduced supplies as a secondary effect of the drought. In December prices of corn and hogs were about double those of a year earlier, and prices of wheat, cotton, and steers were from 25 to 50 percent higher; potato prices, on the other hand, were lower by about one-half.

The small price changes during 1934 for the group of commodities other than farm products and foods reflected declines in the prices of textiles and hides and leather, offset by increases in the prices of bituminous coal, metals and metal products, chemicals, and miscellaneous products, particularly rubber and tires. Building-material prices, after advancing somewhat during the first half of the year, declined by about the same amount in the second half.

Retail prices of food, as measured by the index of the Bureau of Labor Statistics, advanced from 105 percent of the 1913 average at the beginning of the year to 117 percent early in September and subsequently declined to 114 percent. The increase for the year was general, with the most marked advance reported for meats. Prices of articles sold mainly at department stores and mail-order houses apparently showed little change. House rents, which had declined for 9 years, advanced in some communities, reflecting increased occupancy accompanying moderate increases in incomes.

INDUSTRIAL ADVANCES BY FEDERAL RESERVE BANKS

By an act of Congress approved on June 19, 1934, the Federal Reserve banks and the Reconstruction Finance Corporation were authorized, within prescribed limitations, to make credit available for the purpose of supplying working capital to established industrial and commercial businesses. This act amended the Federal Reserve Act by the addition of section 13b, which embodies the provisions relating to the Federal Reserve banks. Regulation S, relating to the provisions of this section, was issued by the Board on June 26, 1934.

This legislation was advocated because many small enterprises had suffered severe capital losses during the depression and had inadequate working capital. Such enterprises find it difficult to obtain their requirements of working capital through the capital market, while commercial banks and other financial institutions, in many cases, were hesitant about undertaking on their single responsibility the risks involved in making relatively long-time loans for working-capital purposes.

Recognizing the possible need of these industrial and commercial businesses for additional working capital to enable them to continue or resume normal operations and to maintain employment or provide additional employment, Congress granted the Federal Reserve banks broad powers to enable them to provide such working capital, either through the medium of banks, trust companies, and other financing institutions or, in exceptional circumstances, by advances directly to such commercial and industrial businesses.

The conditions imposed by the law are such that loans must be made to established industrial or commercial businesses, must be made for the purpose of supplying working capital, and must have maturities not exceeding 5 years. In addition, direct loans by the Federal Reserve banks may be made in exceptional circumstances, when credit is not obtainable on a reasonable basis from the usual sources, and provided the loan can be made on a reasonable and sound basis.

When credit is advanced through the medium of banks or other financing institutions, the procedure is ordinarily for the financing

institution to make the loan and procure from the Federal Reserve bank a commitment binding the Federal Reserve bank to take over the loan at the option of the financing institution. Such commitments are specifically authorized in the act. Before the Federal Reserve bank can grant such a commitment it must satisfy itself that the loan is properly made and is one that it is authorized by the act to acquire.

The Federal Reserve bank, therefore, must make the same credit investigation of a loan by a financing institution for which it is to grant a commitment as of a loan which it is to make direct. This is especially necessary because, under the law, when such a loan is discounted for a financing institution by the Reserve bank the financing institution need retain obligation for no more than 20 percent of any loss thereon.

The law provided for the appointment of an industrial advisory committee in each district, consisting of members actively engaged in industrial pursuits. Members of these advisory committees had been selected by the third week in July, and the consideration of applications by the committees and by the Reserve banks began immediately. On August 1 the Federal Reserve Bank of Minneapolis made the first industrial advance. The Reserve banks received many inquiries and informal applications for industrial advances immediately following the passage of the act, and for the first few weeks the industrial advisory committees were not able to act on applications as rapidly as they were received. By the first part of September, however, this situation was changed, and by December the number of applications received was much smaller and these were being acted upon without material delay.

In the period of approximately 6 months which elapsed between the approval of the act and the close of the year about 5,100 applications for a total of \$190,000,000 had been received. Of these 1,020 in the amount of \$52,000,000 had been approved and 661, amounting to \$41,000,000, were under consideration at the end of the year. Most of the other loans applied for were either ineligible under the conditions imposed by the act or were without a satisfactory credit basis. The applications approved included about \$14,000,000 approved on conditions which as of the end of this year had not been met by the applicant; and disbursement on these, therefore, had not been made. On January 2, 1935, the Federal Reserve banks held about \$14,000,000 of industrial loans and were under commitments for about \$10,000,000. The accompanying table shows industrial-loan activity through January 2, 1935.

In the period elapsed since adoption of section 13b of the Federal Reserve Act, the Federal Reserve Board and the Federal Reserve

banks have made constant and energetic efforts to make the provisions of the law as generally known as possible to banks and prospective borrowers. Cooperation of member banks has also been obtained. These efforts have been made through visits to bankers and through frequent circularization. At the same time the Board and

INDUSTRIAL ADVANCES AND COMMITMENTS TO JAN. 2, 1935

	Number	Amount
Net applications received ¹	5, 108	\$190, 798, 000
Federal Reserve bank action:		
Approved.....	1, 020	\$2, 267, 000
Rejected.....	3, 404	\$5, 721, 000
Advances outstanding.....		14, 315, 000
Commitments outstanding.....		10, 213, 000

¹ Excluding applications withdrawn and changes in amounts applied for before action by industrial advisory committees but including withdrawals and changes made after such action but before action by Federal Reserve banks.

² Including \$1,890,000 of applications withdrawn or expired after approval.

the Federal Reserve banks have given careful and repeated consideration to the procedure for handling applications. Every complaint received from rejected applicants has been carefully investigated and the reasons for rejection explained to the applicant. In order to improve procedure and coordinate policies under this law there have been frequent meetings of Board members, Reserve bank officials, and members of the industrial advisory committees. The efforts of the Federal Reserve banks and the Federal Reserve Board to make known the provisions of section 13b and the examination of applications have entailed considerable work and expense to the Federal Reserve banks. The servicing of the loans is expensive; the security for loans includes mortgages upon property, assignment of accounts receivable, contracts, etc., and care must be taken that taxes and premiums are paid, that contracts are fulfilled, and in general that no impairment of the security occurs.

SECURITIES EXCHANGE ACT OF 1934

With a view to preventing the excessive use of credit for the purchasing or carrying of securities, the Securities Exchange Act of 1934, which became law on June 6, requires the Federal Reserve Board from time to time to prescribe rules and regulations with respect to the amount of credit that may be extended and maintained on any security registered on a national securities exchange. Certain securities are exempted by the act from these provisions. For the initial extension of credit such rules and regulations must be based upon a certain standard set forth in the act, but the Board is authorized to

prescribe such requirements lower than the standard as it "deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the credit situation of the country", and such higher requirements as it may "deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities."

The act makes it unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, to extend or maintain credit to or for any customer (1) on any registered security (other than an exempted security) in contravention of the Board's rules and regulations, or (2) without collateral or on collateral other than registered securities and/or exempted securities, except in accordance with such rules and regulations as the Board may prescribe to permit the extension or maintenance of such credit in certain cases.

In accordance with the act the Board issued on September 27 a regulation (Regulation T) effective October 1 dealing with the extension and maintenance of credit by brokers, dealers, and members of national securities exchanges. The regulation placed no restrictions on the amount of or collateral for loans for industrial, commercial, or agricultural purposes. In prescribing the margin requirements specified in this regulation the Board adopted the basis stated in the Securities Exchange Act of 1934 and provided that, with certain exceptions, a member of a national securities exchange, or a broker or dealer subject to the regulation, shall not make any initial extension of credit to any customer on any registered security (other than an exempted security) for the purpose of purchasing or carrying any security, in an amount which causes the total credit extended on such registered security to exceed whichever is the higher of:

- (1) 55 percent of the current market value of the security; or
- (2) 100 percent of the lowest market value of the security computed at the lowest market price therefor during a specified period preceding the current month, but not more than 75 percent of the current market value. The period specified is one of 36 calendar months except that until July 1, 1936, it is the period between July 1, 1933, and the beginning of the current month.

At the level of security prices when Regulation T went into effect, brokers could extend credit on most registered securities up to 75 percent of their current market value. In case of any substantial increase in security prices, however, the average margin requirement prescribed by the regulation increases automatically, since the loan value of an increasing proportion of outstanding securities becomes less than 75 percent of current market value.

The margin requirements stated in the law and now prescribed by the Federal Reserve Board are designed to exert a restraining influence

on speculative trading. By imposing higher margin requirements on securities that have had a rapid rise than on more stable securities, the prescribed requirements make credit less freely available for trading in speculative securities.

Regulation T does not prescribe a specific margin that must be maintained after a loan has been granted, but imposes restrictions on the operations which the customer may be permitted to carry on in his account if his margin falls below the standard prescribed for initial extension of credit. Thus the amount of credit maintained in an account is not required by the regulation to be reduced as a consequence of a decline in the market value of the securities held, but additional extensions of credit are not permitted unless sufficient additional margin is supplied for the new extension itself.

The regulation provided means by which accounts in existence on October 1, 1934, might be recorded separately by the creditor at any time prior to November 15, 1934, and thereafter be maintained separately until liquidated, but not later than July 1, 1937. In order to prevent circumvention of the margin rules, however, transactions in such accounts are subject to restriction.

Under section 8 of the Securities Exchange Act of 1934 brokers and dealers subject to the act may not borrow on registered securities (other than exempted securities) from lenders other than member banks except under certain conditions. Nonmember banks must sign an agreement in the form specified in Regulation T before brokers and dealers who are subject to the regulation may borrow from them, and by December 31, 1934, 121 nonmember banks had signed this agreement. Members of registered securities exchanges and other brokers and dealers subject to the regulation are also permitted to borrow from and lend to one another under specified conditions.

Rules are also included in Regulation T regarding cash transactions, reports by brokers, and such administrative details as the borrowing and lending of securities, the debiting of interest, commissions, etc., the handling of guaranteed accounts, the transfer of accounts, temporary credit for clearance of securities, and adjustments for innocent mistakes.

In preparation for the adoption of margin requirements the Board made a survey of the condition of margin accounts held with brokers in the summer of 1934. At the request of the Federal Reserve Board the New York, Chicago, and San Francisco Stock Exchanges obtained certain reports from their members as of July 31, 1934. Reports were secured covering approximately 213,000 accounts and over two-thirds of all customers' borrowings. They showed that a large number of accounts contained substantial amounts of excess margin, as judged either by the rules of the New York Stock Exchange or by the standard used in Regulation T. In 85 percent of

the accounts reported, customers were not borrowing more than 66½ percent of the value of the securities in the account. The value of the securities held in all the accounts was nearly twice as large as the amount borrowed on the securities, that is to say, total borrowings were equal to approximately 50 percent of the total value of the securities carried.

The reports showed the amount of each individual security held in customers' accounts with debit balances and in partners' and firms' accounts. These data covered in all some 20,000 different issues with total market value estimated at about \$2,600,000,000. Detailed analysis was made of figures representing about 80 percent of the total estimated value of all securities held by brokers for their customers. This analysis indicated that on the basis of market values as of July 31, 1934, over two-thirds of the securities so held, exclusive of unlisted securities, could have been carried under the provisions of Regulation T with a maximum loan of 75 percent of market value, about one-fourth permitted loans of percentages varying from 55 to 75 percent of market value and averaging 67.6 percent, and the remainder, or about one-twelfth, had a maximum loan value of 55 percent of market value. The average maximum loan value on all these securities was slightly under 72 percent. This compared with a maximum percentage permitted by the New York Stock Exchange of about 77 percent for large accounts and 66½ percent for small accounts, averaging about 75 percent for all accounts.

When the new margin rules went into effect the securities markets were relatively inactive, and remained so during the rest of the year. There was accordingly no occasion, such as might be afforded by a rapidly rising market, to test the effectiveness of the new rules in accomplishing the purposes for which they were adopted. Between September 1934, before Regulation T became effective, and the last month of the year, security prices advanced somewhat. The increase for common stocks, according to the index of the Standard Statistics Co., amounted to about 3 percent. From the end of September to the end of December there was little change in the total volume of customers' borrowings from brokers. The total borrowings of members of the New York Stock Exchange at the end of 1934, amounting to \$880,000,000, were \$35,000,000 larger than at the end of 1933 but only about 10 percent of their maximum in the autumn of 1929.

The Securities Exchange Act of 1934 also empowers the Federal Reserve Board, within certain limitations, to prescribe rules and regulations, including margin requirements, for credit extended or

maintained by other persons than members of a national securities exchange, or brokers or dealers who transact a business in securities through the medium of such members, for the purpose of purchasing or carrying any security registered on a national securities exchange. These other persons include all banks in the United States except such banks as are subject to Regulation T by reason of their holding membership in a national securities exchange. This authority is additional to that conferred by other statutes for credit supervision. The Board is studying the subject and in due time will issue the required regulation as to bank loans made to purchase or carry securities registered on a national securities exchange.

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

Gross earnings of the Federal Reserve banks in 1934 amounted to \$48,903,000, or \$584,000 less than in 1933. After deducting current expenses of \$29,242,000, reserves for depreciation on bank premises, and reserves for losses, self-insurance, etc., there remained net earnings of \$15,231,000, or \$7,274,000 more than the amount of net earnings for 1933. Earnings, expenses, dividend payments, etc., for all Federal Reserve banks combined for 1934 and 1933 are shown in the following table:

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1934 AND 1933

[In thousands of dollars]

	1934	1933
Total earnings.....	48,903	49,487
Current expenses.....	29,242	29,223
Current net earnings.....	19,661	20,264
Additions (profits on sales of United States Government securities, etc.).....	8,928	1,792
Deductions (depreciation and other reserves, etc.).....	13,356	14,069
Net deductions from current net earnings.....	4,430	12,307
Net earnings.....	15,231	7,957
Dividends paid.....	8,781	8,874
Transferred to surplus (see. 7).....	6,610	-917
Withdrawn from surplus (see. 13b).....	60	

All Federal Reserve banks paid dividends to member banks at the rate of 6 percent per annum on their paid-in capital. These dividends amounted to \$8,781,661.

40 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

Gross and net earnings during the year 1934 and the distribution of net earnings of each Federal Reserve bank are shown in the following table:

FINANCIAL RESULTS OF OPERATIONS OF THE FEDERAL RESERVE BANKS DURING 1934

Federal Reserve bank	Gross earnings	Net earnings	Dividends paid	Transferred to surplus (sec. 7)	Withdrawn from surplus (sec. 13b)
Boston.....	\$3,056,028	\$932,792	\$644,678	\$291,872	\$2,155
New York.....	16,081,935	8,207,134	8,857,690	4,747,138	7,694
Philadelphia.....	3,728,022	1,042,879	\$26,878	117,900	896
Cleveland.....	4,137,556	1,043,697	769,000	281,757	8,106
Richmond.....	1,987,801	313,247	200,050	14,595	298
Atlanta.....	1,818,101	655,812	264,093	264,351	2,832
Chicago.....	8,182,371	1,404,491	761,824	669,479	26,822
St. Louis.....	1,524,458	199,008	241,000	—100,956	47
Minneapolis.....	1,414,097	178,288	181,117	—	4,832
Kansas City.....	1,960,089	243,634	247,108	—	3,022
Dallas.....	1,321,971	331,959	227,924	82,945	—
San Francisco.....	2,223,420	646,678	642,242	—	2,650
Total.....	48,902,919	16,231,409	8,781,661	6,810,071	60,228

Earnings on total bills and securities were slightly less in 1934 than in 1933, an increase of about \$74,000,000 in average daily holdings of bills and securities being more than offset by a reduction from 1.98 percent to 1.91 percent in the average rate of earnings. Average daily holdings of bills and securities, together with average rates and amounts of earnings thereon, are shown for recent years in the following table:

EARNINGS ON BILLS AND SECURITIES

[Amounts in thousands of dollars]

	Bills and securities				
	Total	Bills discounted	Bills bought in open market	U. S. Government securities	All other bills and securities
Daily average holdings:					
1931.....	1,251,058	\$25,217	245,200	698,013	10,558
1932.....	2,092,448	420,687	70,902	1,461,258	9,649
1933.....	2,421,556	283,229	82,822	2,052,109	3,286
1934.....	2,498,497	24,788	24,742	2,431,678	1,894
Earnings:					
1931.....	27,955	9,821	5,010	12,428	206
1932.....	47,962	17,821	2,766	28,294	422
1933.....	47,956	9,137	1,228	37,330	90
1934.....	47,656	1,221	141	46,131	112
Average rate of earnings (percent):					
1931.....	2.20	3.91	2.04	1.86	2.00
1932.....	2.32	4.23	3.93	1.94	4.17
1933.....	1.98	3.23	1.49	1.83	2.74
1934.....	1.91	2.44	.57	1.90	4.61

Includes industrial advances.

Current expenses of the Federal Reserve banks in 1934 were \$29,241,000, or \$18,000 more than in 1933.

Salary payments during 1934, including contributions to the retirement system of the Federal Reserve banks established on March 1, 1934, were \$1,551,000 in excess of salary payments in 1933. Other items of expenditure that show a substantial increase over 1933 are the assessments for expenses of the Federal Reserve Board, which increased \$572,000, and taxes on banking houses, which increased \$110,000. Owing largely to the falling off in the demand for currency in 1934 as compared with 1933, when there was an abnormal demand for currency preceding the banking holiday, expenditures of the Federal Reserve banks for the printing and redemption of Federal Reserve currency declined \$1,359,000 and insurance on currency shipments by \$68,000. Other substantial reductions in expenses were \$120,000 in taxes on Federal Reserve bank notes, \$219,000 in telephone and telegraph charges, \$240,000 in postage and expressage, \$71,000 in printing, and \$148,000 in insurance other than on currency shipments.

The average number of officers and employees, exclusive of those assigned to Reconstruction Finance Corporation work, was 10,376 in 1934 compared with 10,015 in 1933. During the year the Federal Reserve banks had an average of 1,351 officers and employees engaged on work of the Reconstruction Finance Corporation compared with 1,114 in 1933.

The volume of work handled in the principal operating departments of the banks for which a measurement is available, during each of the last 4 years, was as follows:

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS

	1931	1932	1933	1934
NUMBER OF PIECES HANDLED¹				
Bills discounted:				
Applications.....	102,000	178,000	81,000	15,178
Notes discounted.....	618,000	779,000	846,000	43,128
Industrial advances:				
Notes discounted.....				463
Commitments to make industrial advances.....				227
Bills purchased in open market for own account.....	221,000	76,000	79,000	7,400
Currency received and counted.....	2,399,292,000	2,025,552,000	2,013,459,000	2,067,835,000
Coin received and counted.....	2,900,462,000	2,654,787,000	2,497,928,000	2,565,164,000
Checks handled.....	864,616,000	724,838,000	688,933,000	818,847,000
Collection items handled:				
U. S. Government coupons paid.....	17,322,000	17,710,000	18,099,000	21,558,000
All other.....	6,927,000	7,468,000	8,371,000	7,438,000
U. S. Government direct obligations—issues, redemptions, and exchanges by fiscal agency department.....				
Transfers of funds.....	2,431,000	1,956,000	3,802,000	5,281,000
Transfers of funds.....	1,663,000	1,469,000	1,290,000	1,126,000

¹ 2 or more checks, coupons, etc., handled as a single item, are counted as 1 "piece."

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS—Continued.

	1931	1932	1933	1934
AMOUNTS HANDLED				
Bills discounted.....	\$14,555,590,000	\$15,545,305,000	\$9,632,808,000	\$714,261,000
Industrial advances:				
Notes discounted.....				14,884,000
Commitments to make industrial advances.....				11,443,000
Bills purchased in open market for own account.....	2,998,418,000	782,788,000	898,001,000	76,908,000
Currency received and counted.....	12,958,538,000	10,252,597,000	11,710,264,000	9,823,601,000
Coin received and counted.....	585,945,000	300,298,000	724,617,000	298,297,000
Checks handled.....	248,172,986,000	176,691,791,000	157,833,692,000	179,844,468,000
Collection items handled:				
U. S. Government coupons paid.....	479,980,000	520,098,000	578,082,000	609,225,000
All other.....	7,821,814,000	5,427,817,000	5,439,650,000	6,742,974,000
U. S. Government direct obligations—issues, redemptions, and exchanges by fiscal agency department.....	17,348,971,000	19,444,110,000	24,622,726,000	20,941,049,000
Transfers of funds.....	162,006,081,000	118,040,041,000	85,050,151,000	73,077,158,000

As indicated by the foregoing table, there has been a substantial increase during the past 2 years, and particularly in 1934, in the volume of United States Government obligations issued, redeemed, and exchanged and of United States Government coupons paid by the Federal Reserve banks. There has also been a corresponding increase in other fiscal agency and custodianship services rendered to the United States Government by the Federal Reserve banks, including services performed for the Reconstruction Finance Corporation, the Farm Credit Administration, the Home Owners' Loan Corporation, and other Government agencies.

The Banking Act of 1933 and the Securities Exchange Act of 1934 imposed additional duties and responsibilities upon the Federal Reserve Board and the Federal Reserve banks and added appreciably to their cost of operation. The act of June 19, 1934, adding section 13b to the Federal Reserve Act under which the Federal Reserve banks are authorized to make industrial advances for working capital purposes, with a maturity of not exceeding 5 years, has also resulted in a substantial increase in the volume of work performed by the Federal Reserve banks and in their expenses.

BUILDING OPERATIONS OF FEDERAL RESERVE BANKS AND THE FEDERAL RESERVE BOARD

Construction of additions to the buildings occupied by the Federal Reserve Banks of New York and Philadelphia was in progress at the end of 1934. All Federal Reserve banks and their branches are now housed in buildings owned by the banks except the branches at Cincinnati, Charlotte, Portland, Seattle, and Spokane. The Federal Reserve Board now occupies rented quarters in two buildings in the city of Washington.

The act of June 19, 1934, authorized the Federal Reserve Board to acquire a building site in the District of Columbia and to construct a building suitable and adequate in its judgment for its purposes. A careful survey of possible locations for the new building was made, which resulted in the selection of a site on the north side of Constitution Avenue, between Twentieth and Twenty-first Streets NW. The site was approved by the National Capital Park and Planning Commission and by the Secretary of the Interior who recommended it to the President, and the President gave his approval on July 13, 1934. Title was transferred to the Board by the Secretary of the Treasury on January 22, 1935, the purchase price being \$754,583.

Following the approval of the site, the Board engaged Mr. Everett V. Meeks, dean of the School of the Fine Arts in Yale University, to prepare a program for a competition for the selection of an architect for the building. The program, after having been approved by the Fine Arts Commission, the National Capital Park and Planning Commission, and the American Institute of Architects, was issued on February 1, 1935. During the formulation of the program for the competition, a thorough study of the Board's needs in the new building was made by Mr. E. F. Abell, consulting engineer. The Board also had the benefit of the advice and assistance of the National Park Service of the Department of the Interior.

After consulting with the chairman of the Fine Arts Commission, invitations to participate in the competition were sent to Arthur Brown, Jr., San Francisco, Calif.; Coolidge, Shepley, Bulfinch & Abbott, Boston, Mass.; Paul Philippe Cret, Philadelphia, Pa.; Delano & Aldrich, New York City; Holabird & Root, Chicago, Ill.; John Russell Pope, New York City; James Gamble Rogers, New York City; Egerton Swartwout, New York City; and York & Sawyer, New York City.

The jury selected by the Board to pass upon the designs submitted by the competing architects is composed of Messrs. John W. Cross, New York City; William Emerson, Boston, Mass.; and John Mead Howells, New York City, architects; Mr. Frederic A. Delano, chairman of the National Capital Park and Planning Commission, and Mr. Adolph C. Miller, member of the Federal Reserve Board and chairman of the site and building committees appointed by the Board.

BRANCHES AND AGENCIES OF FEDERAL RESERVE BANKS

The 25 branches and 2 agencies of the Federal Reserve banks which were in operation at the end of 1933 continued to function throughout the year 1934. The following table shows a comparison of the volume

of work handled in certain departments during the years 1931, 1932, 1933, and 1934:

VOLUME 1 OF OPERATIONS OF FEDERAL RESERVE BRANCHES AND AGENCIES

	1931	1932	1933	1934
Checks handled:				
Number.....	245, 416, 000	205, 595, 000	193, 799, 000	233, 518, 000
Amount.....	\$48, 079, 197, 000	\$34, 048, 272, 000	\$33, 618, 776, 000	\$43, 109, 446, 000
Currency received and counted:				
Number of pieces.....	522, 933, 000	470, 288, 000	472, 870, 000	486, 527, 000
Amount.....	\$2, 568, 852, 000	\$2, 222, 943, 000	\$2, 643, 136, 000	\$2, 186, 428, 000
Coin received and counted:				
Number of pieces.....	593, 426, 000	674, 822, 000	626, 180, 000	531, 847, 000
Amount.....	\$72, 560, 000	\$71, 273, 000	\$126, 211, 000	\$68, 126, 000

¹ 2 or more checks, etc., handled as a single item, are counted as 1 "piece."

Current expenses during 1934 of the branches and agencies amounted to \$5,917,000, compared with \$5,834,000 during 1933.

FEDERAL RESERVE INTERDISTRICT COLLECTION SYSTEM

At the end of 1934 there were 12,915 banks (licensed and unlicensed) on the Federal Reserve par list, comprising all member banks (6,451) and 6,464 nonmember banks that pay, without deduction of exchange charges, such checks drawn upon them as are presented or forwarded for payment by the Federal Reserve banks. During the year the number of nonmember banks on the par list decreased by 690, largely as a result of the reduction in the number of banks in operation, and the number not on the par list decreased by 52. Of the 2,643 banks not on the par list at the end of 1934, 1,438 were located in the 11 Southern States and 1,083 in the West North Central States and the adjoining State of Wisconsin. As will be seen from the following table, all of the banks in the Boston, New York, and Philadelphia districts and all but one in the Cleveland district were on the Federal Reserve par list.

INTERDISTRICT COLLECTION SYSTEM

(Number of banks, including both licensed and unlicensed banks, at end of December 1933 and 1934)

Federal Reserve district	Member banks		Nonmember banks, other than mutual savings banks			
	Dec. 31, 1934	Dec. 31, 1933	On par list		Not on par list ¹	
			Dec. 31, 1934	Dec. 31, 1933	Dec. 31, 1934	Dec. 31, 1933
United States.....	6, 451	6, 522	6, 464	7, 154	2, 643	2, 666
Boston.....	371	367	174	209	-----	-----
New York.....	792	806	314	300	-----	-----
Philadelphia.....	656	671	266	281	-----	-----
Cleveland.....	629	621	638	696	1	3
Richmond.....	401	400	336	352	210	238
Atlanta.....	332	330	99	109	959	687
Chicago.....	353	362	1, 740	1, 998	211	187
St. Louis.....	394	403	926	1, 002	276	377
Minneapolis.....	624	632	214	240	697	704
Kansas City.....	734	748	1, 108	1, 256	168	190
Dallas.....	555	549	335	356	183	211
San Francisco.....	380	402	312	349	34	39

¹ Figures for 1933 exclude while those for 1934 include private banks not under State supervision (66 on Dec. 31, 1934).

CHANGES IN MEMBERSHIP

During the year 1934 the number of licensed member banks increased from 6,011 to 6,442, a net increase of 431. This increase was due largely to the opening of 406 new national banks, resulting mainly from the reorganization of unlicensed member banks, and the admission of 125 State banks to membership in the Federal Reserve System. The increases were partly offset by the merger, absorption, consolidation, and liquidation of 169 licensed member banks. The 6,442 licensed member banks on December 31, 1934, included 5,462 national banks and 980 State member banks. Changes in the number of licensed member banks during 1934 are summarized in the following table:

CHANGES IN NUMBER OF LICENSED MEMBER BANKS DURING 1934

Number of licensed member banks at beginning of year.....	6,011
Increases:	
Organizations of national banks (including successions and conversions).....	406
Admissions of State banks to membership.....	125
Reopening (licensing) of suspended and unlicensed banks.....	75
Total additions.....	606
Decreases:	
Withdrawals of State banks from membership.....	5
Suspensions.....	1
Mergers, absorptions, consolidations, and liquidations.....	169
Total decreases.....	175
Net increase.....	431
Number of licensed member banks at end of year.....	6,442

At the end of December 1934 loans and investments of member banks constituted approximately 87 percent of the total loans and investments of all banks, exclusive of mutual savings banks, compared with 83 percent at the end of 1933 and 79 percent at the end of 1932.

AMENDMENTS TO THE LAW RELATING TO THE FEDERAL RESERVE SYSTEM

During the year 1934 a number of acts were passed by Congress containing provisions of importance amending the Federal Reserve Act or by their terms affecting the Federal Reserve System. These provisions are summarized below.

ACT OF JANUARY 30, 1934

Transfer of gold of Federal Reserve banks to the United States.—The Gold Reserve Act of 1934, enacted January 30, 1934, vested in the United States all right, title, and interest and every claim of the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents to all gold coin and bullion, and in payment therefor established credits in the Treasury in equivalent amounts in dollars, these credits being payable in gold certificates. Gold in the possession of the Federal Reserve Board, the Federal Reserve banks, and Federal Reserve agents was required to be held in custody for the United States and delivered upon order of the Secretary of the Treasury.

Amendments relating to Federal Reserve notes.—Section 16 of the Federal Reserve Act was amended by the Gold Reserve Act of 1934 so as to make Federal Reserve notes redeemable only in lawful money; to eliminate the authority for the use of gold (but not gold certificates) as collateral for Federal Reserve notes; to require that reserves against Federal Reserve notes be maintained in gold certificates instead of in gold and that reserves against deposits of Federal Reserve banks be maintained in gold certificates or lawful money instead of in gold or lawful money; to require the redemption fund of each Federal Reserve bank maintained on deposit at the Treasury of the United States to be in gold certificates instead of in gold; to make deposits of Federal Reserve banks and Federal Reserve agents with the Treasurer of the United States repayable in gold certificates only and not in gold coin; and to make other corresponding amendments in other provisions of section 16.

Conditions as to acquisition or transportation of gold.—The Gold Reserve Act also required the Secretary of the Treasury, with the approval of the President, to prescribe conditions under which gold may be acquired, held, and transported (a) for industrial, professional, and artistic use, (b) by the Federal Reserve banks for the purpose of settling international balances, and (c) for such other purposes as in the Secretary's judgment are not inconsistent with the purposes of the act.

Redemption of currency in gold.—The act prohibited the redemption in gold of any currency of the United States except as permitted in regulations prescribed by the Secretary of the Treasury, with the approval of the President; but the act also provided that gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as in the judgment of the Secretary are necessary to maintain the equal purchasing power of currency of the United States; that the reserve for United States notes and Treasury notes of 1890 and the security for gold certificates shall be maintained in gold bullion equal to the dollar amounts required by law; and that the reserve for Federal Reserve notes shall be maintained in gold

certificates or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act.

Reduction in weight of the gold dollar; stabilization fund.—The Gold Reserve Act also amended the act of May 12, 1933, which empowered the President under certain conditions to reduce the weight of the gold dollar by an amount not exceeding 50 percent. The Gold Reserve Act provided that in any event the weight of the gold dollar should not be fixed at more than 60 percent of its previous statutory weight. It was provided that the increase in the value of the gold held by the United States which resulted from any reduction in the weight of the gold dollar should be covered into the Treasury as a miscellaneous receipt. The sum of \$2,000,000,000 resulting from such increase was appropriated to be deposited with the Treasurer of the United States in a stabilization fund, under the exclusive control of the Secretary of the Treasury, with the approval of the President, to be available for expenditure for the purpose of stabilizing the exchange value of the dollar and also for the purpose of investing or reinvesting in direct obligations of the United States any portions of the fund not currently required for stabilizing the exchange value of the dollar. It was provided that the operation of the stabilization fund should terminate 2 years after the date of enactment of the act, but the President was given authority to terminate the operation of the fund at an earlier date or, by proclamation, to extend the period for not more than 1 additional year.

Other provisions of Gold Reserve Act.—The Gold Reserve Act also contains provisions for the forfeiture of gold withheld, acquired, or transported in violation of law; provisions prohibiting coinage of gold with certain exceptions; and certain other provisions of a miscellaneous character.

ACTS OF JANUARY 31, 1934, AND APRIL 27, 1934

Security for 15-day advances by Federal Reserve banks.—Section 13 of the Federal Reserve Act was amended by the Federal Farm Mortgage Corporation Act approved January 31, 1934, so as to authorize Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act to be used as security for advances by Federal Reserve banks to their member banks for periods not exceeding 15 days and was amended by an act approved April 27, 1934, so as to authorize bonds issued under the provisions of section 4 (c) of the Home Owners' Loan Act of 1933, as amended, to be used as security for such advances.

Obligations eligible for purchase by Federal Reserve banks.—Section 14 of the Federal Reserve Act was amended by the act of January 31, 1934, above mentioned, so as to authorize Federal Re-

serve banks to buy and sell bonds of the Federal Farm Mortgage Corporation having maturities from date of purchase of not exceeding 6 months and was amended by the act of April 27, 1934, so as to authorize such banks to buy and sell bonds issued under the provisions of section 4 (c) of the Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of not exceeding 6 months.

Federal Reserve banks as fiscal agents for Home Owners' Loan Corporation.—The act of April 27, 1934, also authorized the Federal Reserve banks, with the approval of the Secretary of the Treasury, to act as depositaries, custodians, and fiscal agents for the Home Owners' Loan Corporation.

ACT OF MARCH 6, 1934

Direct obligations of the United States as security for Federal Reserve notes.—By the act of March 6, 1934, the authority of the Federal Reserve Board, when it deems it in the public interest, to permit the use of direct obligations of the United States as collateral security for Federal Reserve notes, which would otherwise have expired on March 3, 1934, was extended until March 3, 1935, or until the expiration of such additional period not exceeding 2 years as the President may prescribe.

ACT OF MAY 18, 1934

Robbery of member bank.—This act provided a penalty of fine or imprisonment, or both, for taking, by force and violence or by putting in fear, the property of a member bank or any bank organized under the laws of the United States and provided more severe penalties for assaults in connection with such an offense. It also provided that whoever, in committing such an offense or in endeavoring to escape from arrest for such an offense, kills any person or forces any person to accompany him unwillingly, shall be punished by imprisonment for not less than 10 years or by death if the jury so direct.

ACT OF JUNE 27, 1934

Applicability of restrictions on real-estate loans to loans under the Housing Act.—The act of June 27, 1934, the National Housing Act, amended section 24 of the Federal Reserve Act so as to provide that a loan made by a national bank which is secured by real estate and insured under the provisions of title II of the National Housing Act shall not be subject to the restriction of that section as to the amount of the loan in relation to the actual value of the real estate or to the limitation of 5 years upon the term of a real-estate loan. It also provided that loans made to finance the construction of residential

or farm buildings with maturities of not more than 6 months, whether or not secured by lien on real estate, are not to be considered loans secured by real estate within the meaning of section 24 of the Federal Reserve Act but that no national bank may invest in or be liable on any such loans in excess of 50 percent of its paid-in and unimpaired capital.

Eligibility for rediscount of construction loans.—Notes representing loans made to finance the construction of residential or farm buildings were made eligible by the act of June 27, 1934, for rediscount at Federal Reserve banks for member banks within the terms of the applicable provisions of the Federal Reserve Act relating to rediscounts, if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building entered into by a person acceptable to the discounting Federal Reserve bank.

Moneys of Federal Savings and Loan Insurance Corporation.—The act provided for the deposit with Federal Reserve banks in certain instances of moneys of the Federal Savings and Loan Insurance Corporation not required for current operations.

ACT OF JUNE 6, 1934

Securities Exchange Act of 1934.—This act, enacted June 6, 1934, in addition to its other provisions for the regulation of national securities exchanges, placed certain regulatory powers in the Federal Reserve Board. Section 7 directed the Federal Reserve Board, for the purpose of preventing the excessive use of credit for the purchase or carrying of securities, to regulate the amount of credit that may be extended or maintained by brokers, dealers, and members of national securities exchanges, on any security (other than an "exempted security") registered on a national securities exchange. Members, brokers, and dealers are forbidden by the law to extend or maintain credit without collateral or on collateral other than registered or exempted securities except in accordance with the rules or regulations which the Board may prescribe to permit such extension or maintenance of credit in certain cases; and they may not borrow on registered, nonexempted securities in the ordinary course of business except (1) from a member bank, (2) from a nonmember bank which has filed with the Board a specified agreement, or (3) in accordance with such rules or regulations as the Board may prescribe to permit loans between members, brokers, and dealers, or to meet emergencies. The agreement specified for nonmember banks from which members, brokers, or dealers may borrow, must be an undertaking to comply with all provisions of the Securities Exchange Act of 1934, the Federal Reserve Act, and the Banking Act of 1933, which are applicable to member banks and relate to the use of credit to finance transactions in securities, and with

rules or regulations prescribed pursuant to such provisions. The act also authorized the Board to regulate the extension or maintenance of credit by persons other than members, brokers or dealers, when such credit is for the purpose of purchasing or carrying registered securities.

ACT OF JUNE 16, 1934

Insurance of bank deposits.—Section 12B of the Federal Reserve Act was amended by the act of June 16, 1934, so as to extend for a period of 1 year after June 30, 1934, the temporary plan for insurance of bank deposits and so as to increase from \$2,500 to \$5,000 the amount of the deposits of any depositor in one bank which are insured under the temporary plan (except deposits of mutual savings banks in certain circumstances). The act also contained certain other miscellaneous amendments to section 12B of the Federal Reserve Act with regard to the insurance of bank deposits.

Capital requirements for membership in the Federal Reserve System.—The Federal Reserve Act was amended by this act so as to provide that for the purposes of membership of a State bank applying for membership in the Federal Reserve System, the terms "capital" and "capital stock" shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation.

Stock ownership by directors of member banks.—This act also repealed the provisions of the Banking Act of 1933 relating to stock ownership by directors, trustees, or members of similar governing bodies of member banks of the Federal Reserve System. The law on this subject with respect to member banks, therefore, is now the same as existed prior to the enactment of the Banking Act of 1933.

ACT OF JUNE 19, 1934

Industrial advances by Federal Reserve banks.—The act of June 19, 1934, added to the Federal Reserve Act a new section, known as section 13b, under which in exceptional circumstances and pursuant to authority granted by the Federal Reserve Board, a Federal Reserve bank may on a reasonable and sound basis make loans to or purchase obligations of an established industrial or commercial business which is unable to obtain requisite financial assistance from the usual sources, for the purpose of providing such business with working capital, and may make commitments with respect to such loans or purchases, subject to a limitation of 5 years upon the maturity of any such obligation or commitment. Federal Reserve banks were also authorized by this act to acquire such working capital obligations of such businesses from banks or financing institutions by discount or purchase, to make loans on the security of such obligations, and to

make commitments with respect to such discounts, purchases, or loans. Under the law each such financing institution must obligate itself to the Federal Reserve bank for at least 20 percent of any loss which may be sustained upon any such obligation or, in lieu thereof, furnish at least 20 percent of the working capital advanced to such established industrial or commercial business.

The law established in each Federal Reserve district an industrial advisory committee consisting of not less than 3 nor more than 5 members actively engaged in some industrial pursuit and appointed by the Federal Reserve bank subject to the approval of the Federal Reserve Board; and each application for a loan, advance, purchase, discount, or commitment under authority of section 13b must be submitted to the appropriate committee which after consideration of the application transmits it to the Federal Reserve bank with its recommendation.

In order to enable the Federal Reserve banks to make the industrial advances described, the Secretary of the Treasury was authorized by the law to pay to each Federal Reserve bank a sum equal to not in excess of the par value of its holdings of stock in the Federal Deposit Insurance Corporation, upon agreement by the Federal Reserve bank to hold such stock unencumbered and to pay to the United States all proceeds thereof. In addition, each Federal Reserve bank is required to agree that if the proceeds of such stock in any calendar year do not aggregate 2 percent of the total payment made to it by the Secretary, it will pay to the United States such further amount, if any, up to 2 percent of such total payment as shall be covered by the net earnings of the bank for the year derived from the use of the sum so paid by the Secretary.

The aggregate amount of discounts, purchases, loans, advances, and commitments of the Federal Reserve banks outstanding under the authority of section 13b of the Federal Reserve Act at any one time shall not exceed the surplus of the banks as of July 1, 1934, plus all amounts paid to the banks by the Secretary of the Treasury as above described.

This act also amended the Reconstruction Finance Corporation Act so as to authorize the corporation, in certain circumstances and subject to certain limitations, to make loans to industrial or commercial businesses, either directly or in cooperation with banks or other lending institutions or by the purchase of participations.

Liabilities of national banks.—The act of June 19, 1934, excepted liabilities incurred under the provisions of section 13b of the Federal Reserve Act from the limitation of section 5202 of the Revised Statutes of the United States upon the aggregate liabilities of a national bank, in addition to the other exceptions therein provided.

Criminal provisions.—The act of June 19, 1934, also provided criminal penalties for material false statements or overvaluation of security in connection with the grant of credit accommodations by Federal Reserve banks, for embezzlement or misapplication of funds of a Federal Reserve bank or false entries or issuance of obligations without authority by any person connected with a Federal Reserve bank, and for giving or receiving of undisclosed fees, commissions, bonuses, or things of value for procuring or endeavoring to procure from a Federal Reserve bank any credit accommodation either directly from such Federal Reserve bank or indirectly through any financing institution. Provisions of certain sections of the Criminal Code of the United States with reference to activities of members of Congress and officers of the United States in connection with contracts with the Government of the United States were extended insofar as applicable to apply to contracts or agreements with any Federal Reserve bank.

Building for Federal Reserve Board.—The act of June 19, 1934, also authorized the Federal Reserve Board to acquire a building, or a site and to construct thereon a building, for the purpose of providing suitable and adequate quarters in the District of Columbia for the performance of its functions.

ADDITIONS TO AND CHANGES IN THE FEDERAL RESERVE BOARD'S REGULATIONS

In accordance with the provisions of the Securities Exchange Act of 1934, the Federal Reserve Board issued its Regulation T with regard to the extension and maintenance of credit by brokers, dealers, and members of national securities exchanges. This regulation became effective October 1, 1934, but in order that persons affected by it might have additional time after that date within which to familiarize themselves with its provisions, the Securities and Exchange Commission exempted, until midnight of October 14, 1934, from the operation of certain provisions of the statute and regulations issued thereunder, all securities except those as to which the Commission had refused to grant registration.

The act of June 19, 1934, authorizing Federal Reserve banks to grant credit accommodations for the purpose of providing working capital for established industrial or commercial businesses provided that all such operations of the Federal Reserve banks should be subject to such regulations as the Federal Reserve Board might prescribe; and accordingly, the Federal Reserve Board issued its Regulation S with reference to this subject on June 26, 1934, and it became effective immediately.

The Board's Regulation Q with reference to the payment of deposits and interest thereon by member banks of the Federal Reserve System

was amended in several particulars, but the amendments, while approved in December 1934, were adopted to become effective February 1, 1935. The principal amendment was a reduction in the maximum rate of interest which may be paid by member banks on time and savings deposits from 3 percent per annum compounded semiannually to 2½ percent per annum, compounded quarterly.

EXTENSION OF THE PERIOD DURING WHICH FEDERAL RESERVE BANKS MAY MAKE ADVANCES TO MEMBER BANKS IN EXCEPTIONAL CIRCUMSTANCES

Section 10 (b) of the Federal Reserve Act, as amended by the act of March 9, 1933, authorizes advances by Federal Reserve banks in exceptional and exigent circumstances to individual member banks which are without sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations through other methods provided by law, but it is provided that no such advances may be made after March 3, 1934, or after the expiration of such additional period not exceeding 1 year as the President may prescribe. By proclamation under date of February 16, 1934, the President prescribed an additional period of 1 year after March 3, 1934, during which advances might be made by any Federal Reserve bank under the provisions of said section 10 (b).

CREDIT AGREEMENTS WITH FOREIGN CENTRAL BANKS

The aggregate participation of the Federal Reserve banks in the two credits extended, with the approval of the Federal Reserve Board, to the National Bank of Hungary in 1931 by the Federal Reserve Bank of New York, in association with the other Federal Reserve banks and other foreign central banks, was reduced during 1934 from \$3,560,000 to \$3,140,000. These two credits, which took the form of purchases of prime commercial bills guaranteed by the National Bank of Hungary, had been consolidated in 1933 in an agreement that provided for scheduled reductions over a period of 3 years. The demand deposit of \$10,000,000 placed by the Federal Reserve banks, upon the approval of the Federal Reserve Board, with the Bank for International Settlements in 1931 for the purchase from time to time of bills guaranteed by that bank, which had been reduced to \$2,920,000 by the beginning of 1934, was further reduced to \$530,000 during the year. The total of the demand deposit and of bills purchased under the agreement, which had amounted to \$4,220,000 at the beginning of the year, was reduced to \$2,530,000.

On November 2, at the time gold was being shipped from Belgium to the United States, the Federal Reserve Board approved the extension of credits to the National Bank of Belgium by the Federal

Reserve Bank of New York, in association with the other Federal Reserve banks, for amounts up to \$25,000,000 in the form of advances secured by gold. Advances made under this agreement were entirely liquidated by the end of November, when the shipment of gold from Belgium to this country ceased. On November 28 the Federal Reserve Board also approved the extension of similar credits to the Bank for International Settlements by the Federal Reserve Bank of New York, in association with the other Federal Reserve banks, for amounts up to \$50,000,000 in the form of advances secured by gold. No utilization was made of this credit during the year.

BANK EXAMINATIONS

Under the provisions of the Federal Reserve Act State member banks are subject to examinations made by direction of the Federal Reserve Board or of the Federal Reserve banks by examiners selected or approved by the Federal Reserve Board. The examinations of State member banks made under the provisions of the Federal Reserve Act are made by examiners for the various Federal Reserve banks, whose appointments are approved by the Federal Reserve Board and who work under the direction of the Federal Reserve agents. The policy approved by the Federal Reserve Board provides that at least one regular examination of each State member bank, including its trust department, be made during each calendar year by examiners for the Federal Reserve banks, either independently or jointly with State banking authorities.

In order to avoid duplication of examinations and minimize any inconvenience to the banks examined, most of the examinations of State member banks made by examiners for the Federal Reserve banks were joint examinations made in cooperation with the State banking authorities.

In connection with the consideration of applications of holding company affiliates for voting permits, arrangements were completed, wherever practicable, to have the various banks controlled by the same holding company affiliate examined as nearly as practicable as of the same date in order that a comprehensive picture of the entire group might be obtained and information concerning various relationships within the group be developed. Such arrangements were worked out in cooperation with the chief national bank examiners in the various districts and the State banking authorities, the national banks being examined by the national bank examiners and the State banks by the State authorities and examiners for the Federal Reserve banks.

During 1934 a conference was held in Washington of the Assistant Federal Reserve agents in charge of examinations for the Federal Reserve banks, the chief examiners and the trust examiners for the

Federal Reserve banks, and representatives of the Federal Reserve Board. The conference was called at the request of the Federal Reserve Board in order that those in charge of the examination work for the Federal Reserve banks and the representatives of the Board in Washington might consider together the questions involved in the examination of the State member banks and that the examination activities of the various Federal Reserve banks might be further coordinated and a more uniform procedure developed.

One of the important features of the examinations of the State member banks during the year 1934 was the development of more complete examinations of the trust departments. In accordance with the procedure approved by the Federal Reserve Board in the latter part of 1933, each of the Federal Reserve agents made arrangements to add to his staff one or more examiners especially qualified for the examination of trust departments. In the examinations of the trust departments of the State member banks particular emphasis has been laid upon policies and practices of the banks in the investment of trust funds.

As originally enacted, section 12B of the Federal Reserve Act provided that every member bank should take all necessary steps to become a class A stockholder of the Federal Deposit Insurance Corporation on or before July 1, 1934, and that, upon receipt of an application from a State member bank for such stock, the Corporation should request the Federal Reserve Board to certify upon the basis of a thorough examination of such bank whether or not the assets of the bank were adequate to enable it to meet all of its liabilities to depositors and other creditors as shown by the books of the bank. A program of examinations of the State member banks was therefore developed by the Federal Reserve Board and the Federal Reserve agents to serve as the basis for the required certifications to the Federal Deposit Insurance Corporation. Following the postponement to July 1, 1935, of the effective date of the inauguration of the permanent plan for insurance of deposits, another program of examinations for State member banks was inaugurated in order that the required certifications might be based on current reports of examination.

The Board's Division of Examinations conducted one examination of each Federal Reserve bank during the year.

The head office of the only banking corporation now in operation organized to engage in foreign and international banking business, under the provisions of section 25 (a) of the Federal Reserve Act, generally referred to as the Edge Act, was examined during the year.

The Board's Division of Examinations also made an examination of a corporation principally engaged in international or foreign banking whose stock a national bank sought permission to acquire and hold under the provisions of section 25 of the Federal Reserve Act.

TRUST POWERS OF NATIONAL BANKS

The Board in 1934 approved 70 original and 6 supplementary applications by national banks for permission to exercise fiduciary powers under the provisions of section 11 (k) of the Federal Reserve Act. On December 31, 1934, 1,945 national banks were holding permits to act in fiduciary capacities. During the year 1934, 12 national banks surrendered their rights to exercise trust powers under the provisions of section 11 (k) of the Federal Reserve Act.

In addition to granting trust powers to member banks as stated above, the Board also gave consideration to a considerable number of applications for trust powers where the condition of the bank, the character of the management, the need for fiduciary powers or other related matters were such that the grant of unrestricted trust powers did not appear to be warranted. The disposition of such applications varied according to the facts and circumstances in each case. Certain applications were denied; others were approved in restricted form to permit the applicant bank to acquire certain accounts but not to acquire other fiduciary business of the same character; while in other cases action by the Board was deferred pending an examination of the applicant bank, the strengthening of its capital structure, or action in connection with changes or corrections in the asset condition of the bank, its management, or other pertinent factors. In a number of instances where applications had been originally denied or deferred or where restricted powers only had been granted, the Board subsequently reconsidered the application, and, on the basis of a proper showing as to matters affecting its former action, and such additional information as may have been submitted, authorized the applicant bank to exercise either restricted or unrestricted trust powers, as circumstances warranted.

A list of national banks holding permits to exercise trust powers on December 31, 1934, is printed on pages 236-255.

REDUCTIONS IN CAPITAL STOCK OF MEMBER BANKS

During the year 1934 the Board acted upon applications of 558 national banks for permission to reduce the amount of their capital stock, and 557 of the applications were approved. The Board also approved the applications of 16 State member banks which were subject to a condition of membership requiring the Board's approval of reductions in their capital stock. In practically all cases of both national and State member banks, the reductions were in connection with the issuance of preferred stock or capital notes or debentures, the funds released through the reduction of common stock being used to provide for the elimination of losses and other undesirable assets.

ADMINISTRATION OF SECTIONS 8 AND 8A OF THE CLAYTON ANTITRUST ACT

The Clayton Antitrust Act under certain circumstances prohibits directors, officers, or employees of banks, banking associations, or trust companies organized or operating under the laws of the United States from serving other banking institutions and also prohibits such persons from serving nonbanking organizations which make loans secured by stock or bond collateral. The Federal Reserve Board is authorized subject to certain conditions and limitations to grant permits covering the relationships between banking institutions which, without such permits, would be prohibited by the act. During the year 1934 the Board acted upon approximately 2,270 applications for such permits; and at the close of the year 263 applications were pending before the Board.

A majority of the applications submitted were made necessary by the provisions of section 8A of the act, which was added by the Banking Act of 1933 and became effective January 1, 1934. Under the provisions of such section many relationships which heretofore were not subject to the provisions of the Clayton Act because of the small size or relative location of the banks involved became subject to the provisions of the act.

ADMINISTRATION OF SECTION 32 OF THE BANKING ACT OF 1933

Section 32 of the Banking Act of 1933, which became effective January 1, 1934, makes it unlawful for an officer or director of a member bank to be an officer, director, or manager of an organization engaged primarily in the business of purchasing, selling, or negotiating securities, and prohibits correspondent relationships between such organizations and member banks, except when authorized by a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest and to revoke such permit if the public interest requires.

The Board believes that it was the intent of the Congress in enacting the provision regarding officers and directors of member banks to terminate relationships of certain kinds between member banks and dealers in securities, apparently because the Congress believed that such relationships might tend to influence the banks' credit and investment policies and their advice to their correspondent banks and other customers respecting investments in a manner which the Congress deemed to be incompatible with the public interest. Accordingly, the Board believes that it may not properly issue permits authorizing relationships which are actually of a kind referred to in the section, since to do so would nullify its provisions; and that its

authority to issue permits should be exercised only in exceptional cases, such as those which come within the literal terms of the section but which do not involve relationships of a kind which are actually within its intentment.

During the year 1934, 388 applications of individuals under the provisions of section 32 were filed with the Board. Of this number, 117 were denied, 32 were granted for the period ending June 16, 1934, 7 were granted without limitation as to time, and in 133 cases the Board concluded that the provisions of section 32 were not applicable. In a number of instances consideration of the application was rendered unnecessary by a change in circumstances occurring after the filing of the application. The Board also considered the applicability of section 32 in a number of other cases in which no formal applications were filed.

The Board interpreted the provisions dealing with correspondent relationships as referring to relationships involving the underwriting and distribution of securities. However, since member banks are authorized under other provisions of the law to underwrite and deal in United States Government obligations, municipal bonds, and certain other specified types of securities, the Board decided that it might properly issue permits authorizing correspondent relationships involving securities of those types, and later it issued a blanket permit authorizing such relationships.

AFFILIATES OF MEMBER BANKS

Reports on affiliates of member banks.—The Banking Act of 1933 amended the Federal Reserve Act so as to provide that member banks should obtain such reports from each of their affiliates as would fully disclose the relations between such organizations and the member banks. For the purpose of such reports the term "affiliates" includes both "affiliates" and "holding company affiliates" as defined by the act.

The term "affiliate", as defined in the act, includes any corporation, business trust, association or similar organization, of which a member bank owns or controls a majority of the voting shares or more than 50 percent of the number of shares voted at the preceding election of directors or controls in any other manner the election of a majority of its directors; of which control is held by shareholders of a member bank who own or control a majority of the shares of such bank or more than 50 percent of the number of shares voted at the preceding election of directors or by trustees for the benefit of the shareholders of a member bank; or of which a majority of the directors are directors of a member bank.

The term "holding company affiliate" includes any corporation, business trust, association or similar organization which owns or

controls a majority of the shares of stock of a member bank or more than 50 percent of the number of shares voted at the preceding election of directors; which controls in any manner the election of a majority of the directors of a member bank; or for the benefit of whose shareholders substantially all of the stock of a member bank is held by trustees.

Each State member bank is required to furnish to the Federal Reserve bank of its district and to the Federal Reserve Board not less than three reports of its affiliates each year on dates identical with its own condition report. It is required that reports of affiliates be published by the bank under the same conditions as govern its own condition reports, and a penalty is prescribed for failure to obtain and furnish any such report. National banks are required to make similar reports to the Comptroller of the Currency.

Number of affiliations.—In response to the call by the Federal Reserve Board and the Comptroller of the Currency for reports as of December 31, 1934, 1,142 national banks and 295 State member banks reported affiliates. These affiliates numbered 2,314, of which 281 were nonmember banks, 227 were safe-deposit or bank-building companies, 124 were foreign organizations, and the remaining were classified as mainly in the fields of finance and investment and real estate. Among the affiliates comprehended by the statutory definition are factories, stores, churches, colleges, newspapers, steamship companies, cemeteries, hotels, and labor unions. A large number of these are in the affiliate relationship accidentally, and not as the result of any purpose of establishing such relationships. In many cases the affiliation is due to the fact that the bank has had to realize on collateral pledged to secure loans, or holds certain property as trustee of an estate, or has been helped out of difficulties of its own by the owners of other businesses. About one-sixth of the affiliates grow out of the liquidation of bad assets of member banks.

Form of control.—About one-fourth of the affiliates reported were owned by stockholders of the member banks reporting them as affiliates, while a little over one-third were owned directly by member banks. The affiliates' reports that have been submitted by member banks indicate that there were 170 holding-company affiliates of active member banks. Twenty-two national banks and 14 State member banks were reported as being holding-company affiliates of other member banks. There were 60 holding-company affiliates which were primarily bank holding companies.

Applications for voting permits by holding-company affiliates.—Under the provisions of the Banking Act of 1933 shares of a member bank which are controlled by a holding-company affiliate of the bank may not be voted unless the holding-company affiliate shall have first obtained a voting permit from the Federal Reserve Board,

which permit is in force at the time such shares are voted. In acting upon an application for a voting permit the Board is required to consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of the permit upon the affairs of the bank, and may grant or withhold a permit as the public interest may require; but may not grant such a permit except upon certain conditions specified in the law.

During the year 1934 the Federal Reserve Board acted upon the applications for voting permits submitted in accordance with this provision of the law and authorized the issuance of permits as follows: For general purposes, 12; for miscellaneous purposes only, such as issuance of preferred stock, reduction of common stock, etc., 89; for the election of directors for the year 1934 and the transaction of routine matters only, 37; for the election of directors for the year 1934, the transaction of routine matters, and for other miscellaneous purposes, 67; for the election of directors for the year 1935 and the transaction of routine matters only, 82; for the election of directors for the year 1935, the transaction of routine matters, and for other miscellaneous purposes, 29.

As stated previously, during the year 1934 the Board authorized the issuance of 12 general voting permits. Consideration is being given to the issuance of general voting permits in all remaining cases where satisfactory information is available through examination reports, or otherwise, with respect to financial condition, management, and the effect of the relationship upon member banks in the various groups.

PRIVATE BANKS

Section 21 of the Banking Act of 1933 made it unlawful, after June 16, 1934, for any person, firm, corporation, association, business trust, or other similar organization engaged in the business of issuing, underwriting, selling, or distributing securities to engage at the same time in the business of receiving deposits. In view of this provision some of the well-known private bankers have elected to continue in the securities business, and others have elected to continue in the banking business. Those that chose to continue as banks were subject to the requirement that after June 16, 1934, every "person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law" engaged "to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor" must submit to periodic examination by either the Comptroller of the Currency or a Federal Reserve bank,

and submit and publish condition reports under the same conditions as national banks.

Under this requirement of law 140 private bankers had agreed to such examination and had submitted condition reports to the Comptroller of the Currency as of December 31, 1934. Of the 140 private bankers, 96 had agreed to submit to examination by Federal Reserve banks and 92 such banks were examined during the year. A few banks had agreed so late in the year to submit to examination that it was not practicable to make the examinations before January 1, 1935. Two private banks had agreed to submit to examination by Federal Reserve banks but had refused to agree to pay the costs of the examinations, for which no provision had been specifically made in the law.

The table below shows the number and deposits of private banks at the end of June 1933 and December 1934. For June 1933 the figures represent private banks under State supervision and private banks which, in response to the request of the Comptroller of the Currency, submitted condition reports (on a voluntary basis) directly to the Comptroller.

NUMBER AND DEPOSITS OF PRIVATE BANKS

[Deposits in thousands of dollars]

State	June 1933				December 1934			
	Under State supervision		Not under State supervision ¹		Under State supervision ²		Not under State supervision ³	
	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits
Alabama.....							1	38
Arkansas.....							8	211
Connecticut.....	6	2,336			4	229	4	995
Florida.....								
Georgia.....			21	1,901			46	2,325
Indiana.....	58	7,977			23	4,814		
Iowa.....			13	3,070			14	3,896
Kansas.....	48	4,415			2	432		
Massachusetts.....							1	41
Michigan.....			16	1,645			28	3,777
Missouri.....	1	20			1	16		
New Jersey.....	4	1,657			3	10		
New York.....	14	6,827			18	272,418	2	27,491
Ohio.....	23	3,732			14	2,646		
Pennsylvania.....	12	954			26	37,704	5	1,648
South Carolina.....					1	1,097		
Texas.....			14	2,303			31	15,174
Total.....	120	23,848	64	8,919	101	339,829	140	55,697

¹ Banks from which reports were received by Comptroller of the Currency.

² Figures for Missouri and New York are as of June 30, 1934.

³ Agreed to examination by Comptroller of the Currency or Federal Reserve bank. Of the total, 96 banks agreed to examination by a Federal Reserve bank, 42 by the Comptroller of the Currency, and 2 by either a Federal Reserve bank or the Comptroller of the Currency.

⁴ Figures are as of July 31, 1933.

It will be noted that between June 1933 and December 1934 the number of reporting private banks increased from 184 to 241, principally in the States of Georgia, Michigan, Texas, and Pennsylvania, the increase representing in the case of the first three States private banks not under State supervision and in the case of Pennsylvania private banks that have become subject to State supervision. During the same period total deposits of reporting private banks increased from \$33,000,000 to \$395,000,000, the increase representing principally deposits of private banks in New York and Pennsylvania now operating under State supervision but which had not submitted reports as of June 1933.

MEETINGS OF FEDERAL OPEN MARKET COMMITTEE

In accordance with the provisions of the first paragraph of section 12A of the Federal Reserve Act, four meetings of the Federal Open Market Committee were held in Washington during 1934. These meetings were held on March 5, June 26, September 21, and December 17, 1934. The executive committee of the Federal Open Market Committee met from time to time throughout the year as occasion required.

MEETINGS OF FEDERAL ADVISORY COUNCIL

Four meetings of the Federal Advisory Council were held in Washington during 1934 on the following dates: February 20, May 14-15, September 17-18, and November 19-20. Other material relating to the Federal Advisory Council appears in the appendix.

ORGANIZATION, STAFF, AND EXPENDITURES

On January 1, 1934, Henry Morgenthau, Jr., of New York, succeeded William H. Woodin, of New York, as Secretary of the Treasury and as ex-officio chairman of the Federal Reserve Board. Mr. Woodin became Secretary of the Treasury on March 4, 1933.

The resignation tendered by Eugene R. Black, of Georgia, as member and Governor of the Federal Reserve Board was accepted as of August 15, 1934, and on August 16, 1934, he resumed his duties as governor of the Federal Reserve Bank of Atlanta, where he remained until his death on December 19, 1934. Mr. Black became Governor of the Board on May 19, 1933.

Effective November 15, 1934, Marriner S. Eccles, of Utah, was appointed a member of the Federal Reserve Board for the unexpired portion of the term ending August 9, 1938, and was designated as Governor of the Board, succeeding Mr. Black.

On August 21, 1934, J. J. Thomas, of Nebraska, who had been a member of the Federal Reserve Board since June 14, 1933, was designated Vice Governor.

On August 9, 1934, the term of Adolph C. Miller, of the District of Columbia, as a member of the Federal Reserve Board expired, and on August 21, 1934, Mr. Miller was reappointed a member of the Board for a 12-year term beginning August 10, 1934.

Effective at the close of business on October 30, 1934, H. Warner Martin resigned as assistant to the Governor of the Federal Reserve Board. Mr. Martin had served in that position since August 16, 1933. Effective December 1, 1934, the Board appointed Lawrence Clayton as assistant to the Governor to succeed Mr. Martin.

On November 24, 1934, the Board created a new division within its organization known as the Division of Security Loans, with Carl E. Parry, formerly assistant director of the Board's Division of Research and Statistics, as chief of the new division. On the same date Laughlin Currie and Woodlief Thomas were appointed by the Board as assistant directors of the Division of Research and Statistics.

Joseph T. Owens was appointed assistant counsel to the Federal Reserve Board, effective April 9, 1934. Gray Williams was appointed assistant counsel to the Federal Reserve Board, effective April 11, 1934. Mr. Williams resigned effective at the close of business on August 25, 1934. H. Lee Boatwright, Jr., who was appointed assistant counsel to the Federal Reserve Board, effective May 3, 1933, resigned at the close of business on December 31, 1934. John C. Baumann was appointed assistant counsel to the Federal Reserve Board, effective December 31, 1934.

The total cost of conducting the work of the Board during the year 1934 was approximately \$1,266,931. Two assessments were levied against the Federal Reserve banks aggregating \$1,372,021.74, or somewhat less than one-half of 1 percent of their average paid-in capital and surplus for the year. Under an arrangement with the Federal Reserve Bank of Cleveland the accounts of the Board were audited four times during the course of the year 1934 by the auditor of the Federal Reserve Bank of Cleveland and certified by him to be correct.

FEDERAL RESERVE BANK CREDIT

RESERVE BANK CREDIT AND RELATED ITEMS

No. 1.—RESERVE BANK CREDIT AND RELATED ITEMS, ANNUAL AVERAGES, 1918-34

[Averages of daily figures. In millions of dollars]

Year	Reserve bank credit outstanding				Total	Monetary gold stock	Treasury and national bank currency ¹	Money in circulation ²	Member bank reserve balances	Treasury cash and deposits with F. R. banks ³	Non-member deposits ⁴	Other Federal Reserve accounts ⁵
	Bills discounted ¹	Bills bought	U. S. Government securities	Other Reserve bank credit ¹								
1918.....	1,184	287	324	168	1,723	2,871	1,897	4,371	1,497	891	108	85
1919.....	1,906	324	254	141	2,625	2,842	1,718	4,729	1,719	494	118	155
1920.....	2,522	355	324	158	2,360	2,582	1,695	5,191	1,835	293	67	280
1921.....	1,707	91	264	46	2,198	3,004	1,768	4,663	1,671	263	28	336
1922.....	571	159	455	41	1,226	3,515	1,871	4,248	1,781	268	80	286
1923.....	736	227	186	56	1,205	3,774	1,991	4,835	1,873	255	27	280
1924.....	873	172	402	49	996	4,152	2,017	4,592	2,022	360	27	263
1925.....	490	287	359	59	1,195	4,094	2,000	4,562	2,167	244	81	264
1926.....	572	251	360	55	1,238	4,165	1,985	4,645	2,209	242	28	284
1927.....	442	263	417	53	1,176	4,277	2,000	4,605	2,290	226	31	306
1928.....	840	328	397	49	1,615	4,919	2,008	4,496	2,305	225	29	327
1929.....	952	241	208	59	1,459	3,996	2,015	4,476	2,358	229	30	370
1930.....	272	213	594	38	1,087	4,173	2,025	4,345	2,378	239	28	398
1931.....	327	245	566	38	1,274	4,417	2,025	4,672	2,323	251	97	373
1932.....	521	71	1,461	24	2,077	3,932	2,096	5,328	2,114	275	56	351
1933.....	283	88	2,052	11	2,429	4,059	2,271	5,578	2,343	343	147	350
1934.....	86	25	2,432	10	2,502	7,512	2,381	6,403	3,676	2,879	185	263

¹ Foreign loans on gold, made during 1924, 1925, 1926, 1929, 1931, and 1934, heretofore included in "Other Reserve bank credit" or shown separately, are now included in "Bills discounted." "Other Reserve bank credit" includes Government overdrafts in 1918, 1919, and 1920.

² Revised to exclude \$287,000,000 of gold coin previously reported as in circulation. Beginning Jan. 31, 1934, reporting practice of Treasury and Federal Reserve banks was changed to omit gold coin from figures for gold stock and money in circulation for the following reasons: (1) Amount of gold coin previously reported as "in circulation" is known to have been overstated during recent years by whatever amount of such coin has in course of time been lost, destroyed, or exported without records; (2) results of official efforts during the war to concentrate gold and more recently, since Mar. 6, 1933, to secure its return from private hoards, have indicated that the overstatement has been large; (3) Treasury order of Dec. 28, 1933, requiring surrender of all gold coin (with minor exceptions) in effect prohibits anyone from using gold coin for circulation; (4) under Gold Reserve Act of 1934, effective Jan. 30, no gold coin may hereafter be put into circulation. In order to make figures prior to Jan. 31, 1934, comparable with subsequent figures, the same amount of \$287,000,000 has been removed from all previous figures published in this Annual Report. For revised monthly figures of monetary gold stock and money in circulation from 1914 to date see tables 43 and 48.

³ Comprises outstanding United States notes, national bank notes, silver certificates (included in list of the silver dollars or silver bullion pledged against them), Treasury notes of 1890, standard silver dollars (excepting those pledged against silver certificates), subsidiary silver and minor coin, and the Federal Reserve bank notes for the retirement of which lawful money has been deposited with the Treasurer of the United States, including the currency of these kinds that is held in the Treasury and the Federal Reserve banks as well as that in circulation.

⁴ Government funds on deposit with the Federal Reserve banks and cash (including gold bullion) held in the Treasury excepting (a) gold and silver held against gold and silver certificates and (b) amounts held for the Federal Reserve banks.

⁵ Item includes all deposits in Federal Reserve banks except Government deposits and member-bank reserve balances.

⁶ This item is derived from the condition statement of the Federal Reserve banks by adding capital, surplus, reserve for contingencies, and "all other liabilities" and subtracting the sum of bank premises and "all other assets."

NOTE.—By proclamation of the President dated at 3:10 p. m. Jan. 31, 1934, the weight of the gold dollar was reduced from 25 $\frac{1}{2}$ grains to 16 $\frac{1}{2}$ grains, nine-tenths fine. The resulting increase of \$2,800,000,000 (as of Feb. 1, 1934) in the value of the monetary gold stock was covered into the Treasury as a miscellaneous receipt and is reflected in an increase in the item "Treasury cash and deposits with Federal Reserve banks."

68 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

NO. 2.—RESERVE BANK CREDIT AND RELATED ITEMS, MONTHLY AVERAGES, 1930-34

(Averages of daily figures. In millions of dollars)

Month	Reserve bank credit outstanding					Monetary stock	Treasury and national bank currency	Money in circulation	Member bank balances	Treasury cash and deposits with banks	Non-member deposits	Other Federal Reserve accounts
	Bills discounted	Bills bought	U. S. Government securities	Other Reserve bank credit	Total							
1930												
January.....	501	314	485	57	1,357	3,096	2,022	4,355	2,349	228	20	394
February.....	378	285	480	38	1,181	4,030	2,022	4,267	2,305	241	27	393
March.....	274	246	540	35	1,095	4,107	2,022	4,245	2,330	225	27	397
April.....	281	266	530	45	1,072	4,156	2,023	4,231	2,350	242	28	408
May.....	247	182	559	38	996	4,218	2,024	4,210	2,358	244	29	398
June.....	251	141	571	37	1,000	4,241	2,024	4,202	2,392	249	27	395
July.....	226	154	583	40	1,003	4,245	2,024	4,196	2,417	235	35	389
August.....	214	153	599	32	998	4,209	2,025	4,189	2,392	238	28	385
September.....	189	187	597	33	1,015	4,216	2,026	4,208	2,397	242	26	388
October.....	196	185	602	37	1,020	4,233	2,027	4,214	2,407	240	27	392
November.....	221	184	599	29	1,033	4,256	2,028	4,241	2,433	235	30	388
December.....	338	257	644	24	1,273	4,296	2,027	4,536	2,415	234	27	384
1931												
January.....	253	206	647	23	1,129	4,335	2,026	4,406	2,433	242	28	379
February.....	218	192	658	16	936	4,369	2,028	4,311	2,370	245	25	379
March.....	178	123	694	18	921	4,396	2,026	4,305	2,386	248	24	381
April.....	155	173	600	24	952	4,424	2,025	4,300	2,376	255	27	383
May.....	163	144	599	20	926	4,480	2,023	4,392	2,387	240	28	383
June.....	190	121	610	25	945	4,578	2,022	4,463	2,404	253	35	389
July.....	149	79	574	32	824	4,571	2,023	4,549	2,407	239	33	370
August.....	223	135	712	37	1,107	4,668	2,023	4,660	2,345	259	197	397
September.....	282	259	736	36	1,313	4,661	2,023	4,848	2,333	255	199	394
October.....	614	692	733	49	2,088	4,100	2,024	5,191	2,296	256	206	381
November.....	585	660	727	53	2,035	4,076	2,023	5,231	2,118	260	171	357
December.....	774	340	777	59	1,950	4,163	2,061	5,324	2,069	249	144	358
1932												
January.....	828	221	789	56	1,894	4,165	2,037	5,356	1,979	264	113	352
February.....	848	151	743	43	1,785	4,097	2,049	5,340	1,907	262	73	349
March.....	714	105	809	24	1,552	4,085	2,059	5,244	1,869	267	87	349
April.....	695	52	1,014	23	1,694	4,094	2,061	5,153	1,996	272	63	353
May.....	486	41	1,413	19	1,959	3,966	2,060	5,199	2,138	272	77	349
June.....	495	50	1,697	20	2,262	3,669	2,058	5,243	2,062	271	65	348
July.....	423	60	1,818	21	2,422	3,654	2,056	5,494	2,033	276	46	343
August.....	551	87	1,850	15	2,353	3,745	2,077	5,432	2,073	281	40	347
September.....	387	34	1,848	13	2,262	3,853	2,130	5,398	2,181	304	25	347
October.....	328	24	1,851	18	2,231	3,939	2,171	5,356	2,307	285	38	356
November.....	313	24	1,851	18	2,211	4,000	2,194	5,356	2,378	277	40	359
December.....	282	34	1,854	22	2,192	4,143	2,202	5,413	2,435	287	45	359
1933												
January.....	255	22	1,806	16	2,110	4,260	2,204	5,544	2,516	303	60	351
February.....	307	102	1,804	12	2,224	4,204	2,204	5,606	2,391	314	79	343
March.....	699	379	1,876	16	2,237	3,974	2,256	6,711	1,914	359	134	349
April.....	429	230	1,837	18	2,515	4,014	2,302	5,850	2,086	390	166	349
May.....	339	86	1,846	15	2,286	4,028	2,301	5,698	2,126	371	173	350
June.....	189	16	1,833	12	2,295	4,030	2,303	5,549	2,015	353	164	350
July.....	170	16	2,016	10	2,211	4,032	2,283	5,488	2,268	347	179	344
August.....	159	8	2,094	8	2,239	4,036	2,280	5,329	2,375	316	186	349
September.....	138	7	2,292	12	2,358	4,040	2,280	5,548	2,439	326	169	347
October.....	116	7	2,355	11	2,492	4,037	2,277	5,368	2,680	333	168	351
November.....	114	15	2,437	8	2,574	4,036	2,275	5,394	2,629	349	168	355
December.....	117	101	2,432	19	2,669	4,036	2,263	5,524	2,616	357	143	358
1934												
January.....	101	113	2,432	9	2,666	4,036	2,302	5,382	2,764	397	145	364
February.....	70	87	2,432	8	2,597	7,138	2,308	5,339	2,822	336	146	363
March.....	35	60	2,437	8	2,535	7,602	2,333	5,268	3,351	306	164	368
April.....	48	16	2,438	7	2,507	7,737	2,377	5,306	3,594	3,222	170	368
May.....	36	6	2,431	6	2,479	7,759	2,378	5,355	3,665	3,083	249	374
June.....	28	5	2,424	7	2,464	7,821	2,363	5,341	3,790	3,054	236	377
July.....	22	5	2,432	6	2,469	7,888	2,364	5,354	3,728	2,969	219	360
August.....	21	6	2,432	6	2,463	7,971	2,378	5,355	3,645	2,976	208	378
September.....	22	6	2,431	10	2,449	7,971	2,411	5,427	3,947	3,054	197	377
October.....	18	6	2,430	8	2,457	7,989	2,415	5,473	3,964	3,011	177	374
November.....	18	6	2,430	12	2,466	8,047	2,455	5,494	4,130	3,970	168	368
December.....	10	6	2,430	26	2,473	8,191	2,494	5,577	4,037	3,120	181	343

(For footnotes see table 1, p. 67.)

BACK FIGURES.—See Annual Report for 1933 (table 2). For revised figures for monetary gold stock and

RESERVE BANK CREDIT

693

NO. 3.—RESERVE BANK CREDIT AND RELATED ITEMS, WEEKLY AVERAGES, 1933-34

[Averages of daily figures. In millions of dollars]

Week ending (Saturday)	Reserve bank credit outstanding					Treasury and national bank currency	Money in circulation	Member bank deposits with F. R. banks	Treasury cash and deposits	Non-member deposits	Other Federal Reserve accounts	
	Bills discounted	Bills bought	U. S. Government securities	Other Reserve bank credit	Total							
1933												
Jan. 7	245	33	1,853	22	2,153	4,239	2,204	5,382	2,513	302	47	352
Jan. 14	249	32	1,829	17	2,127	4,261	2,204	5,329	2,563	300	48	352
Jan. 21	251	32	1,793	16	2,091	4,271	2,204	5,329	2,526	296	54	351
Jan. 28	287	31	1,770	11	2,080	4,267	2,204	5,333	2,487	307	74	350
Feb. 4	269	31	1,753	9	2,074	4,263	2,204	5,377	2,426	318	69	350
Feb. 11	256	31	1,775	15	2,078	4,254	2,203	5,430	2,344	311	68	348
Feb. 18	263	45	1,809	18	2,155	4,218	2,203	5,563	2,250	321	82	344
Feb. 25	236	181	1,833	8	2,307	4,163	2,205	5,745	2,235	312	90	343
Mar. 4	847	351	1,848	(7)	3,056	4,046	2,219	6,518	2,055	296	96	346
Mar. 11	1,421	417	1,876	-53	3,661	3,957	2,233	7,245	1,803	311	143	349
Mar. 18	1,185	400	1,907	-15	3,477	3,964	2,255	6,973	1,898	305	140	349
Mar. 25	698	358	1,882	4	2,939	3,976	2,273	6,856	1,932	401	129	350
Apr. 1	530	316	1,846	2	2,703	3,983	2,285	6,089	1,973	421	141	340
Apr. 8	443	288	1,838	12	2,582	3,996	2,295	5,984	2,002	402	138	347
Apr. 15	444	244	1,859	21	2,568	4,014	2,302	5,985	2,083	391	144	348
Apr. 22	420	208	1,837	25	2,492	4,026	2,307	5,798	2,130	373	137	345
Apr. 29	411	180	1,837	15	2,444	4,022	2,306	5,728	2,130	373	131	356
May 6	404	148	1,837	17	2,407	4,024	2,304	5,685	2,080	431	184	355
May 13	348	115	1,837	16	2,311	4,025	2,303	5,622	2,090	393	178	355
May 20	331	81	1,843	17	2,273	4,026	2,299	5,575	2,126	366	175	354
May 27	314	45	1,851	12	2,224	4,027	2,298	5,528	2,177	337	164	353
June 3	305	20	1,850	8	2,213	4,028	2,298	5,527	2,165	333	161	353
June 10	294	11	1,907	13	2,216	4,029	2,298	5,497	2,199	318	178	351
June 17	255	10	1,925	15	2,207	4,030	2,295	5,455	2,215	348	154	350
June 24	228	9	1,950	11	2,196	4,031	2,295	5,434	2,193	405	155	349
July 1	195	26	1,979	10	2,210	4,031	2,293	5,415	2,273	337	163	347
July 8	179	29	2,008	13	2,229	4,031	2,285	5,459	2,244	329	169	346
July 15	169	14	2,016	12	2,213	4,032	2,284	5,402	2,254	325	172	345
July 22	168	9	2,013	9	2,197	4,032	2,283	5,354	2,267	346	188	347
July 29	154	9	2,025	8	2,204	4,033	2,281	5,332	2,267	359	185	346
Aug. 5	164	8	2,054	6	2,212	4,033	2,281	5,342	2,310	338	198	348
Aug. 12	169	8	2,044	8	2,219	4,033	2,281	5,336	2,362	265	191	349
Aug. 19	165	9	2,054	10	2,227	4,034	2,281	5,335	2,372	307	190	348
Aug. 26	155	7	2,082	9	2,263	4,038	2,280	5,320	2,402	326	177	347
Sept. 2	153	7	2,118	9	2,263	4,041	2,280	5,325	2,405	340	187	346
Sept. 9	147	7	2,150	11	2,215	4,042	2,280	5,285	2,410	335	181	346
Sept. 16	134	7	2,194	16	2,351	4,039	2,280	5,338	2,507	314	195	348
Sept. 23	132	7	2,223	13	2,374	4,040	2,280	5,333	2,516	320	195	348
Sept. 30	132	7	2,260	9	2,408	4,039	2,279	5,335	2,556	330	197	348
Oct. 7	125	7	2,295	8	2,436	4,037	2,278	5,376	2,603	368	157	347
Oct. 14	129	7	2,333	9	2,468	4,037	2,277	5,392	2,544	342	168	346
Oct. 21	119	7	2,308	10	2,413	4,036	2,277	5,378	2,608	319	165	355
Oct. 28	116	6	2,367	10	2,530	4,036	2,277	5,340	2,663	315	167	358
Nov. 4	116	7	2,424	8	2,536	4,036	2,276	5,365	2,626	349	173	356
Nov. 11	113	8	2,439	10	2,570	4,036	2,275	5,395	2,603	338	169	359
Nov. 18	112	16	2,439	10	2,578	4,036	2,275	5,388	2,649	335	183	355
Nov. 25	113	20	2,437	5	2,475	4,036	2,276	5,385	2,671	329	148	356
Dec. 2	120	27	2,437	7	2,591	4,036	2,277	5,444	2,697	323	145	354
Dec. 9	122	37	2,431	8	2,628	4,036	2,279	5,468	2,650	397	154	356
Dec. 16	118	117	2,432	17	2,683	4,036	2,293	5,497	2,636	369	155	356
Dec. 23	117	114	2,432	30	2,693	4,036	2,298	5,568	2,614	347	135	353
Dec. 30	110	120	2,434	28	2,659	4,036	2,303	5,553	2,609	317	128	351

† Less than \$500,000.

(For other footnotes see table 1, p. 67.)

70 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 3.—RESERVE BANK CREDIT AND RELATED ITEMS, WEEKLY AVERAGES, 1933-34—Continued

[Averages of daily figures. In millions of dollars]

Week ending (Saturday)—	Reserve bank credit outstanding					Monetary gold stock ¹	Treasury and national bank currency ²	Money in circulation ³	Mem- ber- bank de- posits ⁴	Treasury cash and de- posits with F. R. banks ⁵	Non- mem- ber de- posits ⁶	Other Fed- eral Re- serve ac- counts ⁷
	Bills dis- counted ¹	Bills bought	U. S. Gov- ern- ment secu- rities	Other Re- serve bank credit ¹	Total							
1934												
Jan. 6.....	103	122	2,434	19	2,679	4,036	2,303	5,500	2,701	320	146	351
Jan. 13.....	105	113	2,432	11	2,661	4,036	2,302	5,414	2,719	402	157	307
Jan. 20.....	102	112	2,432	10	2,661	4,035	2,302	5,399	2,797	298	144	288
Jan. 27.....	98	109	2,432	2	2,641	4,036	2,301	5,316	2,850	385	139	287
Feb. 3.....	85	111	2,433	2	2,631	5,316	2,301	5,398	2,727	1,781	142	290
Feb. 10.....	73	98	2,432	7	2,612	7,938	2,301	5,353	2,752	3,435	140	361
Feb. 17.....	69	88	2,433	13	2,602	7,098	2,301	5,335	2,842	3,384	138	292
Feb. 24.....	67	77	2,431	9	2,584	7,202	2,301	5,345	2,822	3,450	132	262
Mar. 3.....	64	63	2,433	5	2,555	7,417	2,302	5,370	3,047	3,444	131	292
Mar. 10.....	59	49	2,437	5	2,549	7,546	2,212	5,386	3,277	3,315	134	265
Mar. 17.....	55	39	2,432	4	2,530	7,600	2,331	5,394	3,419	3,237	141	300
Mar. 24.....	62	33	2,438	-6	2,618	7,642	2,343	5,351	3,419	3,285	147	301
Mar. 31.....	52	30	2,444	9	2,534	7,677	2,358	5,358	3,453	3,319	159	300
Apr. 7.....	49	26	2,446	4	2,525	7,706	2,369	5,387	3,473	3,299	145	296
Apr. 14.....	44	18	2,439	3	2,504	7,731	2,378	5,370	3,557	3,259	147	300
Apr. 21.....	41	14	2,432	2	2,506	7,748	2,380	5,364	3,634	3,219	159	245
Apr. 28.....	40	11	2,435	12	2,468	7,755	2,380	5,346	3,698	3,158	193	238
May 5.....	39	8	2,432	8	2,487	7,758	2,380	5,372	3,501	3,152	272	227
May 12.....	37	7	2,431	8	2,485	7,759	2,381	5,369	3,655	3,069	250	234
May 19.....	36	6	2,430	8	2,479	7,753	2,380	5,357	3,713	3,059	249	234
May 26.....	35	5	2,430	4	2,474	7,784	2,376	5,335	3,766	3,054	237	232
June 2.....	33	5	2,430	2	2,470	7,777	2,370	5,350	3,745	3,064	226	232
June 9.....	29	5	2,416	9	2,459	7,790	2,364	5,300	3,780	3,011	227	235
June 16.....	28	5	2,416	9	2,459	7,819	2,361	5,337	3,825	3,008	230	239
June 23.....	28	5	2,431	7	2,470	7,836	2,361	5,328	3,754	3,124	223	233
June 30.....	27	5	2,430	6	2,468	7,848	2,365	5,330	3,825	3,064	226	236
July 7.....	26	5	2,432	17	2,480	7,866	2,364	5,368	3,776	3,076	229	231
July 14.....	23	5	2,432	13	2,472	7,881	2,365	5,367	3,892	3,007	221	231
July 21.....	23	5	2,432	7	2,467	7,896	2,364	5,342	3,971	2,967	219	228
July 28.....	22	5	2,432	2	2,451	7,913	2,364	5,310	4,019	2,957	214	228
Aug. 4.....	22	5	2,432	4	2,463	7,935	2,361	5,330	3,979	3,010	210	230
Aug. 11.....	21	5	2,432	7	2,464	7,961	2,360	5,349	4,020	2,979	208	229
Aug. 18.....	-20	5	2,432	10	2,467	7,979	2,375	5,357	4,072	2,956	207	227
Aug. 25.....	20	5	2,432	4	2,461	7,982	2,360	5,361	4,073	2,962	210	229
Sept. 1.....	24	5	2,432	5	2,474	7,979	2,403	5,368	4,051	2,955	205	227
Sept. 8.....	22	5	2,432	9	2,460	7,987	2,413	5,423	3,951	3,047	204	225
Sept. 15.....	23	5	2,431	13	2,473	7,998	2,414	5,427	3,954	3,054	205	225
Sept. 22.....	22	5	2,431	11	2,469	7,973	2,412	5,430	3,920	3,060	193	223
Sept. 29.....	20	6	2,431	7	2,463	7,976	2,408	5,429	3,943	3,051	186	228
Oct. 6.....	15	6	2,431	7	2,458	7,989	2,406	5,476	3,909	3,047	183	229
Oct. 13.....	13	6	2,429	5	2,453	7,985	2,403	5,469	3,976	2,961	187	229
Oct. 20.....	12	6	2,430	13	2,461	7,989	2,412	5,484	3,963	3,000	178	233
Oct. 27.....	11	6	2,430	9	2,456	7,994	2,426	5,456	3,985	3,030	167	239
Nov. 3.....	11	6	2,430	10	2,457	8,002	2,434	5,470	4,004	3,015	167	237
Nov. 10.....	14	6	2,430	9	2,459	8,009	2,444	5,506	4,044	2,932	172	232
Nov. 17.....	22	6	2,430	19	2,478	8,029	2,453	5,493	4,108	2,955	165	239
Nov. 24.....	23	6	2,429	13	2,469	8,039	2,464	5,474	4,169	2,931	160	239
Dec. 1.....	15	6	2,430	10	2,460	8,112	2,469	5,511	4,126	3,005	160	229
Dec. 8.....	11	6	2,430	13	2,460	8,122	2,478	5,496	4,063	3,028	172	229
Dec. 15.....	10	6	2,430	19	2,465	8,178	2,487	5,554	4,063	3,051	183	240
Dec. 22.....	10	6	2,430	40	2,486	8,204	2,501	5,604	3,943	3,214	185	244
Dec. 29.....	10	6	2,430	33	2,478	8,222	2,508	5,609	3,996	3,180	184	244

For footnotes see table 1, p. 67.

Back figures.—See Annual Report for 1933 (table 2), except that previously published figures for monetary gold stock and money in circulation have been revised to exclude \$287,000,000 of gold coin previ-

RESERVE BANK CREDIT

5
7PNo. 4.—RESERVE BANK CREDIT AND RELATED ITEMS, BY WEEKS, 1923-34
(WEDNESDAY SERIES)

[In millions of dollars]

Date (Wednesday)	Reserve bank credit outstanding					Total	Money and gold stock ¹	Treasury and national bank currency ²	Money in cir- culation ³	Mem- ber bank reserves ⁴	Treasury cash and de- posits with F. R. banks ⁵	Non- mem- ber deposits ⁶	Other Federal Re- serve ac- counts ⁷
	Bills dis- count- ed ¹	Bills bought	U. S. Gov- ern- ment securi- ties	Other Re- serve bank credit ¹									
1928													
Jan. 4.....	521	387	627	69	1,604	4,062	2,006	4,652	2,486	228	35	302	
Jan. 11.....	439	368	545	37	1,414	4,094	2,006	4,492	2,473	218	27	303	
Jan. 18.....	412	359	499	30	1,310	4,090	2,006	4,414	2,452	226	25	307	
Jan. 25.....	386	347	441	21	1,194	4,093	2,006	4,372	2,345	231	25	309	
Feb. 1.....	423	377	434	29	1,263	4,087	2,003	4,384	2,406	232	25	306	
Feb. 8.....	459	366	401	26	1,156	4,082	2,005	4,389	2,395	230	24	310	
Feb. 15.....	481	355	408	22	1,266	4,089	2,006	4,401	2,391	230	26	311	
Feb. 22.....	461	353	402	20	1,236	4,089	2,008	4,411	2,357	227	24	312	
Feb. 29.....	466	344	408	19	1,204	4,075	2,007	4,403	2,376	238	23	311	
Mar. 7.....	482	338	408	30	1,253	4,075	2,008	4,400	2,361	236	24	312	
Mar. 14.....	472	343	401	29	1,245	4,048	2,008	4,383	2,362	221	22	311	
Mar. 21.....	477	353	385	18	1,213	4,033	2,008	4,379	2,322	214	23	315	
Mar. 28.....	524	346	386	17	1,277	4,021	2,006	4,380	2,367	227	22	314	
Apr. 4.....	601	344	383	37	1,365	4,017	2,008	4,438	2,400	213	24	314	
Apr. 11.....	519	352	378	27	1,186	4,015	2,006	4,410	2,432	223	27	316	
Apr. 18.....	620	351	341	41	1,356	3,983	2,007	4,404	2,392	207	23	317	
Apr. 25.....	708	366	305	30	1,400	3,979	2,007	4,389	2,417	236	24	316	
May 2.....	757	388	292	42	1,454	3,978	2,010	4,428	2,442	222	32	317	
May 9.....	777	365	277	35	1,454	3,948	2,008	4,410	2,426	227	27	316	
May 16.....	807	347	282	39	1,455	3,898	2,008	4,403	2,382	226	26	321	
May 23.....	847	351	230	27	1,435	3,891	2,008	4,388	2,370	230	25	321	
May 30.....	944	304	219	21	1,488	3,874	2,009	4,434	2,357	350	27	322	
June 6.....	982	296	210	46	1,504	3,890	2,008	4,416	2,384	225	23	322	
June 13.....	1,043	240	223	40	1,545	3,817	2,006	4,408	2,362	219	27	322	
June 20.....	991	224	223	33	1,471	3,818	2,007	4,406	2,332	201	31	322	
June 27.....	1,032	223	212	27	1,494	3,816	2,007	4,411	2,345	200	26	322	
July 3.....	1,191	210	220	59	1,680	3,833	2,007	4,428	2,462	222	32	321	
July 11.....	1,089	188	218	47	1,542	3,828	2,007	4,421	2,468	225	35	321	
July 18.....	1,012	181	209	46	1,448	3,827	2,008	4,402	2,307	217	29	322	
July 25.....	1,026	169	208	28	1,430	3,828	2,004	4,378	2,300	230	26	322	
Aug. 1.....	1,086	166	212	41	1,505	3,836	2,006	4,403	2,344	233	20	322	
Aug. 8.....	1,061	162	208	22	1,463	3,827	2,007	4,418	2,266	247	27	328	
Aug. 15.....	1,033	160	206	48	1,447	3,832	2,006	4,430	2,285	211	29	332	
Aug. 22.....	1,037	184	207	32	1,460	3,833	2,006	4,436	2,281	222	28	332	
Aug. 29.....	1,039	184	200	30	1,462	3,837	2,007	4,443	2,269	233	29	332	
Sept. 5.....	1,080	187	206	43	1,516	3,836	2,006	4,414	2,273	214	23	332	
Sept. 12.....	1,069	211	221	56	1,656	3,837	2,007	4,474	2,349	212	30	332	
Sept. 19.....	1,094	237	225	70	1,626	3,838	2,008	4,470	2,361	250	33	332	
Sept. 26.....	1,011	263	229	39	1,542	3,842	2,009	4,483	2,316	217	38	332	
Oct. 3.....	1,026	310	231	64	1,631	3,838	2,010	4,620	2,350	230	32	332	
Oct. 10.....	993	332	227	34	1,586	3,842	2,010	4,545	2,313	210	29	34	
Oct. 17.....	958	379	231	60	1,608	3,849	2,010	4,526	2,359	210	30	34	
Oct. 24.....	912	401	231	25	1,569	3,853	2,011	4,604	2,322	228	27	34	
Oct. 31.....	932	440	227	25	1,624	3,855	2,011	4,519	2,371	236	28	34	
Nov. 7.....	957	449	223	5	1,634	3,858	2,011	4,591	2,330	236	30	34	
Nov. 14.....	858	474	222	61	1,616	3,869	2,011	4,533	2,365	225	26	34	
Nov. 21.....	800	484	226	48	1,558	3,872	2,013	4,508	2,346	214	25	34	
Nov. 28.....	900	483	226	28	1,729	3,841	2,013	4,616	2,361	231	26	34	
Dec. 5.....	1,012	478	227	45	1,782	3,847	2,012	4,626	2,382	237	27	34	
Dec. 12.....	1,028	494	236	46	1,804	3,852	2,011	4,648	2,409	232	27	35	
Dec. 19.....	947	453	231	81	1,772	3,863	2,011	4,738	2,326	204	25	35	
Dec. 26.....	1,168	486	232	62	1,941	3,862	2,013	4,802	2,409	219	30	35	

(For footnotes see table 1, p. 67.)

72 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 4.—RESERVE BANK CREDIT AND RELATED ITEMS, BY WEEKS, 1928-34
(WEDNESDAY SERIES)—Continued

(In millions of dollars)

Date (Wednesday)	Reserve bank credit outstanding					Monetary gold stock ¹	Treasury and national bank currency ²	Money in cir- culation ³	Mem- ber bank reserve balances	Treasury cash and de- posits with F. R. banks ⁴	Non- mem- ber depos- its ⁵	Other Feder- al Re- serve ac- counts ⁶
	Bills dis- count- ed ¹	Bills bought	U. S. Gov- ernment secu- rities	Other Re- serve bank credit ¹	Total							
1928												
Jan. 2	1,571	484	244	31	1,010	3,840	2,013	4,648	2,494	235	39	348
Jan. 9	1,777	477	239	45	1,638	3,833	2,012	4,475	2,406	220	33	350
Jan. 16	822	481	238	03	1,604	3,821	2,011	4,410	2,415	228	32	351
Jan. 23	782	454	202	34	1,472	3,830	2,011	4,306	2,359	220	26	352
Jan. 30	821	436	202	26	1,485	3,841	2,011	4,348	2,391	223	28	355
Feb. 6	852	411	200	37	1,500	3,840	2,010	4,353	2,386	228	28	355
Feb. 13	904	391	177	15	1,487	3,883	2,011	4,385	2,372	220	28	355
Feb. 20	855	356	178	07	1,431	3,864	2,011	4,382	2,318	221	27	356
Feb. 27	852	334	165	32	1,484	3,867	2,008	4,383	2,367	227	26	357
Mar. 6	889	305	163	44	1,601	3,871	2,010	4,404	2,330	228	30	360
Mar. 13	933	283	165	42	1,453	3,873	2,012	4,378	2,303	220	26	361
Mar. 20	943	267	185	36	1,401	3,883	2,011	4,357	2,340	200	26	362
Mar. 27	1,024	208	170	27	1,429	3,887	2,012	4,280	2,332	226	28	363
Apr. 3	1,030	175	169	51	1,425	3,901	2,013	4,387	2,335	222	30	365
Apr. 10	964	157	166	28	1,315	3,934	2,014	4,355	2,302	208	33	365
Apr. 17	1,000	141	161	47	1,349	3,948	2,015	4,359	2,302	253	32	366
Apr. 24	982	141	150	24	1,268	3,968	2,015	4,344	2,290	241	29	368
May 1	1,001	170	151	44	1,366	3,978	2,015	4,373	2,266	243	41	367
May 8	998	157	149	40	1,314	4,003	2,018	4,356	2,330	240	21	369
May 15	915	146	156	52	1,269	4,011	2,018	4,357	2,290	219	32	370
May 22	904	138	153	28	1,223	4,012	2,019	4,347	2,278	230	39	370
May 29	988	118	145	36	1,287	4,014	2,018	4,407	2,286	224	30	372
June 5	977	118	147	66	1,303	4,018	2,018	4,380	2,321	233	28	375
June 12	934	114	170	60	1,268	4,016	2,018	4,349	2,328	223	29	375
June 19	959	87	139	07	1,252	4,028	2,019	4,345	2,292	253	30	375
June 26	1,017	83	150	44	1,294	4,040	2,019	4,349	2,344	256	27	378
July 3	1,125	74	141	91	1,431	4,044	2,020	4,479	2,380	228	34	374
July 10	1,153	66	138	55	1,410	4,041	2,018	4,530	2,363	235	29	372
July 17	1,084	68	153	06	1,371	4,083	2,017	4,482	2,352	221	29	378
July 24	1,064	69	145	50	1,329	4,059	2,014	4,417	2,357	228	28	376
July 31	1,076	75	147	49	1,347	4,054	2,013	4,430	2,355	226	28	376
Aug. 7	1,064	79	153	22	1,333	4,080	2,008	4,454	2,328	236	30	379
Aug. 14	1,028	118	154	02	1,352	4,063	2,007	4,438	2,320	224	28	382
Aug. 21	986	132	149	42	1,309	4,066	2,006	4,457	2,292	222	27	381
Aug. 28	974	157	145	41	1,317	4,072	2,005	4,461	2,306	219	26	384
Sept. 4	1,048	182	149	55	1,432	4,075	2,006	4,542	2,320	241	26	386
Sept. 11	973	222	159	00	1,414	4,077	2,006	4,504	2,340	219	26	388
Sept. 18	934	241	178	00	1,413	4,082	2,004	4,477	2,381	219	24	388
Sept. 25	964	264	153	51	1,411	4,083	2,009	4,467	2,364	271	26	390
Oct. 2	931	223	146	80	1,480	4,087	2,010	4,502	2,399	259	27	390
Oct. 9	857	333	141	54	1,385	4,091	2,012	4,501	2,339	232	26	391
Oct. 16	949	330	138	110	1,457	4,092	2,015	4,502	2,408	254	27	395
Oct. 23	796	379	136	63	1,374	4,059	2,015	4,455	2,378	225	28	396
Oct. 30	991	340	202	36	1,680	4,068	2,020	4,502	2,462	226	28	398
Nov. 6	991	320	203	40	1,654	4,093	2,023	4,543	2,558	241	34	394
Nov. 13	971	300	212	86	1,670	4,098	2,026	4,533	2,608	220	27	396
Nov. 20	900	284	327	53	1,564	4,087	2,024	4,490	2,518	245	25	396
Nov. 27	912	257	326	27	1,532	4,079	2,024	4,509	2,378	268	28	398
Dec. 4	872	257	355	57	1,541	4,082	2,023	4,580	2,401	242	26	397
Dec. 11	799	322	387	48	1,526	4,067	2,022	4,582	2,397	215	25	396
Dec. 18	737	309	333	03	1,642	4,034	2,022	4,530	2,408	210	25	401
Dec. 25	763	355	468	120	1,723	4,007	2,023	4,772	2,320	224	24	402
Dec. 31	632	322	311	48	1,583	3,997	2,022	4,578	2,356	245	20	392

¹ Revised.

(For other footnotes see table 1, p. 67.)

RESERVE BANK CREDIT

73

NO. 4.—RESERVE BANK CREDIT AND RELATED ITEMS, BY WEEKS, 1928-34
(WEDNESDAY SERIES)—Continued

[In millions of dollars]

Date (Wednesday)	Reserve bank credit outstanding					Money and national bank currency	Money in circulation	Mem- ber bank reserve balances	Treas- ury cash and deposits with F. R. banks	Non- mem- ber depos- its	Other Fede- ral Re- serve accounts	
	Bills dis- counted	Bills bought	U. S. Gov- ernment securi- ties	Other Re- serve bank credit	Total							
1930												
Jan. 8.....	598	319	485	48	1,490	3,990	2,022	4,493	2,367	338	31	393
Jan. 15.....	442	323	470	57	1,301	3,996	2,022	4,300	2,358	239	30	393
Jan. 22.....	433	298	477	61	1,269	3,997	2,021	4,266	2,350	239	29	383
Jan. 29.....	407	258	477	29	1,171	4,002	2,022	4,221	2,308	247	25	393
Feb. 5.....	381	296	478	39	1,194	4,015	2,022	4,238	2,339	236	25	393
Feb. 12.....	382	276	479	63	1,198	4,023	2,021	4,255	2,308	219	70	393
Feb. 19.....	377	281	481	30	1,169	4,042	2,021	4,234	2,315	283	27	393
Feb. 26.....	343	299	485	31	1,156	4,058	2,022	4,215	2,346	254	25	393
Mar. 5.....	309	271	486	39	1,105	4,078	2,022	4,241	2,315	223	27	394
Mar. 12.....	265	257	514	31	1,068	4,097	2,022	4,208	2,354	206	26	393
Mar. 19.....	208	185	561	31	924	4,118	2,022	4,194	2,261	26	26	396
Mar. 26.....	207	256	529	33	1,025	4,133	2,022	4,150	2,340	232	28	400
Apr. 2.....	241	301	530	52	1,124	4,137	2,022	4,231	2,375	248	29	400
Apr. 9.....	226	257	527	27	1,047	4,146	2,022	4,206	2,345	241	25	393
Apr. 16.....	214	302	535	48	1,099	4,151	2,024	4,218	2,380	249	26	401
Apr. 23.....	211	257	527	35	1,030	4,158	2,026	4,174	2,383	251	24	400
Apr. 30.....	233	210	530	33	1,006	4,204	2,024	4,189	2,386	234	27	400
May 7.....	227	175	528	39	979	4,209	2,024	4,187	2,340	246	30	399
May 14.....	210	171	528	43	952	4,215	2,022	4,159	2,379	224	29	400
May 21.....	210	187	528	28	953	4,227	2,024	4,150	2,374	252	28	400
May 28.....	247	176	530	22	976	4,229	2,025	4,203	2,347	239	24	397
June 4.....	246	189	544	31	1,004	4,236	2,024	4,189	2,412	242	25	396
June 11.....	210	148	579	37	974	4,259	2,024	4,172	2,409	228	24	394
June 18.....	207	133	598	23	961	4,242	2,025	4,163	2,408	233	27	396
June 25.....	232	102	577	25	936	4,245	2,025	4,139	2,385	258	27	396
July 2.....	260	157	596	57	1,070	4,249	2,026	4,266	2,408	240	42	391
July 9.....	236	149	591	35	1,012	4,249	2,025	4,201	2,417	244	34	390
July 16.....	207	189	577	47	1,000	4,253	2,025	4,161	2,460	228	39	390
July 23.....	191	151	576	28	946	4,256	2,024	4,120	2,432	231	34	389
July 30.....	197	131	576	23	927	4,258	2,023	4,110	2,415	236	28	388
Aug. 6.....	206	134	576	24	940	4,268	2,026	4,150	2,364	244	28	387
Aug. 13.....	191	154	605	31	982	4,292	2,026	4,150	2,400	239	35	386
Aug. 20.....	190	159	602	29	986	4,295	2,026	4,156	2,414	237	28	386
Aug. 27.....	193	163	602	26	984	4,217	2,026	4,161	2,419	235	25	386
Sept. 3.....	231	170	602	38	1,041	4,213	2,026	4,224	2,388	250	27	385
Sept. 10.....	183	193	602	30	1,008	4,216	2,026	4,177	2,428	232	27	385
Sept. 17.....	163	209	610	26	1,008	4,220	2,026	4,171	2,456	210	26	391
Sept. 24.....	167	198	602	24	991	4,219	2,026	4,145	2,416	206	25	391
Oct. 1.....	186	193	601	30	1,010	4,224	2,027	4,205	2,394	245	25	392
Oct. 8.....	173	211	605	28	1,012	4,227	2,027	4,200	2,408	243	25	390
Oct. 15.....	210	183	602	47	1,044	4,232	2,027	4,213	2,440	230	25	391
Oct. 22.....	192	177	602	21	992	4,236	2,027	4,163	2,437	239	23	391
Oct. 29.....	202	166	604	16	985	4,245	2,028	4,139	2,468	230	25	390
Nov. 5.....	213	188	602	9	1,010	4,247	2,028	4,204	2,410	248	32	390
Nov. 12.....	207	207	601	35	1,035	4,262	2,028	4,190	2,400	230	25	390
Nov. 19.....	205	178	596	24	1,003	4,269	2,028	4,135	2,440	245	28	383
Nov. 26.....	224	175	596	22	1,028	4,279	2,027	4,278	2,410	240	24	382
Dec. 3.....	261	210	602	35	1,108	4,285	2,028	4,328	2,424	256	26	387
Dec. 10.....	267	244	617	16	1,134	4,289	2,028	4,369	2,448	222	26	384
Dec. 17.....	381	252	602	22	1,267	4,297	2,027	4,550	2,455	205	26	385
Dec. 24.....	448	260	642	75	1,425	4,302	2,027	4,727	2,367	233	24	384
Dec. 31.....	261	384	729	29	1,373	4,306	2,027	4,603	2,471	230	28	375

* Revised.

(For other footnotes see table 1, p. 67.)

74 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 4.—RESERVE BANK CREDIT AND RELATED ITEMS, BY WEEKS, 1928-34
(WEDNESDAY SERIES)—Continued

[In millions of dollars]

Date (Wednesday)	Reserve bank credit outstanding					Monetary gold stock ¹	Treasury and national bank currency ²	Money in cir- culation ³	Mem- ber bank reserve balances	Treasury cash and de- posits with F. R. banks ⁴	Non- mem- ber depos- its ⁵	Other Fede- ral Re- serve accounts ⁶
	Bills dis- count- ed ¹	Bills bought	U. S. Gov- ern- ment secu- rities	Other Re- serve bank credit ¹	Total							
1931												
Jan. 7.....	292	265	659	32	1,248	4,315	2,026	4,495	2,444	242	31	377
Jan. 14.....	243	196	644	28	1,111	4,338	2,026	4,362	2,464	245	26	378
Jan. 21.....	230	152	625	13	1,020	4,344	2,025	4,306	2,441	238	25	380
Jan. 28.....	216	120	610	11	956	4,350	2,025	4,257	2,426	243	26	380
Feb. 4.....	223	104	610	12	949	4,362	2,025	4,280	2,379	263	24	380
Feb. 11.....	222	88	610	9	929	4,364	2,024	4,307	2,365	242	24	379
Feb. 18.....	200	94	600	11	905	4,374	2,026	4,273	2,380	247	25	379
Feb. 25.....	190	106	599	9	904	4,376	2,027	4,282	2,378	243	23	381
Mar. 4.....	101	101	600	16	908	4,385	2,025	4,288	2,365	264	22	380
Mar. 11.....	173	151	605	13	942	4,390	2,026	4,267	2,436	254	22	379
Mar. 18.....	162	122	618	5	907	4,308	2,027	4,275	2,436	211	26	384
Mar. 25.....	165	83	599	11	858	4,402	2,027	4,260	2,357	262	24	384
Apr. 1.....	164	167	598	14	943	4,411	2,025	4,333	2,362	248	26	382
Apr. 8.....	143	172	599	16	929	4,416	2,025	4,325	2,389	230	24	382
Apr. 15.....	132	131	599	33	895	4,423	2,025	4,336	2,356	227	31	381
Apr. 22.....	136	152	599	26	911	4,428	2,025	4,326	2,380	247	26	384
Apr. 29.....	155	170	598	13	936	4,434	2,024	4,334	2,408	248	24	383
May 6.....	150	184	598	25	967	4,456	2,023	4,376	2,418	240	29	383
May 13.....	145	183	598	22	918	4,479	2,023	4,340	2,421	250	26	383
May 20.....	149	131	599	15	894	4,485	2,022	4,352	2,411	230	26	382
May 27.....	153	126	598	10	886	4,506	2,022	4,347	2,425	226	27	382
June 3.....	173	134	598	33	938	4,506	2,022	4,386	2,389	274	37	380
June 10.....	185	127	599	18	929	4,516	2,022	4,436	2,399	224	28	381
June 17.....	185	107	599	16	907	4,608	2,022	4,469	2,401	238	26	379
June 24.....	214	106	610	21	960	4,628	2,023	4,446	2,457	289	40	379
July 1.....	150	103	623	34	950	4,669	2,022	4,554	2,389	267	70	372
July 8.....	162	92	668	38	960	4,677	2,022	4,549	2,440	228	72	370
July 15.....	162	70	678	41	951	4,672	2,023	4,521	2,436	234	87	368
July 22.....	182	67	678	15	942	4,664	2,024	4,508	2,432	236	85	366
July 29.....	183	67	678	17	946	4,666	2,024	4,463	2,415	231	126	369
Aug. 5.....	189	68	681	21	967	4,668	2,024	4,562	2,339	231	160	368
Aug. 12.....	195	136	728	46	1,105	4,677	2,024	4,603	2,363	233	209	367
Aug. 19.....	231	156	728	27	1,141	4,696	2,023	4,665	2,382	232	196	366
Aug. 26.....	242	181	728	48	1,199	4,705	2,023	4,707	2,342	368	210	365
Sept. 2.....	257	198	728	38	1,221	4,712	2,023	4,740	2,374	265	203	365
Sept. 9.....	260	198	728	30	1,216	4,714	2,023	4,805	2,390	300	233	364
Sept. 16.....	263	218	742	56	1,279	4,729	2,023	4,801	2,418	223	224	365
Sept. 23.....	310	243	728	24	1,315	4,610	2,023	4,877	2,280	242	186	363
Sept. 30.....	353	469	742	34	1,578	4,464	2,023	4,959	2,364	249	130	362
Oct. 7.....	498	581	738	51	1,839	4,355	2,023	5,144	2,277	288	178	360
Oct. 14.....	628	730	727	40	2,128	4,137	2,024	5,186	2,223	249	269	359
Oct. 21.....	698	769	727	44	2,238	4,050	2,024	5,218	2,276	260	207	361
Oct. 28.....	717	725	727	62	2,211	4,002	2,024	5,194	2,229	363	192	359
Nov. 4.....	705	642	728	34	2,109	4,025	2,025	5,258	2,122	257	167	355
Nov. 11.....	684	597	727	56	2,064	4,060	2,026	5,232	2,099	279	185	355
Nov. 18.....	662	534	727	49	1,972	4,084	2,026	5,186	2,124	251	165	356
Nov. 25.....	686	480	727	48	1,941	4,121	2,025	5,192	2,117	240	170	358
Dec. 2.....	718	423	717	47	1,905	4,133	2,027	5,224	2,073	247	168	358
Dec. 9.....	725	386	717	49	1,880	4,153	2,028	5,222	2,066	238	145	355
Dec. 16.....	698	307	696	53	1,974	4,171	2,031	5,291	2,168	221	138	356
Dec. 23.....	611	257	738	80	2,006	4,176	2,035	5,446	2,001	275	138	356
Dec. 30.....	1,024	327	803	48	2,202	4,171	2,035	5,345	2,323	274	107	359

* Revised.

(For other footnotes see table 1, p. 67.)

RESERVE BANK CREDIT

75

NO. 4.—RESERVE BANK CREDIT AND RELATED ITEMS, BY WEEKS, 1928-34
(WEDNESDAY SERIES)—Continued

(In millions of dollars)

Date (Wednesday)	Reserve bank credit outstanding					Money gold stock ¹	Treasury and national bank currency ²	Money in circulation ³	Member bank reserve balances	Treasury cash and deposits with F. R. banks ⁴	Non- member deposits ⁵	Other Federal Reserve accounts ⁶
	Bills dis- counted ¹	Bills bought	U. S. Gov- ernment secur- ties	Other Re- serve bank credit ¹	Total							
1928												
Jan. 8	818	275	766	61	1,921	4,171	2,035	5,274	2,036	260	103	353
Jan. 12	818	214	752	50	1,834	4,170	2,036	5,332	1,994	256	103	353
Jan. 20	819	188	751	48	1,807	4,164	2,037	5,326	1,972	251	108	350
Jan. 27	838	162	752	46	1,798	4,139	2,039	5,302	1,945	264	116	349
Feb. 3	855	156	749	49	1,810	4,119	2,043	5,344	1,937	258	85	348
Feb. 10	819	169	741	48	1,779	4,116	2,046	5,338	1,906	282	68	347
Feb. 17	846	145	741	47	1,781	4,082	2,046	5,322	1,904	236	62	347
Feb. 24	835	123	741	25	1,724	4,063	2,054	5,306	1,876	274	48	349
Mar. 2	828	118	780	26	1,729	4,063	2,056	5,296	1,902	265	38	347
Mar. 9	748	138	783	27	1,698	4,075	2,058	5,258	1,910	253	32	350
Mar. 16	661	106	842	25	1,634	4,057	2,060	5,225	1,919	221	55	350
Mar. 23	666	82	835	15	1,597	4,094	2,060	5,193	1,911	268	29	351
Mar. 30	633	66	672	16	1,567	4,101	2,060	5,152	1,911	280	56	350
Apr. 6	635	68	885	21	1,599	4,109	2,060	5,171	1,942	255	60	350
Apr. 12	629	62	885	20	1,636	4,093	2,061	5,136	2,011	281	61	350
Apr. 20	565	49	1,078	9	1,700	4,090	2,061	5,138	1,979	307	74	354
Apr. 27	539	46	1,191	17	1,768	4,081	2,061	5,111	2,114	278	71	353
May 4	506	45	1,267	22	1,859	4,057	2,060	5,162	2,147	242	77	351
May 11	471	43	1,385	19	1,919	4,027	2,060	5,144	2,144	238	78	350
May 18	465	41	1,456	16	1,988	3,988	2,061	5,162	2,192	261	71	350
May 25	471	38	1,525	13	2,048	3,920	2,060	5,124	2,214	270	70	350
June 1	495	35	1,576	17	2,122	3,820	2,059	5,180	2,125	243	105	349
June 8	502	36	1,645	16	2,198	3,692	2,059	5,165	2,112	263	62	347
June 15	496	66	1,692	16	2,270	3,622	2,058	5,180	2,101	225	94	349
June 22	458	54	1,730	16	2,288	3,630	2,057	5,218	2,066	267	52	351
June 29	470	64	1,801	11	2,346	3,633	2,057	5,363	2,034	246	45	349
July 6	500	77	1,801	20	2,408	3,635	2,057	5,468	1,963	264	42	343
July 13	516	62	1,321	18	2,417	3,645	2,056	5,427	2,015	299	43	344
July 20	538	62	1,526	12	2,438	3,665	2,056	5,448	2,056	286	46	343
July 27	525	40	1,841	16	2,422	3,674	2,056	5,403	2,072	266	48	343
Aug. 3	497	41	1,846	14	2,388	3,700	2,058	5,441	2,012	301	47	344
Aug. 10	452	30	1,851	15	2,367	3,718	2,064	5,430	2,062	265	46	346
Aug. 17	443	36	1,851	14	2,344	3,759	2,078	5,419	2,080	268	46	346
Aug. 24	427	35	1,851	8	2,321	3,777	2,087	5,397	2,142	268	31	347
Aug. 31	453	34	1,852	12	2,331	3,801	2,106	5,406	2,146	266	36	345
Sept. 7	420	34	1,851	14	2,319	3,818	2,115	5,438	2,142	295	31	346
Sept. 14	402	34	1,851	14	2,301	3,841	2,128	5,381	2,244	263	36	347
Sept. 21	350	34	1,852	16	2,259	3,878	2,140	5,335	2,211	327	36	349
Sept. 28	340	34	1,854	14	2,241	3,897	2,152	5,318	2,269	318	36	351
Oct. 5	333	33	1,851	23	2,241	3,914	2,158	5,362	2,284	278	37	351
Oct. 12	328	33	1,851	22	2,234	3,921	2,166	5,364	2,246	268	61	352
Oct. 19	314	34	1,851	21	2,219	3,940	2,175	5,334	2,326	276	39	359
Oct. 26	322	34	1,851	14	2,221	3,970	2,182	5,297	2,412	277	30	357
Nov. 2	326	34	1,851	15	2,226	3,979	2,186	5,329	2,384	279	38	359
Nov. 9	311	34	1,851	3	2,199	3,983	2,193	5,364	2,342	274	34	360
Nov. 16	307	35	1,851	16	2,208	3,996	2,195	5,342	2,400	296	33	359
Nov. 23	308	35	1,851	8	2,201	4,032	2,194	5,348	2,400	271	63	357
Nov. 30	306	35	1,851	8	2,202	4,053	2,199	5,361	2,411	276	60	357
Dec. 7	299	34	1,851	14	2,197	4,066	2,201	5,382	2,395	287	40	357
Dec. 14	284	34	1,851	20	2,189	4,081	2,202	5,377	2,425	277	37	358
Dec. 21	270	33	1,851	25	2,180	4,200	2,203	5,443	2,446	263	39	362
Dec. 28	267	33	1,851	17	2,168	4,218	2,203	5,400	2,482	300	39	363

* Revised.

(For other footnotes see table 1, p. 67.)

76 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 4.—RESERVE BANK CREDIT AND RELATED ITEMS, BY WEEKS, 1928-34
(WEDNESDAY SERIES)—Continued

[In millions of dollars]

Date (Wednesday)	Reserve bank credit outstanding					Treasury and national bank currency ²	Money in cir- culation ³	Mem- ber bank reserve balances ⁴	Treasury cash and de- posits with F. R. banks ⁵	Non- mem- ber depos- its ⁶	Other Federal Reserve ac- counts	
	Bills dis- counted ¹	Bills bought	U. S. Gov- ern- ment secu- rities	Other Re- serve bank credit ⁷	Total							
1928												
Jan. 4	251	33	1,851	29	2,163	4,237	2,204	5,383	2,514	305	46	353
Jan. 11	248	32	1,812	13	2,106	4,262	2,208	5,302	2,574	294	49	353
Jan. 18	242	32	1,773	9	2,056	4,279	2,205	5,313	2,545	294	43	352
Jan. 25	245	31	1,763	7	2,047	4,296	2,204	5,334	2,513	292	61	350
Feb. 1	269	31	1,784	7	2,070	4,261	2,204	5,365	2,438	319	66	347
Feb. 8	253	31	1,784	17	2,065	4,248	2,203	5,418	2,419	285	66	345
Feb. 15	286	31	1,809	10	2,136	4,224	2,203	5,507	2,236	330	88	342
Feb. 22	327	180	1,834	10	2,351	4,178	2,203	5,701	2,271	323	88	343
Mar. 1	712	384	1,836	4	2,936	4,055	2,218	6,432	2,038	303	91	345
Mar. 8	1,414	417	1,881	-68	3,644	3,958	2,230	7,261	1,776	317	138	348
Mar. 15	1,233	403	1,899	-9	3,526	3,964	2,256	6,982	1,964	317	132	350
Mar. 22	680	352	1,864	2	2,896	3,977	2,273	6,321	1,918	432	126	350
Mar. 29	669	310	1,838	-6	2,762	3,966	2,287	6,066	1,887	428	144	348
Apr. 5	441	286	1,837	15	2,579	3,996	2,287	5,974	1,976	441	135	347
Apr. 12	428	247	1,837	16	2,528	4,006	2,306	5,890	2,066	399	143	348
Apr. 19	414	256	1,837	30	2,490	4,026	2,308	5,781	2,159	360	163	355
Apr. 26	385	177	1,837	12	2,412	4,023	2,306	5,707	2,138	371	172	356
May 2	400	144	1,837	15	2,396	4,025	2,305	5,667	2,034	467	182	356
May 10	338	113	1,837	9	2,297	4,026	2,303	5,605	2,069	299	178	355
May 17	330	78	1,837	9	2,254	4,026	2,299	5,665	2,114	370	176	354
May 24	312	43	1,862	3	2,219	4,027	2,299	5,508	2,194	329	161	353
May 31	302	29	1,890	7	2,218	4,028	2,298	5,628	2,167	345	156	353
June 7	277	11	1,912	15	2,214	4,029	2,296	5,480	2,204	367	197	351
June 14	254	10	1,932	15	2,212	4,031	2,295	5,456	2,281	316	153	351
June 21	222	9	1,956	8	2,194	4,030	2,295	5,499	2,205	405	152	348
June 28	191	8	1,976	7	2,183	4,031	2,296	5,388	2,286	317	160	348
July 5	182	28	1,995	6	2,206	4,031	2,285	5,465	2,219	231	164	344
July 12	168	3	2,007	13	2,201	4,032	2,284	5,380	2,269	253	169	344
July 19	163	10	2,017	7	2,197	4,032	2,283	5,348	2,290	335	194	345
July 26	161	10	2,028	2	2,201	4,033	2,282	5,314	2,305	306	186	343
Aug. 2	164	8	2,033	-1	2,208	4,033	2,281	5,331	2,319	333	198	350
Aug. 9	166	8	2,048	8	2,220	4,033	2,281	5,321	2,376	292	198	350
Aug. 16	166	7	2,059	8	2,240	4,034	2,281	5,325	2,371	315	197	347
Aug. 23	150	7	2,064	7	2,238	4,041	2,280	5,305	2,432	319	175	348
Aug. 30	153	7	2,129	9	2,298	4,041	2,281	5,305	2,427	339	202	347
Sept. 6	145	7	2,166	12	2,330	4,042	2,280	5,361	2,496	327	179	346
Sept. 13	135	7	2,203	14	2,357	4,040	2,281	5,315	2,542	317	157	346
Sept. 20	130	7	2,228	13	2,388	4,040	2,280	5,318	2,543	334	164	346
Sept. 27	133	7	2,274	7	2,421	4,037	2,279	5,306	2,606	331	156	347
Oct. 4	123	7	2,309	10	2,440	4,037	2,279	5,365	2,623	372	159	346
Oct. 11	119	7	2,344	7	2,477	4,037	2,278	5,386	2,567	338	155	345
Oct. 18	113	7	2,375	13	2,513	4,036	2,277	5,363	2,655	284	166	348
Oct. 25	115	7	2,400	8	2,526	4,036	2,277	5,321	2,665	302	167	337
Nov. 1	117	7	2,420	7	2,530	4,036	2,276	5,353	2,591	368	173	353
Nov. 8	112	7	2,430	-7	2,542	4,036	2,275	5,386	2,578	373	161	355
Nov. 15	111	15	2,432	6	2,558	4,036	2,276	5,368	2,545	346	163	354
Nov. 22	112	20	2,431	-1	2,563	4,036	2,276	5,367	2,687	310	149	355
Nov. 29	119	24	2,432	7	2,581	4,036	2,277	5,456	2,573	390	142	354
Dec. 6	116	61	2,431	7	2,615	4,036	2,277	5,479	2,561	398	156	354
Dec. 13	118	116	2,432	11	2,677	4,036	2,285	5,476	2,638	379	160	355
Dec. 20	115	113	2,432	25	2,686	4,036	2,299	5,662	2,636	329	132	362
Dec. 27	111	111	2,432	30	2,674	4,086	2,304	5,637	2,675	315	124	363

(For footnotes, see table 1, p. 67.)

RESERVE BANK CREDIT

77

No. 4.—RESERVE BANK CREDIT AND RELATED ITEMS, BY WEEKS, 1928-34
(WEDNESDAY SERIES)—Continued

Date (Wednesday)	Reserve bank credit outstanding					Money gold stock ¹	Treasury and national bank currency ²	Money in cir- culation ³	Member bank reserve balances	Treasury cash and de- posits with F. R. banks ⁴	Non- member depos- its ⁵	Other Fed- eral Re- serve accounts ⁶
	Bills dis- count- ed ¹	Bills bought	U. S. Gov- ern- ment secur- ities	Other Re- serve bank credit ¹	Total							
1934												
Jan. 3	106	121	2,432	29	2,688	4,036	2,303	5,504	2,710	311	145	357
Jan. 10	104	113	2,432	7	2,655	4,096	2,302	5,397	2,777	353	173	295
Jan. 17	101	112	2,432	1	2,646	4,035	2,302	5,356	2,788	407	143	288
Jan. 24	97	104	2,432	-2	2,631	4,035	2,301	5,294	2,851	398	137	287
Jan. 31	83	111	2,434	2	2,630	4,033	2,302	5,289	2,652	597	141	287
Feb. 7	73	97	2,432	4	2,606	7,036	2,301	5,317	2,736	3,449	142	299
Feb. 14	68	86	2,432	7	2,593	7,089	2,303	5,322	2,811	3,391	130	291
Feb. 21	66	76	2,432	18	2,592	7,203	2,301	5,344	2,830	3,499	132	291
Feb. 28	64	62	2,432	8	2,567	7,438	2,302	5,354	3,093	3,440	127	292
Mar. 7	59	46	2,432	2	2,539	7,556	2,312	5,374	3,313	3,294	133	294
Mar. 14	55	37	2,432	8	2,532	7,605	2,332	5,245	3,454	3,226	143	301
Mar. 21	51	35	2,432	-9	2,508	7,640	2,343	5,334	3,449	3,252	154	302
Mar. 28	53	29	2,432	5	2,519	7,661	2,356	5,336	3,439	3,316	161	308
Apr. 4	48	26	2,432	4	2,509	7,703	2,389	5,371	3,450	3,323	140	297
Apr. 11	48	17	2,432	(?)	2,492	7,732	2,381	5,347	3,500	3,259	148	312
Apr. 18	40	13	2,430	9	2,463	7,746	2,353	5,347	3,603	3,304	167	327
Apr. 26	40	10	2,430	6	2,486	7,765	2,380	5,324	3,744	3,148	107	327
May 2	38	8	2,432	6	2,484	7,756	2,381	5,359	3,670	3,177	280	326
May 9	37	7	2,432	9	2,484	7,756	2,360	5,359	3,678	3,098	257	335
May 16	34	6	2,430	3	2,473	7,753	2,380	5,344	3,694	3,069	253	333
May 23	34	5	2,430	-1	2,409	7,796	2,375	5,316	3,767	3,052	242	333
May 30	34	5	2,430	1	2,470	7,776	2,371	5,338	3,768	3,061	238	332
June 6	29	5	2,430	10	2,476	7,790	2,365	5,242	3,787	3,034	290	327
June 13	28	6	2,430	8	2,472	7,820	2,361	5,313	3,895	2,956	261	328
June 20	28	6	2,430	5	2,468	7,835	2,359	5,310	3,789	3,121	224	329
June 27	27	6	2,430	8	2,466	7,846	2,364	5,301	3,637	3,077	226	329
July 4	26	5	2,432	22	2,488	7,866	2,365	5,397	3,746	3,113	232	320
July 11	23	6	2,432	8	2,468	7,831	2,355	5,344	3,692	3,014	232	331
July 18	23	5	2,432	(?)	2,460	7,807	2,353	5,328	3,887	3,034	222	329
July 25	21	5	2,432	-3	2,456	7,911	2,364	5,281	4,020	2,972	220	328
Aug. 1	21	5	2,432	5	2,463	7,932	2,361	5,215	3,915	3,074	210	323
Aug. 8	21	5	2,432	(?)	2,458	7,937	2,357	5,234	4,059	2,941	209	322
Aug. 15	20	5	2,431	11	2,468	7,979	2,375	5,343	4,064	2,976	211	328
Aug. 22	20	5	2,432	(?)	2,457	7,983	2,390	5,347	4,072	2,972	211	328
Aug. 29	21	6	2,432	5	2,463	7,981	2,403	5,346	4,127	2,944	204	326
Sept. 5	24	6	2,432	6	2,467	7,963	2,412	5,419	3,907	3,087	203	325
Sept. 12	23	6	2,431	10	2,469	7,968	2,414	5,409	3,948	3,038	213	324
Sept. 19	22	6	2,431	8	2,466	7,972	2,412	5,412	3,963	3,134	196	329
Sept. 26	20	6	2,430	7	2,463	7,976	2,409	5,403	3,970	3,061	186	329
Oct. 3	15	6	2,431	3	2,455	7,980	2,407	5,468	3,895	3,068	182	329
Oct. 10	12	6	2,430	(?)	2,448	7,985	2,403	5,479	3,979	2,987	183	327
Oct. 17	12	6	2,430	9	2,467	7,990	2,410	5,469	3,998	2,983	183	329
Oct. 24	11	6	2,430	5	2,452	7,983	2,429	5,438	3,988	3,049	165	329
Oct. 31	11	6	2,430	8	2,455	8,002	2,434	5,453	4,006	3,031	164	327
Nov. 7	13	6	2,430	-9	2,440	8,008	2,442	5,503	4,032	2,944	172	340
Nov. 14	25	6	2,430	14	2,474	8,030	2,450	5,480	4,107	2,964	163	340
Nov. 21	21	6	2,430	13	2,470	8,076	2,460	5,436	4,193	2,936	159	339
Nov. 28	16	6	2,430	9	2,480	8,112	2,469	5,510	4,108	3,017	160	329
Dec. 6	10	6	2,430	6	2,452	8,161	2,478	5,545	4,073	3,040	176	337
Dec. 12	9	6	2,430	17	2,462	8,180	2,488	5,532	4,112	3,050	180	339
Dec. 19	9	6	2,430	32	2,477	8,198	2,505	5,587	3,943	3,221	185	343
Dec. 26	9	6	2,430	26	2,470	8,228	2,504	5,628	3,961	3,181	188	344

¹ Less than \$500,000.

(For other footnotes see table 1, p. 87.)

Back figures.—See Annual Report for 1933 (table 4), except that previously published figures for monetary gold stock and money in circulation have been revised to exclude \$287,000,000 of gold coin previously reported as in circulation.

78 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 5.—RESERVE BANK CREDIT AND RELATED ITEMS (END OF MONTH SERIES), 1917-34

[In millions of dollars]

Date (End of month)	Reserve bank credit outstanding					Monetary gold stock	Treasury and national bank currency	Money in circulation	Member bank reserve balances	Treasury cash and deposits with F. R.	Nonmember deposits	Other Federal Reserve accounts
	Bills discounted	Bills bought	U. S. Government securities	Other Reserve bank credit	Total							
1917												
January (Wed.)	16	92	80	57	214	2,635	1,900	3,702	696	289	5	55
February (Wed.)	19	119	249	48	245	2,703	1,903	3,533	702	252	13	56
March (Sat.)	22	85	105	68	280	2,818	1,903	3,586	742	202	14	55
April (Mon.)	34	74	119	80	307	2,850	1,902	3,907	712	257	26	57
May (Thur.)	51	112	114	72	350	2,846	1,903	3,969	756	305	31	58
June (Sat.)	202	203	86	125	596	2,933	1,899	3,779	1,045	405	43	57
July (Tues.)	134	184	98	246	632	2,903	1,901	3,685	1,233	422	29	55
August (Fri.)	147	155	78	132	612	2,878	1,908	3,698	1,070	423	49	60
September (Sat.)	239	177	99	88	602	2,894	1,907	3,764	1,157	308	83	61
October (Wed.)	520	184	114	174	993	2,866	1,913	3,820	1,215	537	62	67
November (Fri.)	756	205	89	162	1,213	2,867	1,920	3,935	1,489	457	47	72
December (Mon.)	660	273	122	116	1,171	2,868	1,923	4,086	1,447	326	34	71
1918												
January (Thur.)	611	285	131	133	1,161	2,872	1,931	3,849	1,443	537	50	77
February (Thurs.)	498	296	224	192	1,213	2,875	1,937	4,026	1,410	420	79	88
March (Sat.)	538	327	328	115	1,306	2,878	1,939	4,109	1,511	373	93	82
April (Thur.)	611	304	78	121	1,405	2,879	1,916	4,147	1,491	382	93	87
May (Sat.)	897	256	147	138	1,439	2,885	1,899	4,129	1,440	436	134	82
June (Sat.)	888	217	255	207	1,567	2,876	1,890	4,195	1,564	348	129	87
July (Fri.)	1,268	198	87	139	1,653	2,875	1,835	4,277	1,514	389	124	88
August (Mon.)	1,449	235	87	181	1,871	2,874	1,842	4,589	1,519	245	136	99
September (Mon.)	1,692	290	81	143	2,205	2,865	1,825	4,740	1,556	268	103	104
October (Sat.)	1,732	383	118	172	2,403	2,869	1,815	4,858	1,463	302	163	102
November (Mon.)	1,775	380	122	157	2,434	2,872	1,798	4,968	1,488	471	122	115
December (Thurs.)	1,766	387	239	206	2,498	2,873	1,795	4,951	1,536	330	121	118
1919												
January (Fri.)	1,801	261	268	168	2,335	2,875	1,771	4,432	1,693	400	132	124
February (Fri.)	1,880	276	183	119	2,457	2,878	1,747	4,635	1,621	571	124	131
March (Mon.)	1,899	238	203	93	2,431	2,873	1,727	4,661	1,614	479	137	145
April (Wed.)	1,940	180	221	105	2,445	2,890	1,713	4,636	1,676	443	128	144
May (Sat.)	2,035	188	220	64	2,494	2,890	1,709	4,531	1,668	477	148	158
June (Mon.)	1,800	318	292	102	2,511	2,826	1,709	4,590	1,738	431	122	146
July (Thurs.)	1,856	373	244	116	2,688	2,777	1,705	4,583	1,762	445	119	160
August (Sat.)	1,825	367	271	120	2,583	2,838	1,708	4,661	1,736	444	102	165
September (Tues.)	1,974	300	283	154	2,714	2,850	1,705	4,750	1,762	497	96	173
October (Fri.)	2,129	394	301	122	2,946	2,816	1,712	4,840	1,833	518	96	185
November (Sat.)	2,205	502	315	156	3,179	2,757	1,711	4,982	1,873	501	93	198
December (Wed.)	2,215	574	300	203	3,292	2,707	1,707	5,091	1,880	416	101	206
1920												
January (Sat.)	2,169	562	304	168	3,206	2,643	1,700	4,990	1,856	489	92	219
February (Sat.)	2,438	536	294	178	3,444	2,600	1,685	5,073	1,896	441	93	237
March (Wed.)	2,463	423	236	160	3,242	2,643	1,667	5,108	1,856	293	102	240
April (Fri.)	2,533	407	294	144	3,380	2,554	1,687	5,122	1,890	287	90	254
May (Mon.)	2,556	420	306	132	3,414	2,599	1,686	5,185	1,864	287	96	274
June (Wed.)	2,468	385	341	150	3,343	2,578	1,667	5,181	1,822	259	95	280
July (Sat.)	2,420	346	327	141	3,209	2,575	1,663	5,217	1,840	293	40	294
August (Tues.)	2,672	307	308	118	3,403	2,564	1,697	5,291	1,793	254	48	308
September (Thurs.)	2,728	301	300	136	3,464	2,666	1,702	5,239	1,807	294	29	322
October (Sat.)	2,908	299	296	136	3,335	2,591	1,710	5,311	1,817	293	23	337
November (Tues.)	2,729	241	308	102	3,371	2,610	1,715	5,336	1,727	247	22	345
December (Fri.)	2,687	260	287	120	3,355	2,639	1,709	5,236	1,781	275	23	368
1921												
January (Mon.)	2,457	164	287	41	2,940	2,679	1,707	5,016	1,722	264	26	308
February (Mon.)	2,390	169	283	32	2,874	2,713	1,722	4,966	1,705	274	27	311
March (Thurs.)	2,533	119	277	49	2,678	2,799	1,728	4,537	1,659	346	34	324
April (Sat.)	2,677	177	277	57	2,990	2,817	1,718	4,768	1,667	264	26	337
May (Thurs.)	1,906	75	266	23	2,273	2,944	1,745	4,726	1,602	263	30	338
June (Thurs.)	1,751	40	259	45	2,095	2,988	1,750	4,624	1,604	241	28	338
July (Sat.)	1,642	18	244	36	1,940	3,090	1,742	4,510	1,625	241	28	341
August (Wed.)	1,492	35	230	21	1,778	3,152	1,708	4,433	1,618	260	26	343
September (Fri.)	1,413	45	228	20	1,705	3,232	1,730	4,437	1,581	217	25	345
October (Mon.)	1,312	86	193	18	1,607	3,285	1,821	4,408	1,656	266	31	350
November (Wed.)	1,182	78	206	27	1,487	3,340	1,841	4,264	1,670	261	27	345
December (Sat.)	1,144	145	254	40	1,563	3,373	1,842	4,408	1,743	310	27	365

RESERVE BANK CREDIT

No. 5.—RESERVE BANK CREDIT AND RELATED ITEMS (END OF MONTH SERIES), 1917-34—Continued

[In millions of dollars]

Date (End of month)	Reserve bank credit outstanding					Monetary gold stock	Treasury and national bank currency	Money in circulation	Member bank reserves balances	Treasury cash and de- posits with F. R.	Nonmember deposits	Other Federal Reserve accounts
	Bills discounted	Bills bought	U. S. Government securities	Other Reserve bank credit	Total							
1922												
January (Tues.)	839	75	298	14	1,221	3,398	1,894	4,158	1,078	807	30	285
February (Tues.)	713	93	498	18	1,223	3,436	1,838	4,204	1,710	774	38	282
March (Fri.)	680	103	456	9	1,249	3,463	1,842	4,210	1,709	813	38	284
April (Sat.)	510	91	587	20	1,208	3,477	1,850	4,181	1,755	276	43	281
May (Wed.)	471	118	603	2	1,195	3,484	1,851	4,108	1,782	275	34	281
June (Fri.)	461	161	655	24	1,202	3,498	1,852	4,178	1,820	263	30	283
July (Mon.)	406	140	637	17	1,199	3,543	1,865	4,137	1,761	310	27	282
August (Thur.)	397	180	597	46	1,130	3,568	1,878	4,193	1,804	275	23	289
September (Sat.)	464	244	483	58	1,249	3,580	1,883	4,321	1,887	239	26	286
October (Tues.)	576	258	363	41	1,238	3,601	1,906	4,369	1,813	267	29	287
November (Thur.)	650	269	304	41	1,264	3,619	1,928	4,417	1,808	269	30	288
December (Sat.)	618	272	436	79	1,406	3,642	1,938	4,530	1,924	286	29	276
1923												
January (Wed.)	597	189	354	34	1,174	3,666	1,968	4,327	1,913	269	32	275
February (Wed.)	596	208	363	46	1,213	3,676	1,977	4,416	1,888	264	21	275
March (Sat.)	599	203	260	58	1,270	3,683	1,980	4,460	1,863	311	21	279
April (Tues.)	722	222	186	29	1,159	3,685	1,960	4,473	1,865	269	21	279
May (Thur.)	771	259	192	10	1,237	3,741	1,968	4,510	1,800	348	20	280
June (Sat.)	837	206	102	68	1,202	3,783	1,975	4,536	1,822	243	29	280
July (Tues.)	826	183	98	41	1,148	3,792	1,996	4,600	1,878	265	23	279
August (Fri.)	856	172	102	40	1,170	3,824	1,998	4,569	1,846	227	20	280
September (Sat.)	894	173	96	59	1,212	3,849	2,003	4,668	1,839	265	23	281
October (Thur.)	884	205	92	39	1,219	3,880	2,005	4,642	1,895	263	23	282
November (Fri.)	803	200	104	16	1,223	3,920	2,007	4,731	1,865	261	22	282
December (Mon.)	723	356	194	27	1,298	3,937	2,009	4,767	1,888	251	22	276
1924												
January (Thur.)	532	288	126	27	973	4,002	2,011	4,480	1,861	252	22	270
February (Fri.)	520	268	165	36	998	4,036	2,014	4,600	1,900	269	21	268
March (Mon.)	518	228	293	17	1,026	4,077	2,015	4,612	1,885	328	22	269
April (Wed.)	447	124	302	38	911	4,124	2,017	4,566	1,946	246	28	268
May (Sat.)	441	80	353	18	892	4,168	2,019	4,618	1,909	270	21	264
June (Mon.)	334	37	481	30	831	4,201	2,019	4,618	1,909	270	21	264
July (Thur.)	293	23	523	36	875	4,224	2,018	4,469	2,001	269	32	265
August (Sat.)	276	58	642	48	923	4,234	2,018	4,572	2,000	267	38	263
September (Tues.)	276	132	670	30	1,014	4,234	2,017	4,578	2,111	278	30	269
October (Fri.)	284	200	694	36	1,084	4,222	2,020	4,655	1,938	244	29	268
November (Sat.)	242	314	684	47	1,186	4,240	2,024	4,785	2,143	252	29	268
December (Wed.)	350	387	640	54	1,302	4,212	2,026	4,760	2,220	262	36	268
1925												
January (Sat.)	322	313	391	61	1,087	4,136	2,028	4,615	2,169	278	41	267
February (Sat.)	426	316	379	66	1,179	4,077	2,025	4,561	2,175	252	34	260
March (Tues.)	408	313	360	33	1,105	4,032	2,016	4,604	2,114	269	36	264
April (Thur.)	440	262	348	45	1,065	4,055	2,009	4,465	2,135	228	30	264
May (Sat.)	462	285	348	43	1,141	4,070	2,003	4,560	2,126	246	31	263
June (Tues.)	465	294	333	46	1,144	4,073	1,997	4,564	2,172	263	27	263
July (Fri.)	517	207	329	40	1,093	4,080	1,990	4,505	2,145	223	26	263
August (Mon.)	685	212	330	32	1,159	4,095	1,988	4,579	2,137	239	23	264
September (Wed.)	643	208	345	41	1,295	4,095	1,986	4,629	2,210	239	27	269
October (Sat.)	619	347	327	69	1,383	4,120	1,983	4,682	2,214	243	28	271
November (Mon.)	688	359	342	33	1,421	4,110	1,981	4,797	2,197	253	28	271
December (Thur.)	643	374	375	67	1,459	4,112	1,977	4,817	2,213	210	29	272
1926												
January (Sat.)	491	302	351	47	1,191	4,125	1,980	4,554	2,196	251	22	273
February (Sat.)	583	301	327	48	1,261	4,136	1,981	4,617	2,187	276	24	276
March (Wed.)	641	290	320	43	1,293	4,140	1,982	4,573	2,215	306	22	281
April (Fri.)	580	210	393	41	1,223	4,151	1,984	4,593	2,185	266	22	281
May (Mon.)	557	238	396	51	1,243	4,146	1,986	4,636	2,195	230	33	283
June (Wed.)	521	349	385	59	1,194	4,180	1,988	4,598	2,229	212	20	282
July (Sat.)	568	216	372	69	1,206	4,184	1,988	4,622	2,230	244	24	283
August (Tues.)	641	268	322	36	1,266	4,196	1,984	4,643	2,225	240	24	285
September (Thurs.)	681	280	304	48	1,314	4,179	1,988	4,691	2,209	266	24	281
October (Sat.)	680	323	301	47	1,361	4,188	1,990	4,794	2,223	266	32	283
November (Tues.)	662	364	306	43	1,376	4,190	1,992	4,750	2,232	253	31	283
December (Fri.)	637	381	318	46	1,381	4,203	1,991	4,806	2,164	218	31	283

80 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 5.—RESERVE BANK CREDIT AND RELATED ITEMS (END OF MONTH SERIES), 1917-34—Continued

(In millions of dollars)

Date (End of month)	Reserve bank credit outstanding					Monetary gold stock*	Treasury and national bank currency*	Money in circulation*	Member bank reserve balances	Treasury cash and deposits with banks*	Nonmember deposits*	Other Federal Reserve accounts*
	Bills discounted†	Bills bought	U. S. Government securities	Other Reserve bank credit†	Total							
1922												
January (Mon.)	425	321	304	20	1,070	4,377	1,990	4,559	2,218	244	23	294
February (Mon.)	470	295	316	20	1,107	4,396	1,992	4,598	2,229	254	23	291
March (Thurs.)	451	299	348	35	1,073	4,310	1,996	4,675	2,237	250	21	297
April (Sat.)	477	238	327	42	1,084	4,323	1,999	4,604	2,257	225	22	299
May (Tues.)	459	228	343	17	1,047	4,301	2,005	4,506	2,197	229	23	299
June (Thurs.)	443	211	370	38	1,052	4,300	2,003	4,564	2,249	242	24	296
July (Sat.)	442	172	392	86	1,093	4,293	2,003	4,559	2,277	229	28	295
August (Wed.)	401	185	473	43	1,102	4,301	2,003	4,667	2,299	216	30	295
September (Fri.)	437	250	506	37	1,231	4,294	2,004	4,661	2,293	256	29	302
October (Mon.)	412	342	522	21	1,296	4,284	2,004	4,659	2,324	228	41	303
November (Wed.)	477	355	548	38	1,416	4,164	2,005	4,665	2,370	205	33	304
December (Sat.)	582	392	617	64	1,655	4,092	2,006	4,716	2,487	226	26	301
1923												
January (Tues.)	423	379	437	15	1,254	4,086	2,004	4,390	2,391	220	24	309
February (Wed.)	463	344	408	19	1,234	4,075	2,007	4,403	2,375	223	23	311
March (Sat.)	509	330	395	31	1,365	4,018	2,006	4,462	2,368	226	23	313
April (Mon.)	537	337	396	8	1,490	3,979	2,007	4,461	2,442	231	30	318
May (Thurs.)	1,021	292	220	15	1,548	3,873	2,008	4,457	2,371	254	25	322
June (Sat.)	1,095	217	235	38	1,485	3,822	2,006	4,510	2,325	224	29	326
July (Tues.)	1,031	162	215	25	1,433	3,826	2,004	4,414	2,267	229	28	334
August (Fri.)	1,088	192	219	38	1,536	3,806	2,006	4,516	2,294	224	28	334
Sept. (Sat.)	1,071	264	243	44	1,641	3,838	2,008	4,559	2,334	218	27	339
October (Wed.)	932	440	227	25	1,624	3,855	2,011	4,519	2,371	228	28	342
November (Fri.)	1,088	486	237	26	1,837	3,841	2,012	4,703	2,376	211	25	348
December (Mon.)	1,056	499	228	36	1,809	3,854	2,012	4,696	2,369	225	27	348
1924												
January (Thurs.)	905	440	302	27	1,674	3,840	2,011	4,370	2,392	222	29	352
February (Thurs.)	973	330	169	28	1,610	3,866	2,006	4,411	2,362	228	25	359
March (Sat.)	1,095	200	172	69	1,536	3,901	2,013	4,461	2,357	229	41	363
April (Tues.)	949	179	163	36	1,327	3,973	2,010	4,389	2,282	243	35	369
May (Fri.)	1,068	117	145	32	1,360	4,014	2,018	4,451	2,288	248	33	373
June (Sat.)	1,037	82	218	65	1,400	4,037	2,019	4,459	2,356	240	28	374
July (Wed.)	1,076	75	147	49	1,347	4,054	2,013	4,430	2,356	226	28	376
August (Sat.)	1,046	178	160	69	1,440	4,073	2,004	4,553	2,337	218	24	385
September (Mon.)	958	263	162	45	1,456	4,085	2,010	4,532	2,326	278	28	390
October (Thurs.)	1,000	355	321	67	1,743	4,099	2,020	4,551	2,356	221	31	394
November (Sat.)	1,030	256	326	65	1,677	4,080	2,024	4,642	2,458	258	26	398
December (Tues.)	832	292	511	48	1,683	3,997	2,022	4,578	2,356	245	30	388
1925												
January (Fri.)	394	264	479	42	1,200	4,004	2,021	4,375	2,293	249	25	393
February (Fri.)	353	270	480	37	1,140	4,066	2,022	4,299	2,290	251	25	394
March (Mon.)	310	270	535	29	1,149	4,138	2,022	4,282	2,367	251	28	399
April (Wed.)	233	210	530	33	1,006	4,204	2,024	4,189	2,385	234	27	400
May (Sat.)	313	185	528	23	1,049	4,230	2,024	4,284	2,399	250	24	396
June (Mon.)	272	126	597	27	1,018	4,248	2,025	4,225	2,389	257	26	391
July (Thurs.)	263	130	577	27	954	4,290	2,023	4,190	2,390	236	26	390
August (Sat.)	215	168	602	40	1,025	4,214	2,025	4,245	2,378	231	24	396
September (Tues.)	273	209	697	25	1,103	4,224	2,027	4,214	2,467	235	26	395
October (Fri.)	207	163	802	26	998	4,246	2,028	4,206	2,416	230	27	392
November (Sat.)	275	175	699	30	1,079	4,284	2,028	4,373	2,373	235	25	395
December (Wed.)	261	264	729	29	1,373	4,306	2,027	4,602	2,471	220	28	376
1926												
January (Sat.)	232	125	610	13	980	4,266	2,025	4,323	2,398	236	24	381
February (Sat.)	198	100	699	20	926	4,378	2,025	4,333	2,343	220	23	379
March (Tues.)	280	124	599	17	960	4,410	2,029	4,227	2,428	273	22	383
April (Thurs.)	157	163	698	19	937	4,456	2,024	4,365	2,371	233	27	383
May (Sat.)	174	126	698	20	917	4,511	2,022	4,415	2,389	235	31	381
June (Tues.)	149	106	698	20	942	4,609	2,022	4,535	2,381	271	27	389
July (Tues.)	105	73	678	30	976	4,662	2,024	4,550	2,367	237	19	389
August (Mon.)	273	218	726	39	1,055	4,708	2,023	4,703	2,373	294	189	365
September (Wed.)	333	460	742	34	1,578	4,554	2,028	4,959	2,364	249	120	322
October (Sat.)	726	681	727	48	2,184	4,005	2,024	5,253	2,167	257	181	324
November (Mon.)	718	452	717	44	1,931	4,127	2,027	5,249	2,051	258	170	327
December (Wed.)	628	320	614	22	1,612	4,179	2,022	5,289	2,041	278	155	324

RESERVE BANK CREDIT

81

NO. 5.—RESERVE BANK CREDIT AND RELATED ITEMS (END OF MONTH SERIES),
1917-34—Continued

[In millions of dollars]

Date (End of month)	Reserve bank credit outstanding					Monetary gold stocks ¹	Treasury and national bank currency ²	Money in circulation ³	Member bank reserve balances	Treasury cash and de- posits with F. R. ⁴	Nonmember deposits ⁵	Other Federal Reserve accounts ⁶
	Bills discounted ¹	Bills bought	U. S. Government securities	Other Reserve bank credit ¹	Total							
1932												
January (Sat.).....	899	153	746	58	1,856	4,129	2,039	5,354	1,947	266	107	351
February (Mon.).....	828	109	740	32	1,709	4,067	2,056	5,317	1,849	265	53	347
March (Thurs.).....	659	68	572	18	1,297	4,103	2,040	5,172	1,924	255	59	350
April (Sat.).....	555	48	1,228	18	1,850	4,080	2,060	5,178	1,94	236	79	352
May (Tues.).....	490	36	1,549	21	2,096	3,855	2,059	5,193	2,113	257	109	348
June (Thurs.).....	440	67	1,784	19	2,310	3,632	2,057	5,408	1,982	222	42	346
July (Sat.).....	538	43	1,941	17	2,439	3,957	2,050	5,439	2,032	299	49	344
August (Wed.).....	433	34	1,852	12	2,331	3,801	2,106	5,405	2,146	305	36	345
September (Fri.).....	332	33	1,854	14	2,233	3,906	2,154	5,366	2,225	318	36	352
October (Mon.).....	328	34	1,851	14	2,227	3,977	2,186	5,341	2,383	278	31	357
November (Wed.).....	309	35	1,851	8	2,202	4,053	2,189	5,361	2,411	275	30	357
December (Sat.).....	235	33	1,855	22	2,145	4,226	2,204	5,388	2,509	280	43	355
1933												
January (Tues.).....	274	31	1,763	8	2,077	4,266	2,204	5,358	2,446	333	64	346
February (Thurs.).....	382	335	1,866	10	2,794	4,093	2,217	5,258	2,141	279	80	346
March (Fri.).....	447	305	1,838	8	2,593	3,965	2,289	5,033	1,949	405	143	348
April (Sat.).....	435	171	1,837	16	2,459	4,028	2,308	5,170	2,132	397	188	355
May (Wed.).....	302	20	1,890	7	2,218	4,028	2,288	5,525	2,167	346	185	353
June (Fri.).....	164	48	1,968	10	2,220	4,031	2,280	5,434	2,262	299	166	346
July (Mon.).....	167	9	2,028	6	2,209	4,033	2,261	5,343	2,264	357	164	346
August (Thurs.).....	153	7	2,129	8	2,297	4,041	2,281	5,325	2,409	341	197	347
September (Sat.).....	128	7	2,277	9	2,421	4,037	2,278	5,363	2,538	331	155	348
October (Tues.).....	116	7	2,421	6	2,548	4,036	2,277	5,348	2,686	299	173	356
November (Thurs.).....	119	24	2,422	7	2,381	4,036	2,277	5,455	2,578	369	142	354
December (Sat.).....	98	138	2,427	20	2,688	4,036	2,303	5,610	2,729	267	132	350
1934												
January (Wed.).....	83	111	2,484	2	2,630	4,033	2,302	5,289	2,652	697	141	267
February (Wed.).....	84	62	2,432	8	2,567	7,438	2,302	5,354	3,093	3,440	127	292
March (Sat.).....	29	29	2,447	15	2,546	7,594	2,361	5,394	3,457	3,202	167	299
April (Mon.).....	69	9	2,431	6	2,485	7,757	2,378	5,388	3,606	3,148	268	296
May (Thurs.).....	31	5	2,430	-4	2,463	7,779	2,368	5,357	3,746	3,052	222	232
June (Sat.).....	25	6	2,432	10	2,472	7,856	2,366	5,378	3,840	3,016	233	232
July (Tues.).....	22	8	2,432	8	2,462	7,831	2,361	5,317	4,059	2,871	297	229
August (Fri.).....	23	6	2,432	4	2,464	7,978	2,408	5,396	4,062	2,968	298	226
September (Sat.).....	15	6	2,431	11	2,464	7,978	2,405	5,456	3,934	3,051	178	228
October (Wed.).....	11	6	2,430	8	2,465	8,002	2,434	5,453	4,006	3,031	164	237
November (Fri.).....	11	6	2,430	6	2,463	8,132	2,468	5,549	4,081	3,022	161	239
December (Mon.).....	7	6	2,430	20	2,463	8,238	2,511	5,536	4,096	3,150	189	241

¹ Revised.

(For other footnotes see table 1, p. 67.)

82 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 6.—RESERVE BANK CREDIT AND RELATED ITEMS, CALL DATES, 1920-34

(In millions of dollars)

Call date *	Reserve bank credit outstanding					Monetary gold stock †	Treasury and national bank currency †	Money in circulation †	Member bank reserve balances	Treasury cash and deposits with F. R. banks †	Nonmember deposits †	Other Federal Reserve accounts †
	Bills discounted †	Bills bought	U. S. Government securities	Other Reserve bank credit †	Total							
1920—June 30 (Wed).....	2,468	385	341	*150	*3,343	2,578	1,687	5,182	1,822	259	*65	287
Dec. 29 (Wed).....	2,737	247	288	*110	*3,362	2,510	1,713	5,243	1,743	298	25	350
1921—Apr. 28 (Thur).....	2,062	105	268	31	2,466	2,859	1,713	4,763	1,657	276	34	318
June 30 (Thur).....	1,751	49	229	45	2,064	2,888	1,750	4,524	1,904	238	28	338
Dec. 31 (Sat.).....	1,444	145	294	49	1,933	3,373	1,842	4,403	1,753	310	27	285
1922—Mar. 10 (Sat.).....	613	91	466	7	1,177	3,445	1,838	4,201	1,719	230	37	274
June 30 (Fri).....	461	101	555	24	1,202	3,498	1,882	4,175	1,820	253	30	283
Dec. 29 (Fri).....	609	271	426	83	1,389	3,045	1,957	4,537	1,919	322	28	275
1923—Apr. 3 (Tues.).....	723	265	245	51	1,284	3,683	1,984	4,451	1,891	308	21	279
June 30 (Sat.).....	837	206	102	58	1,202	3,763	1,975	4,596	1,852	243	29	280
Sept. 16 (Fri).....	864	181	111	71	1,227	3,832	1,999	4,619	1,870	317	21	291
Dec. 31 (Mon.).....	723	335	134	77	1,268	3,967	2,000	4,757	1,898	261	23	275
1924—Mar. 31 (Mon.).....	518	228	263	17	1,026	4,077	2,015	4,612	1,865	328	22	299
June 30 (Mon).....	334	37	431	30	831	4,201	2,019	4,562	1,944	262	23	261
Oct. 10 (Wed).....	226	180	589	46	1,041	4,218	2,018	4,608	2,114	209	25	259
Dec. 31 (Wed.).....	320	387	640	54	1,302	4,212	2,026	4,760	2,223	262	29	258
1925—Apr. 6 (Mon.).....	402	305	369	48	1,115	4,047	2,015	4,649	2,005	233	24	265
June 30 (Tues.).....	491	254	353	46	1,144	4,078	1,997	4,524	2,172	229	27	263
Sept. 16 (Fri).....	608	259	332	44	1,243	4,094	1,985	4,634	2,145	244	28	261
Dec. 31 (Thur.).....	643	374	375	67	1,459	4,112	1,977	4,817	2,212	219	29	272
1926—Apr. 12 (Mon.).....	525	262	363	15	1,165	4,185	1,984	4,613	2,125	270	23	281
June 30 (Wed).....	521	249	385	39	1,194	4,160	1,986	4,598	2,229	212	20	262
Dec. 31 (Fri).....	637	381	315	49	1,381	4,205	1,991	4,808	2,184	216	65	262
1927—Mar. 23 (Wed.).....	457	231	342	23	1,055	4,313	1,994	4,535	2,300	205	23	298
June 30 (Thur.).....	443	211	379	38	1,062	4,300	2,003	4,564	2,249	242	34	292
Oct. 10 (Mon.).....	446	258	503	29	1,236	4,286	2,003	4,657	2,302	223	31	302
Dec. 31 (Sat.).....	582	392	617	64	1,655	4,092	2,006	4,716	2,487	226	29	301
1928—Feb. 28 (Tues.).....	481	346	401	19	1,247	4,075	2,007	4,406	2,355	231	22	311
June 30 (Sat.).....	1,095	217	235	36	1,385	3,822	2,006	4,510	2,325	224	29	325
Oct. 3 (Wed.).....	1,026	310	231	64	1,631	3,838	2,010	4,520	2,350	239	32	339
Dec. 31 (Mon.).....	1,056	489	228	35	1,809	3,854	2,012	4,680	2,389	225	27	346
1929—June 27 (Wed.).....	1,024	208	170	27	1,429	3,887	2,012	4,360	2,332	225	28	363
June 30 (Sat.).....	1,037	82	216	65	1,400	4,037	2,019	4,459	2,355	240	28	374
Oct. 4 (Fri).....	898	297	134	85	1,414	4,087	2,010	4,552	2,301	240	26	369
Dec. 31 (Tues.).....	632	392	511	48	1,583	3,997	2,022	4,578	2,356	245	30	362
1930—Mar. 27 (Thur.).....	205	279	629	38	1,061	4,137	2,022	4,203	2,245	226	25	400
June 30 (Mon.).....	272	128	591	27	1,018	4,248	2,023	4,235	2,389	237	40	391
Sept. 24 (Wed.).....	167	198	602	24	991	4,219	2,026	4,148	2,415	256	25	391
Dec. 31 (Wed.).....	251	384	729	29	1,373	4,306	2,027	4,603	2,471	230	28	375
1931—Mar. 25 (Wed.).....	165	83	509	11	858	4,402	2,027	4,290	2,357	262	24	384
June 30 (Tues.).....	149	106	668	20	943	4,569	2,022	4,335	2,381	271	77	371
Sept. 29 (Tues.).....	325	423	735	34	1,523	4,470	2,023	4,657	2,329	322	134	394
Dec. 31 (Thur.).....	638	839	817	59	1,853	4,173	2,036	5,300	2,961	276	110	364
1932—June 30 (Thur.).....	440	67	1,784	19	2,310	3,632	2,057	5,408	1,982	222	42	345
Sept. 30 (Fri).....	332	33	1,854	14	2,233	3,906	2,164	5,366	2,225	315	36	352
Dec. 31 (Sat.).....	285	33	1,855	22	2,145	4,226	2,204	5,288	2,600	280	43	355
1933—June 30 (Fri).....	164	48	1,908	10	2,220	4,031	2,286	4,424	2,292	299	166	348
Oct. 26 (Wed.).....	115	7	2,400	5	2,526	4,038	2,277	5,321	2,953	302	157	357
Dec. 30 (Sat.).....	98	133	2,437	30	2,688	4,056	2,308	5,619	1,729	267	132	360
1934—Mar. 5 (Mon.).....	69	82	2,447	6	2,585	3,955	2,302	5,403	3,188	3,185	135	293
June 30 (Sat.).....	23	5	2,432	10	2,472	3,856	2,366	5,373	3,640	3,015	233	232
Oct. 17 (Wed.).....	12	6	2,430	9	2,457	3,900	2,410	5,469	3,996	2,928	183	239
Dec. 31 (Mon.).....	7	6	2,430	20	2,463	3,228	2,511	5,536	4,066	2,150	189	241

* Revised.

† Dates for which calls were issued for reports of condition of national banks by the Comptroller of the Currency and for State member banks of the Federal Reserve System by the Federal Reserve Board. Data for the May 4 and Nov. 15 calls in 1920 not available.

(For other footnotes see table 1, p. 67.)

RESERVE BANK CREDIT

No. 7.—RESERVE BANK CREDIT, ANNUAL AVERAGES, 1915-34

[Averages of daily figures. In thousands of dollars]

Year	Reserve bank credit outstanding	Bills and securities held by Federal Reserve banks					Due from foreign banks	Reserve bank float
		Total	Bills discounted	Bills bought	U. S. Government securities	Other securities			Industrial advances
1915	\$ 60,149	60,149	24,371	10,430	7,991	17,417	-----	-----
1916	\$ 163,350	163,350	24,140	65,808	47,161	26,541	-----	-----
1917	523,120	439,977	193,783	150,094	89,207	6,898	-----	\$ 83,143
1918	1,725,168	1,556,162	1,134,486	287,147	134,177	352	-----	\$ 105,470
1919	2,625,406	2,484,021	1,905,967	323,939	254,384	1	2,705	\$ 138,620
1920	3,390,422	3,232,154	2,523,073	388,420	323,661	-----	798	\$ 167,475
1921	2,196,238	2,152,284	1,797,226	91,150	203,804	44	692	\$ 45,262
1922	2,228,534	1,858,185	871,259	102,102	454,777	-----	699	\$ 40,470
1923	1,204,752	1,147,964	735,908	226,767	185,504	86	701	\$ 66,087
1924	996,467	948,525	572,607	172,437	402,271	1,210	644	\$ 47,296
1925	1,185,397	1,138,542	489,827	267,482	358,780	2,473	671	\$ 66,194
1926	1,257,859	1,206,379	572,280	281,194	349,699	3,364	874	\$ 60,808
1927	1,178,035	1,124,538	442,287	203,258	437,485	1,513	8,643	\$ 41,864
1928	1,505,085	1,467,371	639,942	327,806	297,499	1,124	603	\$ 37,111
1929	1,435,264	1,415,126	615,920	241,599	267,559	13,406	732	\$ 44,408
1930	1,086,870	1,050,895	271,727	213,201	563,672	8,295	804	\$ 29,171
1931	1,273,671	1,251,058	326,727	245,260	669,013	10,058	5,321	\$ 17,292
1932	2,076,774	2,062,446	520,637	70,902	1,461,258	9,649	4,687	\$ 9,641
1933	2,428,829	2,426,228	685,228	85,952	1,655,106	8,265	7,085	\$ 3,378
1934	2,662,399	2,495,497	36,401	24,742	2,431,673	537	2,143	\$ 4,335

1 Includes foreign loans on gold heretofore published separately.

2 Exclusive of Reserve bank float for which figures are not available.

3 Includes Government overdrafts.

No. 8.—RESERVE BANK CREDIT, BY MONTHS, 1932-34

[Monthly averages of daily figures. In thousands of dollars]

Month	Total	Bills discounted	Bills bought	U. S. Government securities	Other securities	Industrial advances	Due from foreign banks	Reserve bank float
1932—January	1,864,121	827,998	220,824	759,282	33,581	-----	8,638	\$ 33,828
February	1,784,734	847,619	180,817	742,816	27,185	-----	8,600	\$ 7,607
March	1,651,590	714,142	106,358	809,087	6,727	-----	7,845	\$ 8,431
April	1,663,537	695,056	62,174	1,014,032	4,831	-----	6,339	\$ 11,107
May	1,959,457	486,470	241,013	1,412,611	5,094	-----	4,321	\$ 9,453
June	2,262,095	494,962	46,990	1,697,121	5,521	-----	3,646	\$ 10,825
July	2,421,929	522,288	50,771	1,816,485	5,892	-----	2,739	\$ 12,174
August	2,352,615	460,771	37,095	1,850,216	6,025	-----	2,708	\$ 9,829
September	2,262,456	389,918	33,559	1,947,777	6,263	-----	2,560	\$ 9,179
October	2,231,393	327,537	33,518	1,851,306	5,384	-----	2,732	\$ 10,916
November	2,211,403	313,408	34,394	1,850,772	5,411	-----	2,797	\$ 4,981
December	2,191,700	282,189	33,760	1,853,609	5,414	-----	2,800	\$ 13,969
1933—January	2,109,748	255,274	32,108	1,804,410	4,988	-----	3,221	\$ 8,937
February	2,224,284	306,547	101,516	1,804,034	4,201	-----	3,512	\$ 4,474
March	2,237,313	968,768	378,576	1,876,206	5,544	-----	3,612	\$ 24,395
April	2,514,858	428,606	230,448	1,857,423	5,686	-----	3,676	\$ 9,244
May	2,288,784	338,832	86,901	1,846,389	4,920	-----	3,892	\$ 6,677
June	2,208,022	249,872	12,475	1,933,428	3,043	-----	3,800	\$ 4,804
July	2,211,451	166,626	15,982	2,016,042	2,116	-----	3,906	\$ 4,182
August	2,228,673	158,523	7,572	2,063,829	1,832	-----	3,892	\$ 2,645
September	2,358,400	137,647	7,076	2,201,627	1,812	-----	3,788	\$ 4,456
October	2,492,440	119,495	6,739	2,355,148	1,644	-----	3,061	\$ 5,463
November	2,573,978	114,901	16,088	2,436,967	1,670	-----	3,773	\$ 2,580
December	2,669,361	115,868	100,829	2,452,290	1,559	-----	3,442	\$ 14,369
1934—January	2,655,700	100,619	113,348	2,432,469	1,394	-----	3,378	\$ 4,501
February	2,597,180	70,063	86,699	2,432,423	1,227	-----	3,401	\$ 3,357
March	2,555,540	65,560	86,632	2,437,216	608	-----	3,208	\$ 6,066
April	2,508,828	43,141	16,441	2,435,626	684	-----	3,131	\$ 4,603
May	2,478,833	35,879	6,153	2,430,737	637	-----	3,132	\$ 2,297
June	2,464,422	28,140	5,194	2,423,859	525	-----	3,129	\$ 6,618
July	2,469,479	21,221	5,261	2,431,832	453	-----	3,142	\$ 2,968
August	2,463,355	20,686	5,191	2,431,681	431	246	3,129	\$ 2,068
September	2,468,783	21,876	5,431	2,431,100	346	1,428	2,624	\$ 5,573
October	2,456,656	12,166	5,854	2,430,065	284	4,094	1,012	\$ 3,112
November	2,463,870	17,949	6,307	2,449,814	-----	7,085	804	\$ 3,384
December	2,472,064	9,938	5,661	2,430,214	-----	11,783	801	\$ 13,567

1 Includes foreign loans on gold heretofore published separately.

2 Figures of deferred monthly bills heretofore published separately.

84 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 9.—DEPOSITS, TOTAL GOLD RESERVES AND OTHER CASH, NOTE CIRCULATION, AND CASH RATIO OF FEDERAL RESERVE BANKS, BY MONTHS, 1932-34

(Monthly averages of daily figures. In thousands of dollars)

Month	Deposits					Gold reserves and other cash ¹		Federal note circulation	Cash ratio
	Total	Member bank reserve	U. S. Government	Foreign bank	Other	Total	Excess		
1932									
January.....	2,130,148	1,979,097	37,695	*78,510	*34,846	2,251,003	1,444,587	2,652,228	68.0
February.....	2,014,397	1,907,477	33,979	*44,297	*28,844	2,227,292	1,455,715	2,653,544	69.0
March.....	1,975,263	1,895,905	39,214	*15,935	*21,149	2,263,063	1,630,427	2,005,494	71.2
April.....	2,102,019	1,994,009	42,756	*40,823	*22,431	2,303,481	1,544,609	2,567,789	70.9
May.....	2,250,302	2,137,549	33,146	*47,267	*29,240	2,188,044	1,370,477	2,561,152	66.3
June.....	2,165,897	2,051,916	39,047	*33,728	*31,207	2,868,022	1,937,898	2,636,151	69.8
July.....	2,094,243	2,002,587	45,473	*10,729	*35,555	2,803,244	985,171	2,852,833	57.8
August.....	2,153,858	2,073,230	40,321	*11,088	*29,227	2,979,710	1,086,942	2,847,296	59.6
September.....	2,293,783	2,181,120	51,028	*10,815	*25,811	3,110,670	1,190,445	2,794,024	51.5
October.....	2,381,297	2,307,406	35,896	*9,845	*28,180	2,221,124	1,294,730	2,732,340	63.0
November.....	2,449,892	2,378,454	30,967	*15,688	*24,785	3,291,278	1,350,856	2,707,400	63.8
December.....	2,508,684	2,434,568	30,945	*18,081	*26,106	3,354,736	1,380,698	2,740,066	63.9
1933									
January.....	2,602,216	2,515,908	26,729	23,227	26,352	3,500,869	1,804,230	2,714,668	65.8
February.....	2,405,294	2,291,043	35,577	51,210	27,434	3,433,523	1,423,853	2,918,694	64.5
March.....	2,103,545	1,914,048	55,986	30,443	103,370	3,238,821	985,940	4,042,351	52.7
April.....	2,281,210	2,065,635	39,927	17,183	138,465	3,653,320	1,440,721	3,535,435	62.8
May.....	2,345,110	2,124,813	48,320	21,748	151,229	3,770,198	1,627,030	3,305,073	65.7
June.....	2,455,588	2,210,970	81,330	15,846	148,942	3,813,678	1,702,808	3,127,660	68.2
July.....	2,519,324	2,268,125	73,028	16,530	162,121	3,810,945	1,703,993	3,091,788	68.3
August.....	2,606,214	2,374,606	45,455	23,316	162,837	3,817,818	1,705,937	2,990,260	68.1
September.....	2,712,922	2,488,903	55,513	22,234	146,312	3,813,013	1,663,130	3,000,866	65.7
October.....	2,811,949	2,589,688	59,632	15,484	147,145	3,810,216	1,627,989	2,996,112	65.6
November.....	2,855,048	2,639,144	67,635	8,465	145,842	3,794,330	1,659,496	2,988,005	64.9
December.....	2,829,976	2,618,798	70,677	6,828	138,672	3,771,973	1,652,841	3,071,601	63.9
1934									
January.....	2,997,795	2,763,943	87,558	4,430	141,865	3,798,407	1,555,643	2,988,839	63.5
February.....	3,038,848	2,821,846	80,432	4,280	131,890	3,867,322	1,618,805	2,962,562	64.4
March.....	3,547,832	3,361,382	42,199	6,245	138,046	4,445,932	2,002,625	3,004,185	67.9
April.....	3,815,484	3,560,505	54,567	5,060	185,322	4,665,604	2,132,161	3,041,933	68.3
May.....	4,053,838	3,694,792	62,675	6,104	243,297	4,864,715	2,287,773	3,061,390	68.8
June.....	4,131,184	3,790,029	115,025	4,642	221,468	5,007,689	2,332,968	3,072,017	69.5
July.....	4,206,961	3,927,995	58,648	5,817	213,541	5,081,295	2,370,287	3,097,194	69.6
August.....	4,308,338	4,044,979	55,615	6,467	199,577	5,196,424	2,444,452	3,106,322	70.0
September.....	4,281,994	3,946,873	138,696	11,238	185,487	5,204,506	2,443,543	3,155,662	70.0
October.....	4,332,650	3,964,277	91,278	8,194	168,910	5,196,738	2,443,880	3,178,500	70.1
November.....	4,309,704	4,100,270	44,722	12,945	151,767	5,269,859	2,488,692	3,182,176	70.3
December.....	4,335,029	4,067,365	136,968	17,740	165,966	5,338,666	2,542,186	3,230,621	70.6

¹ Revised.
¹ "Other cash" includes certain classes of coin and currency not counted as a part of reserves prior to May 13, 1933.

Back figures.—See Annual Report for 1932 (table 8).

RESERVE BANK CREDIT

85

No. 10.—BILLS DISCOUNTED FOR MEMBER BANKS—HOLDINGS OF EACH FEDERAL RESERVE BANK, BY MONTHS

[Monthly averages of daily figures. In thousands of dollars]

Month	Federal Reserve Bank											
	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
1934												
January.....	3,722	45,574	24,485	7,135	4,042	5,369	3,259	1,285	1,715	1,175	668	2,190
February.....	2,020	32,518	19,539	4,947	2,685	2,357	2,223	741	1,290	654	99	1,750
March.....	1,875	25,361	17,126	3,234	1,968	1,177	1,804	853	920	874	87	961
April.....	1,524	19,435	13,836	2,406	1,623	815	1,503	326	688	806	196	683
May.....	1,036	16,417	11,613	1,578	1,223	794	1,149	186	473	236	332	808
June.....	331	13,909	7,363	1,205	914	661	735	159	356	266	490	560
July.....	282	12,729	6,193	616	747	202	166	184	369	179	423	1,141
August.....	815	11,983	5,298	694	696	231	297	215	261	167	320	219
September.....	1,016	13,077	5,243	512	679	201	322	151	216	141	138	190
October.....	1,983	6,963	2,497	436	349	201	21	194	66	206	42	111
November.....	1,465	6,894	222	404	133	133	122	57	64	210	55	47
December.....	1,420	6,169	1,042	489	140	103	127	191	9	116	7	136

Back figures.—See Annual Report for 1933 (table 11).

No. 11.—INDUSTRIAL ADVANCES AND COMMITMENTS TO MAKE INDUSTRIAL ADVANCES, BY FEDERAL RESERVE DISTRICTS

[Monthly averages of daily figures. In thousands of dollars]

Federal Reserve district	Industrial advances ¹					Commitments to make industrial advances ²				
	August	September	October	November	December	August	September	October	November	December
Boston.....		3	657	1,568	1,622		155	748	1,096	1,223
New York.....	31	112	321	637	734		13	250	1,314	2,559
Philadelphia.....	33	121	203	845	2,295	11	5	21	85	139
Cleveland.....	2	76	121	239	674	41	96	110	229	887
Richmond.....		151	539	1,218	1,427	21	37	62	121	267
Atlanta.....	45	280	443	626	787	15	81	107	417	565
Chicago.....	55	102	369	682	813					4
St. Louis.....	13	123	336	377	418	10	157	536	882	1,012
Minneapolis.....	52	307	613	862	1,331					
Kansas City.....	15	100	193	238	364	77	186	208	188	92
Dallas.....	3	42	284	562	852					608
San Francisco.....			15	191	394					
Total.....	249	1,427	4,094	7,985	11,781	175	710	2,178	4,669	7,481

¹ First industrial advance made by the Federal Reserve Bank of Minneapolis on Aug. 1.² First commitment to make an industrial advance made by the Federal Reserve Bank of Richmond on Aug. 9.

No. 12.—APPLICATIONS FOR INDUSTRIAL ADVANCES AND COMMITMENTS TO MAKE INDUSTRIAL ADVANCES, CUMULATIVE, BY WEEKS

(In thousands of dollars)

	Applica- tions received	Total ap- provals, final and condi- tional	Final approvals			Condi- tional ap- provals
			Direct advances by F. R. banks without participa- tions	Participa- tions by F. R. banks	Participa- tions by finan- cing in- stitutions	
1934						
Oct. 3.....	114,833	17,086	5,776	4,308	877	6,125
Oct. 10.....	122,554	21,448	5,309	6,154	1,036	7,949
Oct. 17.....	128,020	23,291	5,520	6,527	1,100	9,144
Oct. 24.....	131,412	26,709	7,336	8,265	1,138	9,370
Oct. 31.....	138,095	28,411	8,438	8,977	1,368	9,628
Nov. 7.....	146,701	32,438	9,015	9,780	1,388	11,355
Nov. 14.....	150,425	35,557	10,544	10,266	1,479	12,368
Nov. 21.....	160,327	37,941	11,450	11,199	1,778	13,405
Nov. 28.....	166,433	42,202	12,361	12,138	1,969	15,734
Dec. 5.....	171,949	42,773	12,591	12,574	2,021	16,387
Dec. 12.....	173,754	44,124	13,865	12,701	2,020	16,538
Dec. 19.....	178,338	47,645	15,059	13,865	1,972	16,849
Dec. 26.....	187,696	49,634	17,425	15,449	2,180	14,560

No. 13.—RESERVE BALANCES OF MEMBER BANKS IN EACH DISTRICT, BY MONTHS

(Monthly averages of daily figures. In millions of dollars)

Month	Federal Reserve District											
	Boston	New York	Phila- del- phia	Cleve- land	Rich- mond	At- lanta	Chi- cago	St. Louis	MIn- neap- olis	Kans- as City	Dallas	San Fran- cisco
1934												
January.....	174.2	1,036.7	138.2	196.0	93.0	65.9	487.8	102.6	99.1	127.6	97.4	185.4
February.....	181.2	1,016.6	150.3	217.8	96.0	72.4	500.4	102.0	58.4	128.3	103.2	163.4
March.....	221.4	1,369.9	196.2	234.6	96.9	76.5	541.7	103.6	68.3	135.7	119.7	195.6
April.....	257.6	1,451.9	193.8	227.5	149.0	76.4	579.7	120.3	68.1	134.2	114.7	220.3
May.....	291.5	1,483.3	195.8	229.4	159.3	72.9	596.6	124.0	65.6	124.1	113.6	228.8
June.....	296.0	1,550.8	206.4	237.3	135.8	72.1	657.3	109.6	68.2	123.9	112.9	229.7
July.....	316.2	1,565.8	217.8	253.6	123.6	77.4	701.7	108.6	73.9	144.8	112.2	232.5
August.....	289.3	1,687.1	197.6	261.7	125.8	73.0	711.7	117.9	85.4	152.5	113.3	229.7
September.....	250.4	1,615.9	190.2	235.9	130.6	71.7	716.3	121.5	92.9	152.2	118.4	236.6
October.....	254.4	1,640.7	197.7	239.9	130.5	72.8	666.5	129.3	93.8	148.6	121.1	249.0
November.....	267.8	1,683.7	198.2	271.7	128.1	73.9	702.7	140.3	98.2	158.2	124.9	252.6
December.....	261.0	1,647.2	203.8	280.7	123.0	78.5	672.2	121.4	102.2	157.6	124.0	255.7

Back figures.—See Annual Report for 1933 (table 12).

RESERVE BANK CREDIT

87

No. 14.—BILLS DISCOUNTED FOR MEMBER BANKS IN EACH STATE, BY MONTHS

[Holdings of Federal Reserve banks at end of month. In thousands of dollars]

	1934											
	Jan- uary	Feb- ruary	March	April	May	June	July	Aug- ust	Sep- tem- ber	Oct- ober	Nov- ember	Dec- em- ber
Maine	240	207	159	107	106	112	300	280	230	230	610	
New Hampshire	181	177	1,287	814	320	289	104	92	48	38	217	
Vermont	52	94	48	30	69	103	53	77	117	36	51	38
Massachusetts	1,991	1,228	854	238	215	280	81	720	355	530	620	180
Rhode Island	350	100	420	20	20				110			
Connecticut	843	811	614	844	165	100	100		380	258	160	10
New York	21,360	17,225	14,229	9,216	8,812	8,889	8,000	9,412	3,564	3,872	4,559	1,519
New Jersey	19,251	16,977	12,593	10,760	8,811	6,800	7,254	5,438	5,333	3,965	3,254	2,833
Pennsylvania	19,768	16,168	14,443	11,203	7,418	4,311	3,499	3,806	3,401	692	688	692
Ohio	2,493	1,512	1,175	728	424	426	243	295	227	243	804	308
Indiana	115	78	70	63	40	8	10		16	10	7	
Illinois	254	196	1,443	270	70	36	34	8				
Michigan	2,414	1,939	1,334	1,203	1,103	298	146	545	43	27		
Wisconsin	144	251	163	19	21			230	50	150	200	
Minnesota	275	211	192	149	145	126	115	40				
Iowa	17	10	209	50					26			2
Missouri	393	207	38	90	68	120	18	39	6	8	23	7
North Dakota	155	147	125	103	93	82	67	57	42	37	23	
South Dakota	608	498	331	152	130	159	104	50				
Nebraska	318	156	64	18					19	194	49	81
Kansas	214	136	71	61	51	23	21	9	4			
Delaware	502	408	268	221	186	110	101	149	61	107	160	177
Maryland	840	649	673	471	442	185	802	231	192	23	60	80
District of Columbia												
Virginia	994	676	437	330	253	203	94	207	156	107	82	15
West Virginia	1,137	445	308	232	111	102	122	101	65	47	37	44
North Carolina	363	404	339	320	210	158	157	256	114			
South Carolina	95		160	50	20							
Georgia	1,274	1,006	638	243	169	72	59	61	35	44	6	
Florida	283	63	61	60	50					10		
Kentucky	332	182	86	88	76	85	85	92	78	107	100	12
Tennessee	2,088	176	52	58	90	51	21	16	22	10	29	9
Alabama	61	4	57	212	75	50	110	113	65	28		6
Mississippi	674	126	207	415	280	242	32	77	69	77	78	42
Arkansas	108	35	7	2	25	25	50	50	128	15		
Louisiana									18	46	30	13
Oklahoma	88	62	28	46	66	42	52	51	26			
Texas	199	69	152	223	893	407	357	174	35	9	15	12
Montana	94	70	47	15	20	8				10		
Idaho												
Wyoming	137	121	117	123	96	105	98	96	81	52	35	41
Colorado	17	12				15	15	21	20	174	80	
New Mexico	39	39	38	35	10	10	10	10				
Arizona	40											
Utah	40	8	14	26			19	26	15	14		
Nevada												
Washington	153	42	26	44	18	6	430	5				
Oregon	729	802	55	53	63	31	6					
California	1,420	1,399	420	447	616	383	289	154	133	64	51	123

Back figures.—See Annual Report for 1933 (Table 13).

88 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 15.—FEDERAL RESERVE BANKS—ASSETS AND LIABILITIES IN DETAIL,
Dec. 31, 1934¹

ASSETS

[Amounts in the column to the right are those shown in the Board's weekly statement, their components being shown in the column to the left. In thousands of dollars]

Gold certificates with Federal Reserve agents.....	3,316,300	
Gold certificates in gold settlement fund with Federal Reserve Board.....	1,718,222	
Gold certificates held by banks.....	89,895	
Gold certificates on hand and due from U. S. Treasury.....		5,124,347
Redemption fund—Federal Reserve notes.....		19,086
Total gold reserves.....		5,143,407
Other cash:		
Legal-tender notes.....	79,450	
Silver certificates.....	110,674	
Standard silver dollars.....	3,140	
National bank notes.....	46,189	
Federal Reserve bank notes.....	4,452	
Subsidiary silver, nickels, and cents.....	13,642	
Total other cash.....		257,577
Total reserves.....		5,400,984
Redemption fund—Federal Reserve bank notes.....		1,677
Bills discounted:		
Secured by U. S. Government obligations direct and/or fully guaranteed:		
Discounted for member banks.....	3,470	
For others.....	24	
Total secured by U. S. Government obligations direct and/or fully guaranteed.....		3,494
Other bills discounted:		
For member banks.....	3,518	
For nonmember banks.....	80	
For others.....	80	
Total other bills discounted.....		3,598
Total bills discounted.....		7,092
Bills bought in open market:		
Payable in dollars.....	112	
Payable in foreign currencies.....	6,501	
Total bills bought in open market.....		5,613
Industrial advances.....		14,201
U. S. Government securities bought outright:		
Liberty bonds.....	224,271	
Bonds issued since 1971.....	160,750	
Other U. S. Government bonds.....	644	
Total bonds.....	385,665	
Treasury notes.....	1,507,116	
Treasury bills.....	827,476	
Total U. S. Government securities.....		2,420,266
Total bills and securities.....		2,457,232
Due from foreign banks.....		905
Federal Reserve notes of other Reserve banks.....		28,502
Uncollected items:		
Transit items.....	417,535	
Exchanges for clearing house.....	18,421	
Other cash items.....	24,178	
Total uncollected items.....		460,132
Bank premises.....		63,277
All other assets:		
Claims account closed or suspended banks.....	9,176	
Premium on securities.....	17,848	
Interest accrued.....	11,557	
Deferred charges.....	499	
Suspense account and miscellaneous assets.....	4,608	
Total all other assets.....		43,688
Total assets.....		8,446,307

¹ Before closing of books at end of year.

Back figures.—See Annual Report for 1933 (table 16).

RESERVE BANK CREDIT

89

No. 15.—FEDERAL RESERVE BANKS—ASSETS AND LIABILITIES IN DETAIL,
DEC. 31, 1934—Continued

LIABILITIES

[Amounts in the column to the right are those shown in the Board's weekly statement, their components being shown in the column to the left. In thousands of dollars]

Federal Reserve notes outstanding (issued to Federal Reserve bank).....	3,520,365
Held by banks and branches.....	282,328
Forwarded for redemption.....	16,930
Federal Reserve notes in actual circulation.....	<u>3,221,107</u>
Federal Reserve bank notes outstanding (issued to Federal Reserve bank).....	37,690
Held by banks and branches and forwarded for redemption.....	11,200
Federal Reserve bank notes in actual circulation.....	<u>26,390</u>
Deposits:	
Member bank—reserve account.....	4,095,097
U. S. Treasurer—general account.....	120,746
Foreign bank.....	10,394
Other depositor:	
Nonmember clearing account.....	66,149
Officers' checks.....	16,866
Federal Reserve exchange drafts.....	301
All other.....	85,950
Total other deposits.....	169,266
Total deposits.....	<u>4,404,603</u>
Deferred availability items:	
Government transit items.....	21,564
All other transit items.....	433,688
Total deferred availability items.....	<u>455,252</u>
Capital paid in.....	146,728
Surplus (sec. 7).....	138,383
Surplus (sec. 13b).....	8,128
Reserve for contingencies:	
Reserves for self insurance.....	7,464
Reserves for losses.....	10,279
Depreciation reserve on United States bonds.....	4,382
Total reserves for contingencies.....	<u>22,125</u>
All other liabilities:	
Earnings:	
Gross earnings.....	48,903
Current expenses.....	29,241
Current net earnings.....	19,662
Add—profit and loss.....	8,754
Deduct:	
Furniture and equipment.....	238
Dividends accrued since closing of books.....	8,782
Net earnings available for depreciation allowances, reserves, and surplus.....	<u>19,396</u>
Accrued dividends unpaid.....	845
Unearned discount.....	24
Accrued taxes unpaid.....	359
Discount on securities.....	243
Suspense account and miscellaneous liabilities.....	2,917
Total all other liabilities.....	<u>4,388</u>
Total liabilities.....	<u>8,446,397</u>
Contingent liability on bills purchased for foreign correspondents.....	676

No. 16.—ASSETS AND LIABILITIES OF FEDERAL RESERVE BANKS (IN DETAIL) AT THE END OF EACH MONTH

[In thousands of dollars]

	1933	1934											
	Dec. 31	Jan. 31	Feb. 28	Mar. 31	Apr. 30	May 31	June 30	July 31	Aug. 31	Sept. 30	Oct. 31	Nov. 30	Dec. 31
ASSETS													
Old certificates on hand and due from U. S. Treasury.....	946,133	3,513,884	3,895,811	4,303,587	4,589,990	4,653,092	4,782,053	4,906,012	4,977,212	4,958,653	4,966,481	5,087,164	5,124,347
Old redemption fund—Federal Reserve notes.....	2,578,104												
Other cash.....	44,739	43,356	35,138	32,748	31,047	29,774	25,724	24,056	23,889	21,798	22,032	20,137	19,060
Total reserves.....	224,034	234,848	206,727	200,647	222,034	215,866	214,011	223,655	219,329	215,949	223,407	210,183	267,677
Redemption fund—Federal Reserve bank notes.....	3,793,610	3,792,088	4,139,676	4,536,982	4,843,071	4,868,732	5,021,788	5,153,723	5,250,430	5,196,400	5,211,920	5,317,454	5,400,984
Other cash.....	13,082	12,977	12,698	9,086	6,333	4,720	4,335	2,105	2,112	2,186	1,820	2,166	1,677
Bills discounted:													
For member banks.....	66,873	82,127	63,908	63,670	38,641	30,880	24,183	21,960	22,933	15,285	10,919	11,227	6,988
For intermediate credit banks.....	310	205											
For nonmember banks, etc.....	407	406	392	398	401	379	378	373	72	64	68	69	74
Total bills discounted.....	97,590	82,732	64,390	64,068	39,042	31,259	24,567	22,333	23,007	15,349	10,985	11,266	7,062
Bills bought:													
Payable in dollars:													
Bought outright.....	108,108	105,420	56,468	23,273	3,492	103	194	148	141	121	887	183	112
Under resale agreement.....	19,284												
Payable in foreign currencies.....	6,033	5,977	6,387	5,275	5,076	5,075	5,078	5,081	5,078	5,691	5,495	5,499	5,501
Total bills bought.....	133,425	111,397	62,855	28,548	8,568	5,178	5,269	5,229	5,220	5,812	6,082	5,682	5,613
Industrial advances.....									870	2,178	6,149	10,062	14,501
U. S. Government securities:													
Bought outright.....	2,435,245	2,432,370	2,430,351	2,445,636	2,431,273	2,430,236	2,430,264	2,430,159	2,430,216	2,430,186	2,430,171	2,430,122	2,430,266
Under resale agreement.....	2,245	1,600	1,600	1,600			1,600	1,600	1,600	1,600			
Total U. S. Government securities.....	2,437,490	2,433,970	2,431,951	2,447,236	2,431,273	2,430,236	2,431,864	2,431,759	2,431,816	2,431,786	2,430,171	2,430,122	2,430,266
Other Reserve bank credit:													
Federal intermediate credit bank debentures.....					200								
Municipal warrants.....	1,493	1,293	653	663	648	555	619	465	356	327	811	805	805
Due from foreign banks.....	3,333	3,392	3,483	3,131	3,131	3,125	3,129	3,134	3,127	1,819			
Reserve bank float.....	14,743	12,423	3,882	11,536	2,574	7,451	6,690	1,053	2,275	7,026	1,054	5,220	4,880
Total Reserve bank credit outstanding.....	2,688,076	2,630,361	2,566,706	2,545,082	2,455,830	2,462,852	2,472,068	2,461,857	2,464,121	2,463,697	2,455,262	2,452,745	2,462,917

Federal Reserve notes of other Reserve banks.....	18,460	15,780	13,293	16,569	18,414	17,571	19,202	16,053	16,333	20,364	19,744	21,124	28,502
Uncollected items not included in float.....	430,883	396,478	406,909	387,039	364,279	404,074	418,486	420,325	384,048	430,783	438,939	434,662	485,252
Bank premises.....	51,864	62,339	52,382	52,442	52,567	52,602	52,637	52,727	52,787	52,821	52,974	53,164	49,161
All other assets.....	44,693	118,075	117,441	120,030	168,071	187,889	186,124	83,188	66,971	64,084	48,094	80,890	43,652
Total assets.....	7,040,688	6,988,696	7,309,002	7,668,430	7,953,005	8,028,464	8,174,640	8,160,648	8,196,799	8,220,336	8,228,752	8,331,806	8,442,146
LIABILITIES													
Federal Reserve notes: Held by other Federal Reserve banks.....	18,460	15,780	13,293	16,569	18,414	17,571	19,202	16,053	16,333	20,364	19,744	21,124	28,502
Outside Federal Reserve banks.....	3,061,083	2,910,463	2,966,344	3,021,734	3,041,690	3,061,110	3,082,112	3,060,364	3,117,389	3,146,702	3,141,033	3,192,181	3,192,005
Total Federal Reserve notes in circulation¹.....	3,079,543	2,926,243	2,979,637	3,038,303	3,060,104	3,068,681	3,101,814	3,077,017	3,183,722	3,167,066	3,160,777	3,213,805	3,221,107
Federal Reserve bank notes in circulation ²	208,997	203,057	193,370	116,876	74,582	60,248	46,682	33,812	31,930	30,379	28,664	27,623	26,390
Deposits: Member bank-reserve account.....	2,726,442	2,651,945	3,093,119	3,487,069	3,568,528	3,745,003	3,840,086	4,028,822	4,052,312	3,994,071	4,008,999	4,081,850	4,095,946
Government.....	2,837	241,860	45,291	39,220	115,302	84,817	64,183	58,570	51,288	144,699	92,293	70,621	120,740
Foreign bank.....	4,233	3,952	3,433	5,941	6,228	3,743	4,893	7,159	11,605	9,810	8,952	19,577	19,394
Other deposits.....	128,038	137,278	123,568	161,166	269,041	218,646	228,527	200,323	196,328	168,168	154,558	145,018	165,294
Total deposits.....	2,864,550	3,035,035	3,265,381	3,653,396	3,982,009	4,023,108	4,137,689	4,204,676	4,311,533	4,266,748	4,261,802	4,313,466	4,405,830
Deferred availability items.....	430,883	366,478	406,909	387,039	364,279	404,074	418,486	420,325	384,048	430,783	438,939	434,662	485,252
Capital paid in.....	144,693	145,359	145,310	146,221	148,395	146,801	147,120	145,640	146,535	146,781	146,777	146,885	146,725
Surplus (sec. 7).....	277,680	138,383	138,383	138,383	138,383	138,383	138,383	138,383	138,383	138,383	138,383	138,383	144,593
Surplus (sec. 13b).....	22,524	22,523	22,527	22,530	22,529	22,532	22,534	22,540	22,545	22,444	22,391	22,201	30,816
Reserve for contingencies.....	11,818	151,620	156,479	165,062	164,694	165,137	162,432	27,360	28,106	27,761	30,274	32,708	3,543
All other liabilities.....													
Total liabilities.....	7,040,688	6,988,696	7,309,002	7,668,430	7,953,005	8,028,464	8,174,640	8,160,648	8,196,799	8,220,336	8,228,752	8,331,806	8,442,146
Contingent liability on bills purchased for foreign correspondents.....	3,810	4,477	4,835	4,937	4,296	2,672	1,524	1,114	581	750	465	491	676
Commitments to make industrial advances.....									346	1,368	3,218	6,510	10,047

¹ Uncollected items in excess of deferred availability items.

² Deferred availability items in excess of uncollected items.

³ Differs from figures given in table 41, by the amount of Federal Reserve notes held by (a) other Federal Reserve banks and (b) the U. S. Treasury.

⁴ Differs from figures given in table 42, by the amount of Federal Reserve bank notes held by (a) other Federal Reserve banks and (b) the U. S. Treasury.

Back figures.—See Annual Report for 1933 (table 17).

RESERVE BANK CREDIT

91

No. 17.—CONDITION OF EACH FEDERAL RESERVE BANK AT END OF 1933 AND 1934

[In thousands of dollars]

	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1933	1934	1933	1934	1933	1934	1933	1934	1933	1934	1933	1934
ASSETS												
Gold certificates on hand and due from U. S. Treasury.....	948,183	5,124,847	40,008	863,292	266,839	1,836,676	92,988	271,119	89,567	383,641	23,732	185,213
Gold.....	2,878,104		184,999		660,858		100,344		195,791		146,788	
Redemption fund—Federal Reserve notes.....	44,739	19,060	1,977	822	10,707	1,490	4,188	2,525	8,216	1,770	1,386	1,923
Other cash.....	224,034	257,677	18,044	81,028	65,104	65,764	31,051	35,661	15,643	18,316	12,070	13,259
Total reserves.....	3,798,610	5,400,984	264,028	894,982	988,606	1,894,959	228,671	306,305	306,217	398,728	183,482	200,995
Redemption fund—Federal Reserve bank notes.....	13,082	1,677	1,250	250	2,871	1,427	1,300		1,356		267	
Bills discounted:												
Secured by U. S. Government obligations direct and/or fully guaranteed.....	27,291	3,494	2,716	995	14,812	1,838	5,286	556	2,008	190	456	75
Other bills discounted.....	70,299	3,568	2,145	60	26,170	2,690	20,677	437	4,868	125	4,077	64
Total bills discounted.....	97,590	7,062	4,860	1,055	40,982	4,528	25,963	993	6,876	315	4,533	139
Bills bought in open market.....	133,425	5,813	28,671	404	22,258	1,982	7,858	684	12,186	329	8,926	209
Industrial advances.....		14,301		1,779		813		3,236			932	1,540
U. S. Government securities:												
Bonds.....	448,336	398,605	24,390	23,206	170,047	141,018	28,068	25,138	32,161	30,558	11,860	14,859
Treasury notes.....	1,053,300	1,807,110	70,955	98,827	361,230	475,234	74,042	104,810	96,287	134,108	35,510	65,195
Certificates and bills.....	940,854	527,476	62,326	35,638	305,469	161,566	65,010	37,172	84,577	48,359	31,163	23,809
Total U. S. Government securities.....	2,442,490	2,733,191	157,671	157,671	836,745	777,818	167,120	167,120	213,025	213,025	78,563	103,863
Other securities.....	1,493				903		510					
Total bills and securities.....	3,680,998	2,467,232	191,202	160,905	900,607	784,841	200,851	171,933	232,087	214,800	87,022	105,451
Due from foreign banks.....	3,333	805	256	60	1,228	290	367	87	330	77	130	31
Federal Reserve notes of other banks.....	13,460	28,502	466	352	3,726	6,950	1,066	1,373	1,028	1,763	1,312	4,050
Uncollected items.....	445,628	480,132	50,472	50,570	126,521	126,519	36,896	38,756	39,660	40,953	34,275	37,748
Bank premises.....	51,834	49,161	3,224	3,168	11,068	11,437	3,841	4,411	5,785	6,629	3,128	3,027
All other assets.....	44,693	43,552	393	617	25,103	30,002	4,577	5,178	1,910	1,324	2,533	1,392
Total assets.....	7,040,688	8,442,145	601,390	611,204	2,059,828	2,858,414	477,469	531,043	539,371	664,272	312,169	352,064
LIABILITIES												
Federal Reserve notes in actual circulation.....	3,070,543	3,221,107	234,305	270,943	651,066	680,935	236,128	340,444	290,590	306,626	187,541	187,826
Federal Reserve bank note circulation—net.....	208,997	26,390	19,976	922	84,008	25,468	30,390		25,091		4,523	

No. 17.—CONDITION OF EACH FEDERAL RESERVE BANK AT END OF 1933 AND 1934—Continued

[In thousands of dollars]

	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1933	1934	1933	1934	1933	1934	1933	1934	1933	1934	1933	1934	1933	1934
ASSETS														
Certificates on hand and due from U. S. Treasury	14,807	121,476	314,400	1,025,816	16,234	193,736	18,455	139,798	18,180	187,308	12,506	106,021	29,330	310,282
Discounted—Federal Reserve notes	100,253	858,639	858,639	1,311	145,715	1,304	77,870	127,850	65,190	214,318	8,855	328	8,816	3,632
U. S. Treasury notes	8,157	8,843	8,841	1,311	1,304	614	1,612	330	1,175	613	855	328	8,816	3,632
U. S. Government securities	11,876	13,849	33,310	83,384	11,084	11,927	8,322	11,341	9,397	11,431	6,797	8,739	16,925	16,879
Total reserves	130,092	130,177	914,280	1,060,511	174,337	206,277	106,266	181,469	186,007	199,353	85,354	115,088	206,387	330,703
Discounted—Federal Reserve bank notes	1,014	1,014	1,879	1,879	494	494	663	663	624	624	708	708	826	826
Secured by U. S. Government obligations direct and/or fully guaranteed	230	0	911	911	797	3	50	50	39	24	164	12	123	95
Other bills discounted	3,954	61	3,142	2	618	1,822	1,822	1,382	102	710	1,310	1,310	1,310	37
Total bills discounted	4,184	67	4,063	2	1,415	3	1,872	1,421	129	883	12	1,439	132	
Bought in open market	4,279	333	14,091	707	4,693	118	3,189	81	4,566	155	9,248	154	18,460	390
U. S. Government securities	847	847	921	921	419	419	1,752	1,752	433	433	1,045	1,045	588	
Total U. S. Government securities	71,898	94,277	437,343	428,343	93,200	93,200	68,698	68,698	83,441	91,644	66,478	71,475	166,331	166,331
Total bills and securities from foreign banks	80,361	95,484	455,487	429,973	90,308	93,738	70,806	67,422	89,428	92,658	76,006	72,686	186,230	167,441
U. S. Reserve notes of other banks	117	28	455	105	14	9	9	6	97	23	97	23	233	57
U. S. Government securities	1,840	1,731	4,288	4,776	1,157	1,901	638	1,128	1,147	1,406	494	421	1,530	2,637
U. S. Government securities	14,012	18,343	64,310	58,140	18,732	18,455	10,641	11,990	23,767	25,020	15,723	15,451	20,419	20,987
U. S. Government securities	2,372	2,325	7,375	4,955	3,111	2,829	1,657	1,580	3,485	3,447	1,750	1,684	4,090	3,869
U. S. Government securities	3,775	1,834	1,549	768	413	194	1,474	771	1,151	260	914	856	879	456
Total assets	233,383	285,822	1,439,779	1,659,728	297,566	323,203	192,067	234,366	275,696	322,060	181,646	206,209	480,584	526,230
LIABILITIES														
U. S. Reserve notes in actual circulation	125,175	132,968	784,759	788,933	144,307	142,880	92,896	106,656	106,814	117,654	42,888	63,845	213,054	211,308
U. S. Reserve bank note circulation—net	5,121	5,121	28,737	28,737	8,067	8,067	7,718	7,718	9,615	9,615	11,344	11,344	14,407	14,407

96 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

NO. 18.—NUMBER¹ OF MEMBER BANKS DISCOUNTING PAPER AT FEDERAL RESERVE BANKS, BY MONTHS, 1914-34

Month	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924
January.....		388	614	806	1,432	3,316	3,461	5,293	6,350	3,294	3,663
February.....		459	451	262	1,353	3,091	3,338	5,107	4,947	2,976	3,455
March.....		570	535	315	1,558	3,575	3,670	5,320	4,701	3,282	3,516
April.....		606	606	384	2,100	3,876	4,175	5,568	4,738	3,507	3,744
May.....		692	655	590	2,793	4,035	4,642	5,632	4,626	3,942	3,795
June.....		813	678	900	3,021	4,047	4,948	5,745	4,436	3,999	2,706
July.....		700	642	980	3,462	3,686	4,858	5,607	4,107	4,110	3,432
August.....		711	488	990	3,671	3,460	4,780	5,453	4,042	3,900	2,052
September.....		781	448	953	3,454	3,722	4,758	5,427	3,944	3,600	2,786
October.....		794	383	1,140	3,610	3,839	4,952	5,572	3,793	3,782	2,663
November.....	132	835	336	1,574	3,067	3,649	5,275	5,622	3,859	3,732	2,573
December.....	339	764	314	1,701	3,298	3,656	5,551	5,576	3,873	3,668	2,783
Year.....	1,920	1,788	3,127	5,493	5,993	6,941	7,415	6,956	6,333	6,000	

Month	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
January.....	2,554	2,838	2,825	2,256	2,661	3,049	2,721	3,640	2,736	929
February.....	2,415	2,859	2,566	2,104	2,597	2,730	2,375	3,488	2,739	663
March.....	2,731	3,045	2,717	2,405	2,860	2,707	2,389	3,400	3,295	558
April.....	3,016	3,155	2,707	2,522	3,186	2,763	3,156	3,391	2,070	606
May.....	3,209	3,282	2,858	2,742	3,391	2,951	2,334	3,365	1,918	450
June.....	3,289	3,458	2,394	2,957	3,414	2,849	2,467	3,499	1,738	413
July.....	3,207	3,190	2,869	2,927	3,301	2,729	2,344	3,560	1,590	287
August.....	2,979	3,016	2,511	2,787	3,012	2,466	2,304	3,334	1,305	283
September.....	2,729	2,879	2,361	2,652	2,822	2,194	2,525	3,122	1,205	274
October.....	2,796	2,856	2,377	2,653	2,917	2,400	3,288	3,926	1,054	237
November.....	2,876	2,871	2,350	2,639	3,245	2,478	3,210	2,884	1,033	212
December.....	3,021	3,024	2,345	2,801	3,080	2,839	3,376	2,932	1,056	232
Year.....	5,183	5,343	4,869	4,718	5,113	4,991	5,260	5,017	4,270	1,308

¹ Figures for each month and year are exclusive of duplications, i. e., each bank is counted only once no matter how often it borrowed during the month or year.

NO. 19.—NUMBER OF MEMBER BANKS DISCOUNTING PAPER AT FEDERAL RESERVE BANKS, BY FEDERAL RESERVE DISTRICTS, 1926-34

District	1926	1927	1928	1929	1930	1931	1932	1933	1934
Boston.....	286	261	295	306	290	294	260	246	122
New York.....	606	602	623	651	658	736	717	656	279
Philadelphia.....	558	552	562	594	613	722	609	541	323
Cleveland.....	466	430	421	475	459	457	498	363	132
Richmond.....	430	383	386	394	345	353	309	290	88
Atlanta.....	333	300	315	352	311	301	217	241	74
Chicago.....	814	746	655	708	656	695	652	474	39
St. Louis.....	330	306	292	328	343	334	303	226	66
Minneapolis.....	270	275	224	249	234	266	323	271	47
Kansas City.....	453	377	351	417	447	432	470	405	51
Dallas.....	453	318	296	359	375	375	333	207	61
San Francisco.....	347	318	268	280	270	296	276	270	86
Total.....	5,343	4,869	4,718	5,113	4,991	5,260	5,017	4,270	1,308

Back figures.—See Annual Report for 1925 (table 97).

RESERVE BANK CREDIT

97

No. 20.—NUMBER OF MEMBER BANKS DISCOUNTING PAPER AT FEDERAL RESERVE BANKS, BY STATES, 1926-34

State	1926	1927	1928	1929	1930	1931	1932	1933	1934
New England:									
Maine.....	33	31	29	32	31	33	28	23	4
New Hampshire.....	39	36	37	40	42	42	25	38	20
Vermont.....	30	28	22	43	32	32	34	28	12
Massachusetts.....	135	126	133	142	128	134	124	111	63
Rhode Island.....	12	6	11	11	8	10	8	8	4
Connecticut.....	46	44	43	51	50	54	51	47	26
Middle Atlantic:									
New York.....	429	418	437	455	459	526	511	466	272
New Jersey.....	247	261	264	264	252	406	394	271	153
Pennsylvania.....	615	596	610	673	671	667	648	560	265
East North Central:									
Ohio.....	276	251	241	262	252	247	218	215	71
Indiana.....	141	135	131	143	130	122	124	107	11
Illinois.....	321	286	267	311	287	308	299	185	24
Michigan.....	174	182	166	183	139	193	167	123	17
Wisconsin.....	68	71	78	85	89	88	106	78	15
West North Central:									
Minnesota.....	91	85	80	78	87	83	113	103	13
Iowa.....	230	190	153	131	162	147	163	112	4
Missouri.....	108	124	116	121	123	117	103	86	17
North Dakota.....	63	66	61	59	47	39	43	36	5
South Dakota.....	69	53	36	40	49	63	80	47	14
Nebraska.....	112	109	97	102	101	101	107	91	11
Kansas.....	96	87	106	108	120	117	120	101	16
South Atlantic:									
Delaware.....	14	16	16	13	14	17	17	16	10
Maryland.....	54	53	50	55	46	51	45	54	14
District of Columbia.....	10	9	9	8	8	9	9	9	2
Virginia.....	143	124	132	139	125	123	121	105	35
West Virginia.....	83	74	77	81	78	95	77	74	26
North Carolina.....	75	72	78	61	61	63	40	36	5
South Carolina.....	74	59	48	49	35	27	22	20	2
Georgia.....	121	104	108	115	98	94	82	81	23
Florida.....	41	35	36	49	35	31	23	32	6
East South Central:									
Kentucky.....	60	62	51	72	68	71	74	65	28
Tennessee.....	65	56	53	62	67	73	54	51	18
Alabama.....	88	79	92	103	91	86	56	56	21
Mississippi.....	51	32	33	53	33	25	21	18	7
West South Central:									
Arkansas.....	74	59	55	50	61	53	44	29	11
Louisiana.....	28	29	30	30	27	24	24	21	2
Oklahoma.....	167	100	102	113	127	117	121	108	13
Texas.....	417	290	267	223	345	345	324	242	45
Mountain:									
Montana.....	48	45	25	45	40	41	53	40	7
Idaho.....	38	38	28	23	27	29	43	29	1
Wyoming.....	9	10	5	13	14	17	25	23	5
Colorado.....	67	60	51	64	68	66	78	56	8
New Mexico.....	14	10	12	18	11	16	21	17	3
Arizona.....	8	6	3	6	4	7	10	8	
Utah.....	39	33	35	33	31	32	32	19	8
Nevada.....				1	2	4		4	
Pacific:									
Washington.....	78	73	67	80	75	78	94	74	14
Oregon.....	57	56	48	60	51	53	68	39	7
California.....	134	111	87	80	81	98	125	99	36
Total.....	5,343	4,959	4,718	5,113	4,991	5,260	5,017	4,270	1,393

Back figures.—See Annual Report for 1930 (table 105).

98 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 21.—BILLS DISCOUNTED BY FEDERAL RESERVE BANKS—HOLDINGS AT THE END OF EACH MONTH, BY CLASSES

[In thousands of dollars]

End of month	Total all classes	Rediscounted bills		Member bank collateral notes			Discounts for individuals, partnerships, and corporations ¹
		Secured by U. S. Government obligations direct and/or fully guaranteed	Otherwise secured and unsecured	Secured by U. S. Government obligations	Secured by other eligible collateral	Secured by bills and securities not eligible for discount or purchase sec. 10(b)	
1934							
January.....	82,732	290	114,395	26,028	26,221	16,099	303
February.....	64,390	269	9,437	18,050	22,214	14,038	392
March.....	64,068	46	8,186	15,143	15,010	12,285	396
April.....	39,042	50	5,755	7,439	15,651	9,735	401
May.....	31,259	12	4,363	6,433	11,840	8,232	279
June.....	24,597	10	5,936	4,739	5,953	6,570	379
July.....	22,333	6	2,396	5,081	8,280	6,197	373
August.....	23,007	-----	2,000	5,908	8,680	6,347	73
September.....	15,349	-----	1,090	5,257	5,970	2,368	64
October.....	10,985	-----	1,037	5,375	2,393	2,114	66
November.....	11,296	-----	747	5,789	1,060	1,731	69
December.....	7,092	-----	657	3,470	1,214	1,647	74

¹ Includes \$5,000 discounted for nonmember banks secured by adjusted-service certificates.

² Includes paper secured by U. S. Government direct obligations as follows: January, \$33,000; February, \$33,000; March, \$49,000; April, \$58,000; May, \$31,000; June, \$26,000; July, \$25,000; August, \$26,000; September, \$26,000; October, \$29,000; November, \$26,000; December, \$24,000.

Back figures.—See Annual Report for 1933 (table 22).

RESERVE BANK CREDIT

99

No. 22.—BILLS DISCOUNTED—HOLDINGS OF EACH FEDERAL RESERVE BANK ON
DEC. 31, 1934, BY CLASSES

[In thousands of dollars]

Federal Reserve Bank	Total (all classes)	Rediscounted bills		Member bank collateral notes			Dis- counts for indi- viduals, partn- erships, and cor- porations
		Secured by U. S. Govern- ment ob- ligations direct and/or fully guaran- teed	Other- wise secured and un- secured	Secured by U. S. Govern- ment ob- ligations, direct and/or fully guaran- teed	Secured by other eligible collaterals	Secured by bills and secu- rities not eligible for dis- count or purchase sec. 10 (b)	
1934							
Boston.....	1,055		14	905	46		
New York.....	4,228		163	1,538	1,032	1,487	35
Philadelphia.....	993		227	556	47	183	
Cleveland.....	315		113	190	12		
Richmond.....	139		17	54	47		1 21
Atlanta.....	57		24	5		27	
Chicago.....	2		2				
St. Louis.....	3						1 3
Minneapolis.....							
Kansas City.....	126		57	24	30		15
Dallas.....	12			12			
San Francisco.....	132		37	95			
Total.....	7,062		657	3,470	1,214	1,947	74

¹ Secured by U. S. Government direct obligations.

Back figures.—See Annual Report for 1933 (table 22).

No. 23.—BILLS DISCOUNTED—HOLDINGS OF EACH FEDERAL RESERVE BANK ON
DEC. 26, 1934, BY MATURITIES

[In thousands of dollars]

Federal Reserve Bank	Total	Maturity					
		Within 15 days	16 to 30 days	31 to 60 days	61 to 90 days	91 days to 6 months	Over 6 months
Boston.....	1,551	1,548	3				
New York.....	5,438	3,890	201	760	567		
Philadelphia.....	1,185	856	155	96	61	5	
Cleveland.....	380	374		1	4	1	
Richmond.....	139	145	21				
Atlanta.....	94	78	3	12	3		
Chicago.....	48	40		1	7		
St. Louis.....	180	179	1				
Minneapolis.....							
Kansas City.....	131	73	1	1	4	52	
Dallas.....	12	12					
San Francisco.....	123	85	9	11	2	16	
Total.....	9,381	7,281	404	884	638	74	

Back figures.—See Annual Report for 1933 (table 24).

100 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 24.—BILLS BOUGHT BY FEDERAL RESERVE BANKS—HOLDINGS AT THE END OF EACH MONTH, BY CLASSES

[In thousands of dollars]

End of month	Total	Bills payable in dollars							Trade acceptances	Bills payable in foreign currencies
		Bankers acceptances								
		Total	Based on—			Dollar exchange	Based on goods stored in foreign countries or shipped between foreign points	All other		
			Total	Imports into United States	Exports from United States						Goods stored in United States (warehouse credits) or shipped between domestic points
Total	Imports into United States								Exports from United States	Goods stored in United States (warehouse credits) or shipped between domestic points
1924										
January.....	111,397	105,420	105,420	17,506	21,408	30,143	1,640	31,253	3,471	5,977
February.....	62,345	56,458	56,458	11,326	11,080	14,570	1,650	15,948	1,571	5,887
March.....	28,548	23,273	23,273	4,796	5,067	6,630	1,069	4,167	344	5,275
April.....	8,562	3,492	3,492	756	593	92	20	2,031	102	5,070
May.....	5,178	102	102	50	50	-----	-----	144	-----	5,075
June.....	5,299	194	194	-----	-----	-----	-----	-----	-----	-----
July.....	5,229	148	148	-----	60	-----	-----	98	-----	5,081
August.....	5,220	141	141	-----	24	117	-----	-----	-----	5,079
September.....	5,812	121	121	-----	24	-----	-----	97	-----	5,691
October.....	6,082	587	587	1	86	75	-----	42	-----	5,495
November.....	6,682	183	183	1	62	110	-----	10	-----	5,499
December.....	5,613	112	112	1	1	111	-----	-----	-----	5,501

Back figures.—See Annual Report for 1933 (table 25).

No. 25.—ACCEPTANCES PAYABLE IN FOREIGN CURRENCIES—HOLDINGS OF FEDERAL RESERVE BANKS, 1924-34

[In thousands of dollars]

End of month	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
January.....	-----	1,274	1,015	2,051	719	1,019	1,035	36,119	33,444	20,036	5,977
February.....	-----	1,072	795	1,897	1,034	1,029	1,038	23,958	33,478	28,907	5,887
March.....	-----	961	1,137	2,035	1,697	1,036	1,040	1,053	30,778	24,778	5,275
April.....	-----	1,149	1,213	1,534	1,145	1,030	1,034	1,074	30,736	7,181	5,070
May.....	-----	602	1,203	1,388	414	1,040	1,038	1,073	30,837	6,981	5,075
June.....	-----	687	1,043	12,480	258	1,043	1,064	10,551	20,762	7,080	5,075
July.....	-----	857	1,036	13,399	268	2,061	1,965	34,371	20,645	6,921	5,081
August.....	-----	720	1,043	13,947	250	12,246	1,071	145,215	30,824	6,199	5,079
September.....	-----	1,249	1,270	1,506	3,495	267	16,955	43,894	36,949	6,058	5,691
October.....	-----	2,650	911	1,623	2,283	1,037	17,795	21,863	32,501	30,646	5,695
November.....	-----	3,880	642	1,730	1,167	1,016	1,990	31,567	33,586	30,652	5,491
December.....	-----	1,267	914	2,189	837	1,017	1,627	26,983	33,429	29,486	5,501

1 The first purchase of acceptances payable in foreign currencies was on Sept. 18, 1924.

RESERVE BANK CREDIT

101

No. 26.—HOLDINGS OF BILLS DISCOUNTED AND BILLS BOUGHT BY FEDERAL RESERVE BANKS, BY MATURITIES, 1933-34

[In thousands of dollars]

Date	Total	Maturity					Over 6 months
		Within 15 days	16 to 30 days	31 to 60 days	61 to 90 days	91 days to 6 months	
Bills discounted:							
1933-Jan. 25	264,688	187,706	10,322	27,987	10,226	0,052	1,396
Feb. 21	327,138	239,487	21,807	31,096	28,519	8,842	1,887
Mar. 22	559,022	408,906	34,447	42,389	62,705	7,539	2,317
Apr. 26	385,001	254,905	24,725	48,636	49,138	0,855	747
May 31	301,974	192,071	24,149	41,857	36,416	7,464	168
June 28	190,981	136,381	15,977	14,535	18,408	4,533	47
July 26	161,203	116,058	11,906	15,598	15,323	2,437	41
Aug. 30	153,220	118,190	11,150	12,840	0,768	1,210	63
Sept. 27	133,233	90,041	9,960	10,979	12,317	855	72
Oct. 25	114,593	84,056	8,268	15,061	6,028	1,081	99
Nov. 29	110,041	91,804	9,584	8,507	7,856	1,096	194
Dec. 27	110,553	82,787	8,913	8,890	11,748	1,049	165
1934-Jan. 31	82,732	61,744	7,341	9,730	8,245	619	53
Feb. 28	64,390	41,491	2,790	5,519	4,285	358	37
Mar. 28	62,579	37,655	2,554	5,261	6,782	263	34
Apr. 25	40,313	30,146	1,880	4,814	1,261	181	41
May 30	33,700	26,540	2,474	1,893	2,497	274	22
June 27	27,915	18,766	1,392	1,268	5,276	309	4
July 25	21,298	14,499	839	5,102	905	143	10
Aug. 29	21,007	17,067	1,584	811	884	55	6
Sept. 26	20,314	12,787	770	495	5,251	27	4
Oct. 31	10,985	8,577	728	1,178	347	153	2
Nov. 28	11,872	9,884	868	388	699	25	—
Dec. 26	9,281	7,281	404	884	638	74	—
Bills bought:							
1933-Jan. 25	31,496	4,746	5,894	0,302	10,584	—	—
Feb. 21	179,578	64,812	30,319	35,753	45,481	211	—
Mar. 22	310,205	72,471	60,185	145,905	81,481	213	—
Apr. 26	177,450	71,214	74,240	26,022	5,923	61	—
May 31	19,823	12,479	5,239	842	1,302	—	—
June 28	8,186	1,870	1,552	2,997	2,567	—	—
July 26	9,616	2,295	1,100	411	5,809	1	—
Aug. 30	6,900	1,756	2,552	1,495	1,997	—	—
Sept. 27	6,081	1,110	2,118	556	2,868	—	—
Oct. 25	6,523	285	737	899	4,902	—	—
Nov. 29	23,868	5,623	4,687	4,775	8,700	81	—
Dec. 27	111,958	18,518	14,816	46,159	25,440	178	—
1934-Jan. 31	111,397	33,092	31,651	29,153	17,431	60	—
Feb. 28	62,345	26,402	9,599	19,623	9,681	—	—
Mar. 28	29,359	15,712	6,634	7,381	1,639	—	—
Apr. 25	10,163	4,111	2,048	298	3,706	—	—
May 30	5,178	2,871	198	1,638	771	—	—
June 27	5,215	1,411	2,762	844	198	—	—
July 25	5,271	654	473	1,511	2,633	—	—
Aug. 29	5,247	3,594	456	741	456	—	—
Sept. 26	5,812	149	3,703	349	1,611	—	—
Oct. 31	6,082	1,101	684	485	8,111	—	—
Nov. 28	5,683	2,745	250	1,799	889	—	—
Dec. 26	5,611	1,165	695	1,027	2,724	—	—

Back figures.—See Annual Report for 1932 (table 25).

102 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 27.—HOLDINGS OF UNITED STATES GOVERNMENT SECURITIES BY FEDERAL RESERVE BANKS AT END OF EACH YEAR, 1930-34, BY CLASSES

[In thousands of dollars]

TOTAL HOLDINGS	1930	1931	1932	1933	1934
Bonds:					
2 percent consols of 1930.....	915				
2 percent Panamas of 1936-38.....	237	(1)	(1)	(1)	(1)
3 percent conversion bonds of 1946-47.....	* 1,796	† 455	† 644	† 644	† 644
3½ percent Liberty loan.....	10,102	84,626	25,027	26,625	25,027
4½ percent Liberty loan.....	* 103,060	* 213,240	364,188	368,434	206,244
3¼ percent Treasury bonds of 1941.....				467	20,011
3½ percent Treasury bonds of 1940-43.....	5,009	14,854	13,778	13,772	9,772
3½ percent Treasury bonds of 1941-43.....		15,245	5,887	5,749	2,667
3¼-4¼ percent Treasury bonds of 1943-45.....				25,634	25,690
3¼ percent Treasury bonds of 1943-47.....	3,202	5,560	5,791	5,772	5,772
4¼ percent Treasury bonds of 1947-52.....	7,522	717	84	530	537
4 percent Treasury bonds of 1944-54.....	27,712	7,370	398	395	4,380
3½ percent Treasury bonds of 1946-56.....	3,900	5,082	2,875	2,882	6,037
3¼ percent Treasury bonds of 1946-49.....		10,272	1,849	1,870	1,869
3 percent Treasury bonds of 1951-55.....		1,507	1,243	506	534
3 percent Treasury bonds of 1944-46.....					43,475
3 percent Treasury bonds of 1946-48.....					40,000
Total bonds.....	153,785	360,395	421,862	443,336	395,665
Treasury notes.....	226,473	33,038	299,703	1,053,300	1,407,116
Certificates of indebtedness.....	315,028	271,199	718,964	515,799	515,799
Treasury bills.....	24,181	152,354	414,613	425,085	527,475
Total U. S. Government securities.....	729,467	816,957	1,855,142	2,437,420	2,436,255
BOUGHT OUTRIGHT					
In System investment account:					
3½ percent Liberty loan.....		80,025	26,025	25,025	25,025
4½ percent Liberty loan.....		28,048	131,790	310,661	285,561
3¼-4¼ Treasury bonds of 1943-45.....				25,000	169,869
3¼ percent Treasury bonds of 1944-46.....					20,000
3¼ percent Treasury bonds of 1941.....					20,000
3 percent Treasury bonds of 1946-48.....					40,000
Treasury notes.....	159,533	20,000	252,354	1,004,862	1,369,563
Certificates of indebtedness.....	223,463	252,283	649,200	470,337	504,664
Treasury bills.....	24,181	32,718	372,438	412,335	504,664
Total in special investment account.....	435,224	566,816	1,639,608	2,223,150	2,223,150
In other accounts:					
Bonds:					
2 percent consols of 1930.....	915				
2 percent Panamas of 1936-38.....	237	(1)	(1)	(1)	(1)
3 percent conversion bonds of 1946-47.....	* 1,796	† 455	† 644	† 644	† 644
3½ percent Liberty loan.....	9,232	4,500	2		2
4½ percent Liberty loan.....	* 60,244	* 68,965	53,877	72,843	26,375
3¼ percent Treasury bonds of 1941.....				17	11
3½ percent Treasury bonds of 1940-43.....					4,475
3½ percent Treasury bonds of 1941-43.....	5,009	14,854	13,778	13,772	9,772
3¼-4¼ percent Treasury bonds of 1943-45.....				634	696
3¼ percent Treasury bonds of 1943-47.....	3,202	5,560	5,791	5,772	5,772
4¼ percent Treasury bonds of 1947-52.....	7,522	717	84	530	535
4 percent Treasury bonds of 1944-54.....	20,712	5,223	298	305	4,380
3½ percent Treasury bonds of 1946-56.....	3,900	5,082	2,875	2,832	6,037
3¼ percent Treasury bonds of 1946-49.....		10,272	1,849	1,876	1,869
3 percent Treasury bonds of 1951-55.....		242	550	534	534
3 percent Treasury bonds of 1946-48.....					(1)
Total bonds.....	113,119	130,522	85,233	106,598	76,769
Treasury notes.....	48,581	11,536	14,171	48,340	107,556
Certificates of indebtedness.....	69,140	17,818	69,764	45,407	51,600
Treasury bills.....		47,636	42,156	12,760	52,781
Total in other accounts.....	230,840	207,512	211,423	212,065	207,108
Total bought outright.....	688,064	774,628	1,851,031	2,435,245	2,436,256
BOUGHT UNDER RESALE AGREEMENT					
Bonds.....	22,618	18,029	913	2,122	
Treasury notes.....	18,260	1,500	3,198	98	
Certificates of indebtedness.....	2,425	1,100		25	
Treasury bills.....		21,700			
Total bought under resale agreement.....	43,303	42,329	4,111	2,345	

1 Less than \$500.

* Including \$500 2 percent loan of 1941

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD. 103

VOLUME OF OPERATIONS OF FEDERAL RESERVE BANKS

No. 28.—VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS, 1930-34

[Number in thousands; amounts in thousands of dollars]

	1930	1931	1932	1933	1934
NUMBER OF PIECES HANDLED¹					
Bills discounted:					
Applications.....	96	100	178	81	11
Notes discounted.....	415	618	779	845	4
Industrial advances:					
Notes discounted.....					1
Commitments.....					1
Bills purchased in open market for own account.....	208	221	76	79	1
Currency received and counted.....	2,441,989	2,269,292	2,028,552	2,013,459	2,087,831
Coin received and counted.....	3,325,555	2,900,462	2,654,787	2,497,928	2,565,161
Checks handled.....	904,975	864,616	734,538	688,933	818,941
Collection items handled:					
United States Government coupons paid.....	19,362	17,822	17,710	18,099	21,581
All other.....	6,368	6,927	7,468	8,371	7,439
United States Government direct obligations—issues, redemptions, and exchanges by fiscal agency department.....	1,412	2,431	1,056	3,802	5,281
Transfers of funds.....	1,808	1,653	1,469	1,290	1,124
AMOUNTS HANDLED					
Bills discounted.....	14,067,117	14,555,590	18,648,306	9,632,808	714,361
Industrial advances:					
Notes discounted.....					14,881
Commitments.....					11,441
Bills purchased in open market for own account.....	3,873,698	2,908,415	782,755	998,001	75,901
Currency received and counted.....	14,262,809	13,608,638	10,852,697	11,710,364	9,933,601
Coin received and counted.....	337,534	685,945	360,295	524,817	368,291
Checks handled.....	924,885,021	248,172,956	178,591,791	187,833,692	179,544,481
Collection items handled:					
United States Government coupons paid.....	499,111	479,960	629,084	578,092	699,321
All other.....	7,526,014	7,321,814	5,427,817	5,539,659	6,742,971
United States Government direct obligations—issues, redemptions, and exchanges by fiscal agency department.....	7,084,060	17,348,971	19,444,110	24,622,726	29,941,041
Transfers of funds.....	198,880,880	162,064,061	116,040,041	83,050,151	73,077,161

¹ Two or more checks, coupons, etc., handled as a single item are counted as 1 "piece."

Back figures.—See Annual Report for 1933 (table 32.)

NO. 47.— VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF EACH FEDERAL RESERVE BANK, 1934

	Total	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
NUMBER OF PIECES HANDLED¹													
Notes discounted:													
Applications.....	15,176	968	6,046	4,365	809	834	477	206	443	156	204	262	406
Notes discounted.....	42,128	1,654	17,655	12,020	2,391	1,923	1,448	623	443	440	500	1,727	895
Trust advances:													
Notes discounted.....	463	9	64	45	58	33	75	20	22	76	21	23	7
Commitments.....	227	28	44	15	22	11	23	1	38	-----	6	-----	39
Notes purchased in open market for own account.....	7,400	439	4,010	23	364	209	252	500	201	163	235	505	484
Foreign currency received and counted.....	2,067,836,000	192,667,000	596,026,000	177,718,000	121,321,000	105,956,000	104,486,000	368,708,000	111,701,000	42,573,000	63,244,000	51,392,000	132,043,000
Checks received and counted.....	2,665,164,000	341,112,000	991,453,000	264,018,000	116,930,000	166,931,000	55,068,000	286,505,000	106,248,000	14,602,000	50,057,000	42,054,000	130,186,000
Checks handled.....	818,847,000	83,635,000	157,703,000	65,381,000	81,249,000	53,643,000	35,850,000	117,104,000	45,695,000	27,974,000	61,776,000	37,326,000	49,517,000
Collection items handled:													
U. S. Gov't coupons paid.....	21,555,000	1,323,000	5,033,000	1,482,000	3,234,000	783,000	640,000	4,007,000	1,188,000	746,000	1,394,000	485,000	1,240,000
All other.....	7,436,000	403,000	2,364,000	373,000	439,000	535,000	214,000	836,000	415,000	783,000	371,000	213,000	690,000
U. S. Gov't direct obligations—issues, redemptions and exchanges.....	5,281,000	281,000	1,275,000	292,000	557,000	181,000	102,000	1,352,000	305,000	161,000	358,000	113,000	214,000
Transfer of funds.....	1,125,000	33,000	271,000	83,000	69,000	68,000	83,000	175,000	68,000	42,000	85,000	74,000	106,000
AMOUNTS HANDLED (in millions of dollars)													
Notes discounted:													
Applications.....	714.4	49.6	418.1	108.6	29.2	18.3	23.8	14.4	15.6	2.5	5.9	2.9	29.5
Notes discounted.....	14.9	1.9	1.0	3.8	1.0	1.5	.9	.5	1.9	-----	.4	1.0	.6
Commitments.....	11.4	1.8	4.0	.7	1.0	.4	.8	(?)	1.3	-----	.6	-----	.8
Notes purchased in open market for own account.....	75.9	12.5	17.4	5.8	6.2	2.6	2.8	7.6	2.1	1.6	2.4	7.7	7.2
Foreign currency received and counted.....	9,932.0	983.7	3,043.6	825.1	589.0	451.4	363.0	1,878.2	422.2	196.4	270.6	181.8	728.8
Checks received and counted.....	282.3	31.6	107.6	30.3	13.5	14.3	7.3	26.7	13.2	3.4	9.8	8.4	35.2
Checks handled.....	179,544.6	11,443.2	56,046.6	17,185.0	16,112.8	9,638.4	7,549.3	22,744.1	9,100.2	4,368.7	9,240.6	5,784.5	10,328.1
Collection items handled:													
U. S. Gov't coupons paid.....	690.3	47.4	351.1	38.9	64.7	17.5	10.3	81.0	19.4	12.8	21.0	8.4	27.3
All other.....	6,743.0	384.8	1,843.8	240.4	440.2	294.5	196.8	1,531.4	377.4	263.8	332.4	249.5	368.0
U. S. Gov't direct obligations—issues, redemptions and exchanges.....	29,941.1	1,227.4	19,421.7	868.1	966.5	588.4	315.5	3,920.5	666.2	306.6	592.2	414.3	653.7
Transfer of funds.....	73,077.2	2,452.2	28,642.4	2,455.4	2,969.3	4,005.2	1,391.6	12,519.2	2,686.5	1,640.4	3,528.0	2,663.7	8,063.3

¹ Two or more checks, coupons, etc., handled as a single item are counted as one "piece."

² Less than \$50,000

Bank figures.—See Annual Report for 1933 (table 33).

VOLUME OF OPERATIONS

105

No. 30.—VOLUME OF OPERATIONS OF BRANCHES OF FEDERAL RESERVE BANKS

Federal Reserve branch and district number	Bills dis-counted	Currency received and counted	Coin received and counted	Checks handled	Noncash collection items handled		Fiscal agency issues, re- demptions, and ex- changes of U. S. securi- ties	Transfer of funds
					Government coupons	All other		
NUMBER OF PIECES HANDLED: 1934								
No. 2—Buffalo.....	512	39,599,000	31,233,000	11,046,000	78,233	86,134	4,789	12,871
No. 4—Cincinnati.....	27,894,000	44,833,000	17,148,000	863,811	34,134	70,209	13,179	14,567
Pittsburgh.....	41,452,000	33,766,000	31,074,000	521,877	28,555	44,690	14,567	15,364
No. 5—Baltimore.....	679	49,905,000	113,676,000	19,866,000	417,263	159,691	35,045	12,222
Charlotte.....	12,767,000	7,235,000	7,143,000	49,655	42,722			6,396
No. 6—Birmingham.....	0,274,000	6,283,000	5,079,000	36,939	18,060			7,577
Jacksonville.....	18,096,000	7,574,000	5,817,000	94,892	50,874			3,786
Nashville.....	12,886,000	6,565,000	5,513,000	48,997	32,259			83,887
New Orleans.....	474	20,987,000	19,481,000	6,768,000	186,488	42,710		7,221
No. 7—Detroit.....	168	69,475,000	120,170,000	16,683,000	402,762	157,638	12,022	21,578
No. 8—Little Rock.....	28	7,470,000	4,332,000	3,956,000	31,881	70,389	1,405	6,207
Louisville.....	79	17,139,000	12,424,000	9,582,000	284,964	47,560	11,707	9,263
Memphis.....	72	18,162,000	8,266,000	3,897,000	57,829	55,076		10,110
No. 9—Helena.....	25	1,557,000	959,000	3,186,000	52,797	20,860		8,121
No. 10—Denver.....	79	8,862,000	11,197,000	8,736,000	239,214	73,196	7,416	10,131
Oklahoma City.....	8	8,795,000	5,549,000	55,213,000	52,717	55,398	1,345	6,806
Omaha.....	161	9,211,000	8,501,000	11,054,000	267,240	83,580	5,941	19,822
No. 11—El Paso.....	5	3,547,000	1,556,000	2,790,000	30,379	14,270		4,874
Houston.....	22	10,624,000	11,365,000	8,574,000	98,497	61,714		20,316
San Antonio.....	27	8,707,000	5,276,000	5,898,000	78,248	31,839		11,994
No. 12—Los Angeles.....	231	64,588,000	50,822,000	15,731,000	439,627	107,023	21,621	43,890
Portland.....	45	7,008,000	5,349,000	5,471,000	146,078	58,026	12,840	6,331
Salt Lake City.....	52	3,946,000	3,044,000	5,941,000	94,619	246,732	3,525	11,198
Seattle.....	44	11,563,000	8,700,000	5,153,000	150,860	46,678	6,921	8,647
Spokane.....	81	2,434,000	1,687,000	4,138,000	56,494	83,669	3,209	7,117
Total.....	2,784	486,609,000	530,990,000	238,518,000	4,840,000	1,707,000	298,466	801,000
AMOUNTS HANDLED: 1934 (in thousands of dollars)								
No. 2—Buffalo.....	64,712	185,516	3,325	2,070,682	2,748	37,173	2,144	830,697
No. 4—Cincinnati.....	102,852	5,705	2,528,288	14,776	69,289	58,101	364,758	144,163
Pittsburgh.....	208,160	3,817	7,811,622	17,774	68,635	86,956	657,206	878,119
No. 5—Baltimore.....	11,831	211,738	8,098	3,028,513	10,712	140,114	250,180	854,737
Charlotte.....	46,148	1,154	1,453,935	613	41,707			129,349
No. 6—Birmingham.....	31,664	780	1,133,457	445	14,847			181,961
Jacksonville.....	67,273	1,378	913,756	1,435	22,103			78,513
Nashville.....	28,275	658	1,114,466	497	60,780			311,630
New Orleans.....	5,584	71,672	2,223	1,218,528	3,326	60,166	78,982	2,164,164
No. 7—Detroit.....	5,359	418,353	7,968	4,965,275	7,660	138,779	8,408	144,163
No. 8—Little Rock.....	655	28,981	491	337,612	474	33,367	838	150,416
Louisville.....	4,209	68,118	1,373	1,928,933	3,536	68,374	4,747	392,800
Memphis.....	1,277	60,508	2,058	888,364	871	54,509	1,062	102,678
No. 9—Helena.....	203	11,354	353	400,004	549	14,705		437,445
No. 10—Denver.....	853	22,417	2,377	1,548,693	8,966	58,524	7,158	150,416
Oklahoma City.....	94	9,943	1,004	8,809,556	92	83,646	537	144,163
Omaha.....	3,368	46,372	2,118	1,961,265	3,197	96,494	4,974	708,282
No. 11—El Paso.....	88	13,459	327	312,536	366	10,219		81,362
Houston.....	616	37,444	1,265	1,169,693	1,423	78,529		886,522
San Antonio.....	135	32,048	706	1,293,337	931	68,734		286,700
No. 12—Los Angeles.....	8,269	268,428	15,296	2,633,254	9,196	54,273	83,953	1,562,138
Portland.....	1,023	40,545	1,239	933,497	1,792	42,479	4,673	429,574
Salt Lake City.....	742	26,907	1,789	771,069	1,296	47,878	2,003	336,493
Seattle.....	846	67,553	1,639	992,538	2,050	20,828	3,949	637,831
Spokane.....	699	16,901	733	653,322	665	22,079	1,662	100,719
Total.....	109,971	2,176,121	68,101	43,109,445	91,188	1,303,769	528,001	18,060,788

1 Two or more checks, coupons, etc., handled as a single item, are counted as 1 "piece."

NOTE.—Currency received and counted during 1934 by agencies of the Federal Reserve Bank of Atlanta: Habana, Cuba, \$38,000 pieces, amount \$12,069,000; Savannah, Ga., 3,080,000 pieces, amount \$7,233,000. Coin received and counted by Habana, Cuba, none; Savannah, Ga., 537,000 pieces, amount \$35,000.

Back figures.—See Annual Report for 1933 (table 26).

106 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

GOLD SETTLEMENT FUND

No. 31.—SUMMARY OF TRANSACTIONS THROUGH THE FUND, 1926-34

[In millions of dollars]

Year and month	Balance at beginning of period	Daily settlements between Federal Reserve banks		Inter-reserve bank transfers	Withdrawals	Deposits	Balance at end of period
		Transit clearings	Federal Reserve note clearings				
1926	689.2	115,455.3	635.9	1,043.4	3,029.2	3,008.3	645.3
1927	665.3	123,031.5	673.2	1,436.7	2,797.3	3,060.3	823.2
1928	528.2	132,626.2	658.4	1,172.6	2,856.6	3,014.4	687.0
1929	687.0	145,132.4	758.7	1,082.1	3,160.4	2,964.5	611.2
1930	611.2	151,438.3	669.4	1,530.2	2,063.6	1,970.9	417.4
1931	417.4	124,137.3	640.1	1,906.0	2,730.0	2,626.7	314.1
1932	314.1	89,827.6	545.4	1,948.4	4,156.6	4,182.8	340.2
1933	340.3	76,728.4	614.4	2,676.0	4,848.6	4,828.5	618.2
1934	618.2	80,616.0	602.9	2,064.0	2,016.4	3,116.5	1,718.3
1934							
January	618.2	6,508.2	50.5	263.4	101.5	380.4	677.1
February	897.1	6,939.4	37.2	167.5	356.9	490.6	1,031.0
March	1,631.0	7,062.7	39.4	72.1	305.3	618.4	1,244.1
April	1,344.1	7,348.3	39.8	248.0	361.2	522.4	1,506.3
May	1,506.3	6,538.0	49.1	125.5	77.2	120.9	1,650.0
June	1,669.0	7,217.6	48.2	106.5	152.6	246.7	1,943.9
July	1,643.9	6,900.9	64.3	226.3	132.3	200.8	1,712.5
August	1,712.5	5,949.6	61.8	116.7	91.3	126.1	1,747.3
September	1,747.3	6,432.8	55.0	109.0	100.4	42.5	1,699.4
October	1,689.4	6,735.6	62.7	245.0	123.5	80.5	1,644.4
November	1,645.4	6,215.1	62.3	184.0	63.5	108.0	1,760.9
December	1,760.9	7,300.8	62.6	124.0	160.6	118.0	1,718.3

Back figures.—See Annual Report for 1933 (table 35).

No. 32.—SUMMARY OF TRANSACTIONS THROUGH THE FUND, BY DISTRICTS, 1934

[In millions of dollars]

Federal Reserve bank	Balance Jan. 1	Daily settlements between Federal Reserve banks				Interreserve bank transfers		Withdrawals	Deposits	Balance in fund at close of business Dec. 31
		Transit clearings		Federal Reserve note clearings		Payments	Receipts			
		Payments	Receipts	Payments	Receipts					
Boston	19.2	5,455.0	5,703.3	56.5	44.1	189.9	87.7	243.4	179.9	80.6
New York	164.8	25,524.2	26,471.0	132.2	141.3	1,117.0	260.5	374.1	1,063.4	973.5
Philadelphia	10.9	6,108.7	6,088.0	63.5	59.3	83.7	123.5	231.5	243.3	48.1
Cleveland	63.5	6,106.4	6,268.2	66.2	43.4	118.4	50.0	126.4	82.3	91.9
Richmond	26.0	5,727.7	5,694.0	45.1	39.0	76.0	115.3	165.6	181.0	26.9
Atlanta	22.1	3,034.1	2,831.1	24.1	48.4	69.5	174.8	99.0	114.3	26.0
Chicago	160.4	11,304.4	11,248.5	64.1	101.5	263.0	271.5	326.3	225.7	206.2
St. Louis	57.0	4,664.3	4,463.9	34.4	40.7	37.0	161.3	161.9	220.5	61.8
Minneapolis	19.5	1,812.6	1,546.4	27.9	17.4	2.6	228.0	113.6	174.2	26.8
Kansas City	32.3	4,491.2	4,165.0	28.9	24.4	32.5	273.4	38.3	174.6	62.6
Dallas	32.9	3,052.9	2,951.4	16.1	12.8	37.0	121.0	62.3	85.0	43.3
San Francisco	30.6	3,532.6	3,224.3	21.0	26.5	37.5	229.0	100.9	251.1	43.5
Total	618.2	80,616.0	80,616.0	602.9	602.9	2,064.0	2,064.0	2,016.4	3,116.5	1,718.3

Back figures.—See Annual Report for 1933 (table 36).

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

107

FEDERAL RESERVE AGENTS' GOLD FUND

No. 33.—SUMMARY OF TRANSACTIONS THROUGH THE FUND, 1926-34

[In millions of dollars]

Year and month	Balance at beginning of period	Withdrawals	Deposits	Transfers to bank	Transfers from bank	Balance at end of period
1926	960.2	568.2	112.3	1,799.4	2,258.5	963.4
1927	963.4	454.2	63.8	2,458.4	2,914.5	1,028.3
1928	1,028.3	473.6	70.5	1,831.4	1,768.1	761.9
1929	761.9	358.5	149.9	1,500.6	2,210.2	1,262.9
1930	1,262.9	—	.5	1,101.7	947.8	1,106.4
1931	1,106.4	1.0	—	1,078.5	1,810.5	1,256.7
1932	1,256.7	—	4.0	2,101.6	3,084.5	1,237.6
1933	1,237.6	—	4.0	4,030.3	2,938.5	1,149.7
1934	1,149.7	—	1.0	1,003.3	2,458.3	2,608.7
1934						
January	1,149.7	—	—	202.5	723.4	1,670.6
February	1,670.6	—	—	104.5	353.5	1,919.6
March	1,919.6	—	—	99.2	260.5	2,069.9
April	2,069.9	—	—	115.0	329.1	2,274.0
May	2,274.0	—	—	48.5	68.0	2,294.5
June	2,294.5	—	—	108.6	140.5	2,339.4
July	2,339.4	—	—	64.0	119.5	2,384.9
August	2,384.9	—	—	34.5	71.0	2,421.4
September	2,421.4	—	.5	41.0	82.0	2,463.9
October	2,463.9	—	—	59.0	120.0	2,513.9
November	2,513.9	—	—	40.5	62.5	2,535.9
December	2,535.9	—	.5	79.0	148.3	2,606.7

Back figures.—See Annual Report for 1933 (table 37).

No. 34.—SUMMARY OF TRANSACTIONS THROUGH THE FUND, BY DISTRICTS, 1934

[In millions of dollars]

Federal Reserve bank	Balance Jan. 1	Withdrawals	Deposits	Transfers to bank	Transfers from bank	Balance at close of business Dec. 31
Boston	118.1	—	0.5	74.0	255.0	290.6
New York	90.1	—	—	120.0	626.4	596.5
Philadelphia	58.9	—	—	139.5	231.0	160.4
Cleveland	110.5	—	.5	37.0	128.5	202.5
Richmond	90.4	—	—	128.2	182.2	146.3
Atlanta	69.0	—	—	64.0	62.7	77.7
Chicago	265.0	—	—	193.5	433.9	605.4
St. Louis	96.2	—	—	128.0	162.4	132.6
Minneapolis	48.3	—	—	55.1	118.6	110.0
Kansas City	83.8	—	—	24.0	49.0	108.8
Dallas	20.5	—	—	13.0	55.2	62.7
San Francisco	93.6	—	—	41.0	153.5	203.3
Total	1,149.7	—	1.0	1,003.3	2,458.3	2,608.7

Back figures.—See Annual Report for 1933 (table 38).

MEMBERSHIP IN PAR COLLECTION SYSTEM

No. 35.—NUMBER OF BANKS ¹ ON PAR LIST AND NOT ON PAR LIST, BY FEDERAL RESERVE DISTRICTS AND STATES, ON DEC. 31, 1933 AND 1934

[Nonmember banks not on par list comprise all banks, other than mutual savings banks, that have not agreed to pay, without deductions for exchange, such checks drawn upon them as are presented for payment by the Federal Reserve banks, except that figures published prior to 1934 exclude private banks not under State supervision]

Federal Reserve district or State	Dec. 31, 1933			Dec. 31, 1934		
	Member banks	Nonmember banks		Member banks	Nonmember banks	
		On par list	Not on par list		On par list	Not on par list
DISTRICT						
Boston.....	367	200	-----	371	174	-----
New York.....	806	300	-----	792	314	-----
Philadelphia.....	671	261	-----	658	308	-----
Cleveland.....	621	696	5	629	638	1
Richmond.....	400	352	338	401	336	310
Atlanta.....	330	199	637	332	99	663
Chicago.....	692	1,686	187	693	1,740	211
St. Louis.....	403	1,002	377	394	1,226	376
Minneapolis.....	532	249	704	524	214	697
Kansas City.....	748	1,256	199	734	1,108	168
Dallas.....	549	365	211	555	336	183
San Francisco.....	462	349	39	380	312	24
Total.....	6,523	7,164	2,695	6,451	6,464	2,643
STATE						
New England:						
Maine.....	49	31	-----	46	27	-----
New Hampshire.....	34	16	-----	33	12	-----
Vermont.....	43	40	-----	42	23	-----
Massachusetts.....	160	60	-----	165	46	-----
Rhode Island.....	12	11	-----	14	9	-----
Connecticut.....	60	67	-----	60	68	-----
Middle Atlantic:						
New York.....	580	198	-----	578	207	-----
New Jersey.....	306	114	-----	299	122	-----
Pennsylvania.....	808	338	-----	784	329	-----
East North Central:						
Ohio.....	311	444	-----	326	387	-----
Indiana.....	134	460	8	131	411	8
Illinois.....	365	534	22	358	608	22
Michigan.....	173	400	2	194	255	3
Wisconsin.....	123	381	179	119	348	163
West North Central:						
Minnesota.....	220	62	380	228	76	361
Iowa.....	148	537	65	148	430	96
Missouri.....	137	565	68	142	523	88
North Dakota.....	72	9	136	69	8	138
South Dakota.....	85	29	98	87	26	99
Nebraska.....	147	207	173	147	148	150
Kansas.....	215	564	3	206	536	1
South Atlantic:						
Delaware.....	20	33	-----	20	23	-----
Maryland.....	70	121	-----	70	121	-----
District of Columbia.....	12	13	-----	11	10	-----
Virginia.....	168	118	69	167	117	66
West Virginia.....	96	86	7	96	62	6
North Carolina.....	54	19	168	54	17	147
South Carolina.....	21	6	104	22	5	107
Georgia.....	82	11	185	83	14	226
Florida.....	62	26	78	64	18	80
East South Central:						
Kentucky.....	106	314	15	109	312	13
Tennessee.....	79	79	177	74	74	180
Alabama.....	39	6	153	50	6	125
Mississippi.....	27	9	177	26	7	179
West South Central:						
Arkansas.....	63	72	130	59	72	114
Louisiana.....	35	16	116	34	14	102
Oklahoma.....	224	219	15	218	184	12
Texas.....	506	343	149	510	316	128
Mountain:						
Montana.....	65	61	19	66	39	18
Idaho.....	34	35	-----	35	26	-----
Wyoming.....	32	26	4	34	25	3
Colorado.....	60	66	3	63	74	2
New Mexico.....	27	16	2	27	16	-----
Arizona.....	12	5	2	12	4	1
Utah.....	32	29	-----	33	26	-----
Nevada.....	7	7	-----	7	8	-----
Pacific:						
Washington.....	102	86	31	94	79	26
Oregon.....	58	47	8	56	44	6

FEDERAL RESERVE BANK PREMISES

No. 36.—COST OF BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES TO DEC. 31, 1934

Federal Reserve bank or branch	Cost of land including old buildings demolished, net	Cost of buildings			Total cost of land and buildings	Book value, net	Date occupied
		Fired machinery and equipment	All other	Total			
Boston.....	\$1,246,720	\$662,157	\$3,542,003	\$4,204,760	\$5,451,486	\$3,168,345	March 1922.
New York.....	5,214,459	3,145,152	11,796,890	14,942,051	20,156,510	10,885,770	October 1924.
Buffalo.....	1,285,000		465,707	465,707	720,707	561,700	May 1928.
Philadelphia.....	1,900,830	533,206	3,650,080	4,183,286	6,094,116	4,411,110	December 1917.
Cleveland.....	1,295,490	1,861,400	6,464,253	8,025,653	9,321,143	4,614,243	August 1922.
Pittsburgh.....	781,864	353,411	1,049,450	1,401,861	2,183,225	2,014,535	December 1931.
Richmond.....	271,924	482,652	2,040,207	2,522,859	2,704,783	1,665,004	October 1921.
Baltimore.....	250,487	380,439	1,247,049	1,627,488	1,827,975	1,302,335	September 1928.
Atlanta.....	283,000	175,279	1,355,487	1,530,766	1,813,760	1,061,174	October 1918.
Birmingham.....	124,137	46,788	311,330	358,124	482,261	331,852	January 1927.
Jacksonville.....	45,842	26,956	214,312	240,268	286,110	176,950	June 1924.
Nashville.....	148,000	25,101	211,616	236,717	284,717	159,871	December 1922.
New Orleans.....	301,250	159,562	738,404	897,966	1,099,156	596,140	October 1923.
Chicago.....	2,963,548	1,282,301	6,233,952	7,516,253	10,479,801	4,099,314	July 1922.
Detroit.....	650,000	114,566	1,006,869	1,121,435	1,771,435	855,249	December 1927.
St. Louis.....	1,355,374	1,141,279	2,111,809	3,253,088	4,608,462	1,899,907	June 1925.
Little Rock.....	82,007	103,608	233,079	336,687	421,694	244,410	March 1925.
Louisville.....	1,131,177	35,060	228,239	263,319	292,498	212,705	June 1916.
Memphis.....	100,906	44,062	233,645	277,707	378,613	271,471	June 1920.
Minneapolis.....	600,521	626,571	2,318,746	2,945,317	3,542,638	1,532,112	February 1925.
Holens.....	16,000	16,109	156,280	172,389	177,399	47,881	February 1921.
Kansas City.....	495,300	838,816	3,391,101	4,227,917	4,723,217	2,292,330	November 1921.
Denver.....	101,512	60,593	449,876	510,469	611,981	387,636	November 1925.
Oklahoma City.....	65,021	77,480	429,850	487,370	532,391	318,877	April 1923.
Omaha.....	176,427	73,479	397,958	471,417	647,844	448,500	December 1925.
Dallas.....	180,831	252,671	1,172,133	1,524,804	1,714,635	1,062,598	March 1921.
El Paso.....	39,003	10,824	111,369	122,193	161,196	105,451	August 1920.
Houston.....	66,313	60,001	288,801	348,802	413,115	286,161	February 1922.
San Antonio.....	78,002	21,238	157,642	178,780	263,782	229,776	October 1928.
San Francisco.....	412,996	784,102	3,144,407	3,928,500	4,341,505	2,134,664	December 1923.
Los Angeles.....	453,458	282,698	688,109	1,270,807	1,734,265	1,330,278	April 1930.
Salt Lake City.....	114,076	84,814	341,446	426,263	540,338	403,891	February 1927.
Total.....	19,998,980	13,607,316	56,466,607	69,073,932	89,072,932	49,161,259	

OTHER REAL ESTATE ORIGINALLY ACQUIRED FOR BANKING HOUSE PURPOSES

New York:							
Annex building.....	\$592,679	\$216,418	\$1,451,570	\$1,856,988	\$2,259,667	\$1,817,220	
No. 10 Gold Street.....	145,000		125,864	125,864	170,864	92,300	
Richmond (Annex building).....	80,333	104,217	482,482	588,699	667,032	247,581	
Pittsburgh.....	1,297,000	138,994	560,400	699,464	998,464	891,577	
Total.....	1,016,012	458,629	2,620,376	3,078,005	4,094,017	2,048,678	

¹ Purchased buildings.—“Cost of land” represents appraised value, remainder of purchase price included in “Cost of buildings.”

² Estimated cost to complete addition, \$799,000.

³ Estimated cost to complete addition, \$624,000.

NOTE.—No bank buildings or sites therefore have been acquired for the following branches and agencies: Branches—Charlotte, Portland, Seattle, Spokane; Agencies—Savannah, Habana. The Cincinnati branch since Jan. 3, 1928, has occupied quarters in the Chamber of Commerce Building, erected on the site leased to the Cincinnati Chamber of Commerce by the Federal Reserve Bank of Cleveland.

110 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

No. 37.—EARNINGS OF FEDERAL RESERVE BANKS, BY SOURCES, 1914-34

	Earnings					
	Total	On discounted bills	On purchased bills	On U. S. Government securities	Deficient reserve penalties	From miscellaneous sources
1914-15.....	\$2, 173, 252	\$1, 218, 619	\$244, 664	\$171, 831	.....	\$638, 241
1916.....	5, 217, 998	1, 025, 675	1, 550, 918	1, 156, 860	81, 157	1, 623, 388
1917.....	16, 128, 339	6, 971, 479	4, 951, 720	2, 367, 989	104, 520	1, 842, 616
1918.....	67, 684, 417	48, 348, 007	11, 939, 808	3, 828, 782	698, 991	2, 768, 829
1919.....	102, 380, 583	80, 768, 144	13, 904, 544	5, 761, 800	727, 944	1, 128, 751
1920.....	181, 296, 711	149, 059, 825	22, 020, 188	7, 140, 615	1, 573, 336	1, 602, 778
1921.....	122, 865, 866	109, 598, 675	5, 234, 141	6, 263, 854	1, 177, 562	601, 634
1922.....	50, 498, 699	28, 523, 123	5, 828, 958	16, 682, 483	602, 651	1, 061, 206
1923.....	50, 708, 566	32, 956, 290	9, 371, 288	7, 444, 089	521, 051	415, 835
1924.....	38, 940, 449	15, 942, 846	5, 700, 809	14, 712, 693	381, 019	1, 593, 683
1925.....	41, 800, 706	17, 679, 649	9, 103, 915	12, 783, 001	310, 406	1, 923, 835
1926.....	47, 590, 595	22, 551, 551	10, 003, 051	12, 589, 119	262, 946	2, 072, 889
1927.....	43, 024, 484	17, 010, 778	9, 206, 677	14, 206, 174	273, 839	2, 327, 016
1928.....	84, 052, 860	38, 334, 140	13, 020, 535	10, 827, 702	277, 401	1, 693, 052
1929.....	70, 965, 496	47, 790, 662	12, 063, 349	8, 163, 486	449, 653	2, 488, 346
1930.....	36, 424, 044	10, 672, 215	6, 081, 187	17, 373, 331	225, 748	2, 171, 563
1931.....	29, 701, 279	9, 820, 846	5, 009, 541	12, 428, 297	205, 960	2, 145, 935
1932.....	66, 018, 817	17, 881, 058	2, 785, 213	26, 923, 598	641, 432	1, 887, 846
1933.....	49, 457, 318	9, 137, 038	1, 238, 968	37, 529, 572	191, 051	1, 391, 289
1934.....	48, 902, 813	1, 231, 397	141, 226	46, 120, 941	15, 249	1, 384, 031
Total.....	1, 119, 162, 292	684, 521, 496	149, 308, 806	264, 825, 867	8, 943, 731	82, 162, 992

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS 111

No. 38.—TOTAL EARNINGS, CURRENT EXPENSES, AND NET EARNINGS OF RESERVE BANKS AND DISPOSITION MADE OF NET EARNINGS, 1914-34

	Earnings and expenses			Disposition of net earnings			
	Total earnings	Current expenses	Net earnings ¹	Dividends paid	Transferred to surplus (Sec. 7)	Transferred to surplus (Sec. 13b)	Franchise tax paid to U. S. Government ²
Aggregates, years 1914-34:							
Boston.....	\$74,706,106	\$33,738,130	\$37,434,445	\$10,193,922	\$20,132,282	-\$3,156	\$7,111,395
New York.....	353,226,262	112,519,456	204,450,460	45,985,451	52,453,411	-7,694	65,006,252
Philadelphia.....	66,338,757	35,933,402	47,055,695	13,373,305	29,000,785	-396	5,558,901
Cleveland.....	98,791,191	42,947,605	47,416,110	14,063,710	28,518,100	-8,156	4,843,447
Richmond.....	52,227,279	24,848,847	23,361,555	6,167,625	10,994,050	-298	6,200,189
Atlanta.....	53,440,794	21,838,849	24,812,450	5,052,790	10,811,741	-2,632	8,950,561
Chicago.....	159,152,887	63,706,371	83,502,887	17,116,805	41,098,878	-26,322	25,315,525
St. Louis.....	47,922,073	24,471,134	17,808,904	5,305,471	9,747,851	-47	2,765,529
Minneapolis.....	86,292,931	17,218,195	16,254,496	3,626,976	7,429,452	-4,832	5,202,900
Kansas City.....	53,186,478	29,259,105	19,521,084	4,842,245	7,743,938	-3,622	6,039,100
Dallas.....	39,296,942	21,772,597	13,288,483	4,591,749	8,130,085	-----	560,049
San Francisco.....	87,305,622	42,579,745	36,772,701	9,582,959	19,495,127	-2,669	7,097,341
Total.....	1,119,132,292	469,661,416	671,679,291	137,908,985	284,692,329	-60,323	149,138,300
All Federal Reserve banks:							
1914-15.....	3,173,252	2,320,585	-141,459	217,463	-----	-----	-----
1916.....	5,217,998	3,373,969	2,750,998	1,745,774	-----	-----	-----
1917.....	16,125,339	6,159,727	9,579,807	5,801,726	1,134,224	-----	1,134,224
1918.....	67,654,417	10,959,533	52,716,310	5,640,894	48,334,341	-----	-----
1919.....	102,360,583	19,339,533	78,367,504	5,011,832	70,651,778	-----	2,703,894
1920.....	181,296,711	28,258,030	149,294,774	5,654,018	82,016,014	-----	60,724,742
1921.....	122,865,896	34,483,845	82,087,225	6,110,673	15,963,085	-----	50,724,465
1922.....	50,498,669	29,559,049	16,497,738	6,397,035	-659,904	-----	10,870,603
1923.....	50,708,566	29,764,173	12,711,268	3,552,717	2,545,513	-----	5,813,056
1924.....	38,340,449	28,431,126	3,718,180	6,982,495	-3,077,062	-----	113,646
1925.....	41,800,706	27,528,163	9,449,096	6,915,958	2,478,806	-----	59,300
1926.....	47,399,093	27,830,182	16,311,745	7,329,189	8,454,426	-----	818,150
1927.....	43,024,484	27,518,443	13,048,249	7,754,539	5,044,119	-----	249,691
1928.....	64,052,880	29,904,810	32,122,021	8,458,463	21,078,899	-----	2,584,659
1929.....	70,656,496	29,691,113	36,402,741	9,563,913	22,555,597	-----	4,283,251
1930.....	85,424,044	28,342,726	7,988,182	10,268,598	-2,297,724	-----	17,308
1931.....	29,701,279	27,040,664	2,972,056	10,029,769	-7,037,694	-----	-----
1932.....	50,018,817	26,291,351	22,314,244	9,282,244	11,020,352	-----	2,011,418
1933.....	49,487,318	20,222,837	7,957,407	8,874,262	-916,855	-----	-----
1934.....	48,902,813	20,241,396	15,231,400	6,781,661	6,010,071	-60,323	-----
Total.....	1,119,132,292	469,661,416	671,679,291	137,908,985	284,692,329	-60,323	149,138,300

¹ Total earnings less current expenses, depreciation charges, and net losses.

² The Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring the payment of a franchise tax.

No. 39.—EARNINGS AND EXPENSES OF THE FEDERAL RESERVE BANKS DURING 1934

EARNINGS

	Total	Boston	New York	Philadel- phia	Cleav- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Fran- cisco
Accounted bills.....	\$1,231,367	\$27,964	\$429,833	\$455,972	\$73,547	\$56,403	\$47,188	\$48,227	\$12,820	\$15,628	\$28,778	\$7,612	\$27,696
Unaccounted bills.....	141,226	26,537	18,054	10,049	14,108	4,716	8,129	17,069	4,762	3,224	4,805	16,903	15,991
Industrial advances.....	121,274	16,189	8,504	17,323	5,701	16,813	10,971	9,422	5,846	15,928	5,408	8,405	3,054
United States Government securities.....	46,130,041	2,934,435	15,476,284	3,151,641	3,953,101	1,823,339	1,631,014	7,843,286	1,741,855	1,346,610	1,691,886	1,449,799	3,066,621
Commitments to make industrial advances.....	16,635	1,828	3,585	-----	1,421	3,838	713	2	3,031	-----	730	-----	1,507
Inefficient reserve penalties.....	15,249	793	3,016	1,173	3,486	685	1,311	717	699	1,213	589	918	649
Miscellaneous.....	1,246,122	48,182	142,828	83,864	86,195	80,307	121,835	233,048	55,740	32,494	229,802	39,334	86,893
Total earnings.....	48,902,813	3,058,928	16,081,935	3,725,022	4,137,556	1,987,801	1,818,161	8,162,371	1,824,453	1,415,097	1,960,098	1,521,971	3,222,420

CURRENT EXPENSES

Salaries:													
Officers.....	\$2,721,799	\$139,338	\$271,058	\$188,357	\$241,224	\$183,330	\$208,576	\$354,298	\$167,302	\$115,322	\$177,740	\$164,680	\$240,874
Clerical employees.....	11,801,916	771,574	3,106,227	1,033,943	1,100,401	627,069	410,001	1,440,274	556,140	427,566	617,844	423,231	987,648
Other employees.....	3,306,898	101,517	875,187	172,564	470,032	182,629	95,143	463,866	158,890	119,534	231,779	114,825	350,992
Contributions—Retirement system.....	1,343,116	88,668	340,448	104,659	126,901	80,802	52,615	170,600	72,769	60,260	89,878	66,809	111,747
Director's conferences.....	5,667	844	129	121	421	137	253	416	253	416	720	563	887
Federal Reserve agents' conferences.....	3,325	181	197	61	109	80	133	370	629	418	255	371	503
Federal Advisory Council.....	13,507	1,180	694	750	655	350	911	924	1,350	1,309	1,350	1,465	2,600
Directors' meetings.....	149,808	6,641	21,645	7,716	11,023	6,823	17,924	9,212	13,406	7,994	22,645	7,351	17,328
Industrial Advisory Committee.....	10,931	1,296	1,029	82	1,412	634	825	976	1,085	1,371	1,323	350	548
Traveling expenses.....	282,371	14,214	61,683	31,776	36,060	21,629	15,617	32,104	12,348	28,412	9,397	6,629	27,102
Assessments for Federal Reserve Board's expenses.....	1,372,022	99,609	484,560	141,761	130,187	51,046	47,133	164,711	44,001	31,635	38,833	38,525	98,161
Insurance on currency and security shipments.....	106,392	13,674	11,888	8,177	12,818	93	12,267	4,117	818	12,603	10,846	9,092	10,099
Fire insurance.....	306,240	42,089	64,619	34,141	30,075	10,066	18,993	34,266	5,901	10,111	10,572	12,730	22,858
Loss on banking house.....	325,823	19,470	65,505	24,765	22,241	18,947	18,194	27,317	25,241	23,312	35,448	19,212	26,081
Light, heat, power, and water.....	1,352,279	136,178	492,096	71,563	132,394	66,542	57,801	135,822	53,333	83,668	85,300	33,435	94,120
Repairs and alterations, banking house.....	873,138	32,331	74,104	30,905	43,740	16,840	19,194	44,543	23,517	20,322	32,689	18,138	26,812
Printing.....	145,283	8,309	28,749	27,109	11,827	2,033	4,422	10,428	9,015	11,759	14,186	4,152	4,242
Postage.....	163,227	342	-----	1,139	82,917	15,937	4,489	-----	3,000	-----	-----	1,380	54,023
Telephone and other supplies.....	348,537	21,090	72,315	36,256	36,618	21,653	16,970	34,837	13,865	20,215	25,989	12,174	36,550
Printing and stationery.....	400,098	41,530	72,920	29,344	38,801	21,630	26,966	43,960	26,254	22,601	22,306	15,705	35,631
Telephone.....	245,385	18,791	77,263	33,438	30,909	8,254	6,102	18,872	14,066	7,812	7,670	9,988	22,218
Teletype.....	300,863	4,965	17,338	6,271	20,976	23,893	43,816	25,000	29,261	13,738	41,536	26,047	46,234
Stage.....	2,228,778	261,791	360,119	207,222	206,781	161,243	130,574	264,568	108,380	115,608	151,983	109,763	163,744

Expressage.....	446,665	50,607	111,508	45,658	22,872	30,927	31,621	54,020	18,862	7,327	20,323	22,751	25,020
Miscellaneous expenses.....	671,340	35,631	141,471	69,499	55,840	38,698	29,074	82,698	40,920	38,725	84,473	32,076	72,227
Total, exclusive of cost of currency.....	28,215,678	1,950,327	6,954,801	2,277,277	2,807,833	1,602,172	1,269,534	3,427,128	1,395,768	1,167,167	1,684,828	1,141,970	2,467,867
Federal Reserve currency:													
Original cost.....	497,576	45,797	154,175	55,286	27,167	20,027	24,500	72,310	37,777	24,137	20,327	2,095	13,888
Cost of redemption.....	142,200	11,862	37,305	13,108	10,001	7,501	6,430	23,949	8,962	4,842	5,686	3,210	9,044
Taxes on Federal Reserve bank-note circulation.....	385,945	16,726	189,709	33,297	41,563	3,969	5,540	28,464	13,027	0,184	11,000	13,830	19,542
Total current expenses.....	29,241,396	2,033,712	7,335,990	2,378,968	2,946,669	1,633,969	1,306,094	3,661,838	1,465,634	1,208,330	1,721,940	1,161,111	2,510,341

PROFIT AND LOSS ACCOUNT

Earnings.....	\$48,902,813	\$3,035,928	\$16,081,935	\$3,725,022	\$4,137,556	\$1,987,801	\$1,818,161	\$8,182,371	\$1,824,453	\$1,415,097	\$1,960,098	\$1,621,971	\$3,222,420
Current expenses.....	29,241,396	2,033,712	7,335,990	2,378,968	2,946,669	1,633,969	1,306,094	3,651,838	1,465,634	1,208,330	1,721,940	1,161,111	2,510,341
Current net earnings.....	19,661,417	1,022,216	8,745,945	1,346,054	1,190,887	353,832	512,067	4,600,533	368,819	206,767	238,158	360,860	712,079
Additions to current net earnings:													
Profit on U. S. (government securities sold.....	7,992,843	521,668	2,481,437	558,768	707,893	327,207	293,043	1,498,266	308,050	192,914	267,302	253,276	582,780
Withdrawn from reserves for losses.....	123,579						128,570						
All other.....	804,877	45,963	239,948	66,040	61,758	25,269	25,559	113,724	32,550	91,670	28,880	28,520	44,697
Total additions.....	8,925,999	567,631	2,721,385	624,808	769,651	352,466	447,181	1,611,990	340,600	284,584	296,182	282,104	597,427
Deductions from current net earnings:													
Bank premises—depreciation.....	4,215,939	55,832	186,427	250,000	158,866	109,219	47,115	2,434,800	468,714	84,997	96,811	73,278	219,880
Furniture and equipment.....	238,123	5,115	75,849	26,355	17,475	18,427	14,183	16,506	27,128	15,701	7,795	4,491	12,908
Reserve for losses.....	7,186,865	595,609	2,836,228	656,926	700,000	256,188		1,352,519	42,857	207,025	28,750	80,440	433,328
Reserve for self-insurance.....	1,628,657		57,105				237,750	1,000,000			183,802	160,000	
All other.....	86,423	489	4,687	702	41,800	6,117	4,388	4,207	824	10,343	3,648	2,866	3,632
Total deductions.....	13,356,007	657,045	3,160,196	927,983	917,941	392,951	303,436	4,808,032	569,523	318,066	320,606	311,095	668,933
Net deductions from current net earnings.....	4,430,008	89,424	438,811	803,175	148,200	40,485	-143,745	3,196,042	228,923	33,482	-5,376	28,991	71,606
Net earnings.....	15,231,409	932,792	8,307,134	1,042,879	1,042,687	313,347	655,812	1,404,491	139,896	176,285	243,534	331,869	640,673
Dividends paid.....	8,781,661	644,075	3,587,800	928,875	799,098	209,050	264,093	761,334	241,009	181,117	247,156	237,924	643,242
Withdrawn from surplus (sec. 13-b).....	60,323	3,155	7,694	896	8,158	298	2,632	26,322	47	4,832	8,622		2,660
Transferred to surplus (sec. 7).....	6,610,071	291,872	4,747,138	117,900	281,767	14,598	894,361	669,479	-100,966			93,945	

¹ Other than those connected with governors' and agents' conferences and meetings of directors, the Federal Advisory Council, and the Industrial Advisory Committees.

Back figures.—See Annual Report for 1933 (table 46).

No. 40.—REIMBURSABLE EXPENDITURES OF FEDERAL RESERVE BANKS DURING 1934

Expenditures as fiscal agents and custodians for the Treasury Department and U. S. Government agencies. Not included in "current expenses" as shown in the preceding table

	Total	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
Treasury Department.....	\$778,715	\$47,304	\$102,504	\$32,666	\$85,516	\$38,494	\$19,630	\$190,142	\$43,384	\$50,166	\$94,636	\$31,642	\$52,491
Reconstruction Finance Corporation.....	2,364,593	44,351	175,241	115,275	209,597	205,608	255,619	641,217	182,092	99,398	173,266	129,951	132,078
Other U. S. Government agencies.....	510,589	15,836	88,624	2,749	11,863	32,497	18,626	14,197	67,649	72,197	104,770	30,647	50,935
Total.....	3,653,897	107,491	366,469	150,690	306,975	276,499	294,925	835,556	293,125	221,761	372,672	192,240	235,504

Back figures.—See Annual Report for 1933 (table 47).

FEDERAL RESERVE NOTES

No. 41.—FEDERAL RESERVE NOTES—FEDERAL RESERVE AGENTS' ACCOUNTS AT THE END OF EACH MONTH
 [In thousands of dollars]

	1934													
	1933	Dec. 31	Jan. 31	Feb. 28	Mar. 31	Apr. 30	May 31	June 30	July 31	Aug. 31	Sept. 30	Oct. 31	Nov. 30	Dec. 31
Federal Reserve notes received from the Comptroller.....		6,653,281	6,888,204	6,846,811	6,789,079	6,791,898	6,764,626	6,742,754	6,711,380	6,682,740	6,639,166	6,607,837	6,569,126	6,626,918
Federal Reserve notes held by Federal Reserve agents.....		3,603,476	3,702,261	3,622,167	3,624,627	3,478,122	3,425,724	3,391,708	3,343,828	3,265,686	3,209,117	3,163,652	3,132,147	3,106,533
Federal Reserve notes issued to Federal Reserve banks:														
Held by issuing Federal Reserve bank.....		270,292	254,700	245,007	226,149	265,672	270,120	249,672	290,485	263,382	262,983	282,908	283,673	290,288
Held by other Federal Reserve banks.....		18,460	15,780	13,293	16,569	18,414	17,671	19,202	16,653	16,333	20,364	19,744	21,124	28,502
Held by U. S. Treasury.....		17,200	16,606	16,996	16,370	16,498	18,585	18,709	15,943	14,888	16,340	17,524	16,154	16,939
In circulation ¹		3,043,883	2,893,957	2,949,356	3,005,364	3,028,192	3,037,626	3,068,403	3,044,421	3,102,801	3,131,362	3,123,509	3,176,927	3,176,616
Total notes issued.....		3,349,803	3,180,943	3,224,644	3,264,452	3,316,776	3,338,801	3,350,686	3,367,502	3,397,104	3,430,046	3,443,666	3,466,978	3,520,365
Collateral held as security for Federal Reserve notes issued to Federal Reserve banks:														
Gold certificates:														
In vault.....		1,475,308	845,688	845,689	799,905	712,242	712,242	712,242	712,242	712,242	710,502	710,502	710,502	710,502
In gold fund—Federal Reserve Board.....		1,149,745	1,070,629	1,019,629	2,060,929	2,276,020	2,294,620	2,329,414	2,384,914	2,421,414	2,462,914	2,513,914	2,535,914	2,605,698
Total gold certificates.....		2,625,053	2,516,317	2,765,318	2,860,834	2,987,271	3,006,771	3,041,656	3,097,156	3,133,656	3,173,416	3,224,416	3,246,416	3,316,200
Eligible paper.....		188,440	158,739	96,149	54,621	23,025	16,244	13,407	11,803	12,685	9,299	9,239	9,666	5,487
U. S. Government securities.....		600,500	870,100	412,800	385,800	350,400	359,300	322,900	298,400	294,000	268,500	277,800	265,700	241,400
Total collateral held.....		3,413,993	3,245,156	3,278,267	3,300,755	3,360,696	3,382,315	3,377,063	3,407,359	3,440,341	3,481,315	3,511,454	3,512,782	3,568,087
Collateral required as security for Federal Reserve notes.....		3,349,803	3,180,943	3,224,644	3,264,452	3,316,776	3,338,801	3,350,686	3,367,502	3,397,104	3,430,046	3,443,666	3,466,978	3,520,365
Collateral pledged in excess of Federal Reserve notes issued.....		64,188	64,210	48,623	36,303	43,920	43,514	26,077	39,857	43,237	51,466	67,769	45,804	42,722

¹ This figure corresponds with that given under the same caption in table 49. It differs from that given in table 16 by the amount of Federal Reserve notes held by (a) other Federal Reserve banks and (b) the U. S. Treasury.

² Includes \$32,176,000 gold bullion and \$598,912,000 United States gold coin.

Back figures.—See Annual Report for 1933 (table 48).

FEDERAL RESERVE BANK NOTES

No. 42.—FEDERAL RESERVE BANK NOTES—FEDERAL RESERVE AGENTS' ACCOUNTS AT THE END OF EACH MONTH

[In thousands of dollars]

	1934												
	Dec. 31	Jan. 31	Feb. 28	Mar. 31	Apr. 30	May 31	June 30	July 31	Aug. 31	Sept. 30	Oct. 31	Nov. 30	Dec. 31
Federal Reserve bank notes received from the Comptroller.....	421,381	415,041	423,620	365,761	332,778	323,583	313,298	300,517	299,524	298,598	297,741	297,078	296,530
Federal Reserve bank notes held by Federal Reserve agents.....	187,656	189,541	203,776	232,966	243,926	249,895	252,240	254,799	255,399	256,899	257,649	258,249	258,909
Federal Reserve bank notes issued to Federal Reserve bank:													
Held by issuing Federal Reserve bank.....	24,728	22,443	24,368	16,019	14,270	13,440	14,376	11,906	11,165	11,320	11,128	11,306	11,200
Held by other Federal Reserve banks.....	1,200	1,338	1,540	1,402	2,091	2,555	2,314	3,211	3,007	2,945	3,385	2,834	4,483
Held by U. S. Treasury.....	1,919	1,830	1,877	2,360	2,159	2,242	2,332	3,644	2,968	2,996	1,373	1,924	2,318
In circulation ¹	206,878	199,789	191,959	113,114	70,332	55,351	42,036	26,957	25,955	25,338	23,906	22,756	19,589
Total notes issued.....	233,725	225,500	219,744	132,895	88,852	73,688	61,058	45,718	43,125	41,699	39,792	38,829	37,590
Collateral held as security for Federal Reserve bank notes issued to Federal Reserve banks:													
Discounted and purchased bills.....	3,021	1,495	1,144	971	9								
U. S. Government securities.....	250,774	253,774	249,774	161,774	110,774	81,474	66,474	51,974	48,474	47,474	45,274	44,574	42,874
Total collateral held.....	253,795	255,269	250,918	162,745	110,783	81,474	66,474	51,974	48,474	47,474	45,274	44,574	42,874
Collateral required as security for Federal Reserve bank notes.....	233,725	225,500	219,744	132,895	88,852	73,688	61,058	45,718	43,125	41,699	39,792	38,829	37,590

¹ This figure differs from that given in table 16 by the amount of Federal Reserve bank notes held by (a) other Federal Reserve banks and (b) the U. S. Treasury and from table 3 by the amount of Federal Reserve bank notes in circulation on which the liability of the Federal Reserve banks had been extinguished by depositing lawful money with the U. S. Treasury.

Back figures.—See Annual Report for 1933 (table 49).

**GOLD STOCK, GOLD MOVEMENTS, AND
MONEY IN CIRCULATION**

GOLD

No. 43.—MONETARY GOLD STOCK¹ OF THE UNITED STATES, 1914-34

[In millions of dollars; \$1=25.8 grains of gold 9/10 fine, 1 c. an ounce of fine gold—\$20.87 through Jan. 31, 1934; subsequently \$1=15 1/4 grains of gold 7/8 fine, 1 c. an ounce of fine gold—\$35]

End of month	End of month figures										
	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924
January.....	1,636	1,535	2,038	2,636	3,873	2,875	2,643	2,079	3,398	3,666	4,002
February.....	1,632	1,581	2,038	2,709	3,876	2,878	2,900	2,713	3,436	3,676	4,036
March.....	1,644	1,582	2,038	2,818	2,878	2,878	2,563	2,799	3,453	3,683	4,077
April.....	1,655	1,605	2,031	2,850	2,879	2,890	2,584	2,877	3,477	3,696	4,124
May.....	1,642	1,642	2,049	2,846	2,885	2,890	2,569	2,944	3,484	3,741	4,188
June.....	1,604	1,689	2,158	2,833	2,876	2,826	2,578	2,888	3,498	3,763	4,201
July.....	1,572	1,720	2,219	2,833	2,876	2,777	2,575	2,060	3,542	3,792	4,224
August.....	1,568	1,789	2,262	2,878	2,874	2,838	2,584	3,152	3,568	3,824	4,234
September.....	1,557	1,827	2,343	2,864	2,866	2,860	2,566	3,232	3,580	3,849	4,224
October.....	1,521	1,911	2,427	2,866	2,869	2,816	2,561	3,285	3,601	3,880	4,222
November.....	1,520	1,973	2,449	2,867	2,872	2,767	2,610	3,340	3,619	3,920	4,240
December.....	1,526	2,025	2,566	2,868	2,873	2,707	2,639	3,373	3,642	3,957	4,212

End of month	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
January.....	4,136	4,125	4,277	4,068	3,840	4,004	4,368	4,129	4,268	4,033
February.....	4,077	4,126	4,299	4,075	3,866	4,026	4,378	4,067	4,093	4,438
March.....	4,062	4,155	4,310	4,018	3,901	4,136	4,410	4,103	3,995	7,694
April.....	4,055	4,151	4,323	3,979	3,973	4,204	4,439	4,080	4,025	7,757
May.....	4,070	4,146	4,321	3,873	4,014	4,220	4,611	3,865	4,028	7,779
June.....	4,073	4,180	4,300	3,822	4,037	4,248	4,609	3,632	4,051	7,828
July.....	4,080	4,184	4,293	3,826	4,054	4,230	4,662	3,687	4,033	7,931
August.....	4,095	4,188	4,301	3,836	4,073	4,214	4,708	3,601	4,041	7,978
September.....	4,085	4,179	4,305	3,836	4,085	4,224	4,654	3,606	4,037	7,978
October.....	4,120	4,188	4,254	3,855	4,099	4,248	4,005	3,677	4,036	8,002
November.....	4,110	4,190	4,164	3,841	4,080	4,284	4,127	4,053	4,036	8,132
December.....	4,112	4,205	4,092	3,854	3,997	4,306	4,173	4,226	4,036	8,238

Month	Averages of end of month figures				Averages of daily figures							
	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	
January.....	1,631	1,530	2,032	2,626	2,865	2,873	2,672	2,044	3,385	3,658	3,979	
February.....	1,634	1,543	2,038	2,672	2,872	2,875	2,924	2,688	3,417	3,673	4,016	
March.....	1,633	1,567	2,037	2,763	2,875	2,874	2,572	2,753	3,449	3,679	4,033	
April.....	1,649	1,604	2,033	2,834	2,876	2,879	2,534	2,830	3,469	3,688	4,096	
May.....	1,648	1,624	2,040	2,848	2,876	2,889	2,548	2,910	3,481	3,706	4,146	
June.....	1,623	1,670	2,103	2,890	2,876	2,832	2,567	2,967	3,489	3,733	4,184	
July.....	1,588	1,709	2,188	2,918	2,874	2,800	2,578	3,018	3,510	3,774	4,216	
August.....	1,569	1,765	2,241	2,896	2,870	2,827	2,568	3,105	3,533	3,810	4,229	
September.....	1,561	1,813	2,303	2,865	2,869	2,856	2,560	3,192	3,673	3,836	4,228	
October.....	1,539	1,874	2,385	2,864	2,864	2,833	2,568	3,290	3,697	3,868	4,219	
November.....	1,520	1,942	2,438	2,868	2,868	2,783	2,566	3,308	3,699	3,936	4,200	
December.....	1,523	1,999	2,502	2,866	2,869	2,734	2,607	3,366	3,630	3,959	4,220	

Month	Averages of daily figures									
	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
January.....	4,181	4,120	4,240	4,000	3,828	3,995	4,335	4,165	4,260	4,036
February.....	4,105	4,138	4,289	4,088	3,856	4,030	4,369	4,097	4,204	7,138
March.....	4,053	4,137	4,308	4,048	3,879	4,107	4,395	4,085	3,974	7,692
April.....	4,053	4,161	4,314	4,000	3,939	4,156	4,424	4,094	4,014	7,735
May.....	4,066	4,147	4,364	3,920	4,005	4,218	4,480	3,966	4,026	7,759
June.....	4,078	4,151	4,319	3,832	4,024	4,241	4,678	3,669	4,030	7,821
July.....	4,075	4,173	4,283	3,836	4,048	4,248	4,671	3,654	4,032	7,893
August.....	4,085	4,180	4,298	3,831	4,064	4,269	4,688	3,743	4,036	7,971
September.....	4,099	4,184	4,297	3,838	4,081	4,218	4,691	3,853	4,037	7,989
October.....	4,104	4,185	4,279	3,846	4,094	4,233	4,100	3,939	4,037	7,989
November.....	4,130	4,190	4,203	3,864	4,087	4,268	4,078	4,036	4,036	8,047
December.....	4,110	4,194	4,129	3,865	4,037	4,266	4,303	4,142	4,036	8,191

¹ Gold coin and bullion (including foreign coin) held by United States Treasury and Federal Reserve banks (including gold held under earmark abroad). Amounts held abroad under earmark (end of month figure) as follows: 1917, June-December, \$32,500,000; 1918, January-May, \$35,500,000; June, \$35,271,000; July, \$11,630,000; August-December, \$5,829,000; 1919, January-March, \$5,829,000; August, \$107,110,000; September, \$169,618,000; October, \$149,166,000; November, \$136,694,000; December, \$131,320,000; 1920, January, \$14,322,000; February, \$12,822,000; March-April, \$12,780,000; May-July, \$11,630,000; August-September, \$11,458,000; October, \$16,530,000; November-December, \$3,300,000; 1921, January-February, \$3,300,000; 1927, May, \$59,648,000; June, \$23,300,000; 1932, December, \$72,638,000.

² Averages of daily figures.

NOTE.—With respect to revaluation of gold stock as of Jan. 31, 1934, and the exclusion of \$287,000,000, see footnotes to table 1. For figures as of other dates see tables 1, 2, 4, and 6.

120 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 44.—ANALYSIS OF CHANGES IN MONETARY GOLD STOCK, 1921-34

[In millions of dollars]

Year and month	Gold stock at end of year and month	Increase in gold stock	Net gold import	Net release from earmark ¹	Other factors ²	Month	Gold stock at end of month ³	Increase in gold stock	Net gold import	Net release from earmark ¹	Other factors ²	
1921.....	3,373	734.6	667.4	18.7	48.5	January.....	4,266	40.0	128.8	-91.6	2.1	
1922.....	3,642	268.5	236.3	-3.7	33.0	February.....	4,063	-173.4	117.8	-178.3	-12.1	
1923.....	3,957	315.1	294.1	.7	20.3	March.....	3,995	-67.2	-22.1	-100.1	23.1	
1924.....	4,212	255.6	238.1	-42.2	39.8	April.....	4,025	29.5	-10.0	23.7	5.7	
1925.....	4,112	-100.1	-134.4	32.2	2.1	May.....	4,028	3.0	-21.1	22.1	2.1	
1926.....	4,205	92.6	97.8	-26.3	21.1	June.....	4,081	2.2	-3.2	3.8	1.1	
1927.....	4,622	415.8	6.1	-160.2	41.9	July.....	4,353	2.7	-83.9	84.5	2.2	
1928.....	3,854	-227.8	-391.9	119.5	34.5	August.....	4,041	7.6	-80.4	79.5	8.4	
1929.....	3,997	142.5	178.1	-55.4	22.8	September.....	4,037	-3.8	-56.7	49.3	3.1	
1930.....	4,306	309.6	290.1	-2.4	21.9	October.....	4,036	-.7	-32.4	28.9	4.1	
1931.....	4,173	-133.4	-145.3	-320.8	42.1	November.....	4,036	-.7	-3	3	6	
1932.....	4,228	55.9	-146.2	437.5	41.6	December.....	4,036	-.6	-9.1	11.8	-2.1	
1933.....	4,036	-190.4	-173.5	-55.0	41.1	1934.....	4,036	-.6	-9.1	11.8	-2.1	
1934.....	8,238	4,202.5	1,133.0	82.6	2,986.1	1934.....	4,033	-2.1	-2.8	12.2	-11.4	
1932.....	January.....	4,126	-44.2	-73.0	25.4	3.4	January.....	7,438	3,405.0	452.6	68.7	2,883.1
1933.....	February.....	4,067	-62.3	-90.6	26.4	1.9	February.....	7,694	265.1	237.3	-8	19.1
1934.....	March.....	4,103	36.0	-24.7	58.9	2.4	March.....	7,757	62.2	54.7	-1.1	8.4
1935.....	April.....	4,080	-23.1	-30.2	4.0	0.9	April.....	7,779	22.2	23.6	-1.4	1.4
1936.....	May.....	3,865	-214.1	-195.5	-22.1	3.6	May.....	7,856	77.1	63.7	1.0	12.1
1937.....	June.....	3,632	-233.9	-206.0	-25.8	.9	June.....	7,931	74.4	52.3	.6	21.4
1938.....	July.....	3,667	38.0	-3.4	56.2	5.2	July.....	7,978	47.4	37.2	-1.1	11.1
1939.....	August.....	3,801	111.7	6.1	100.5	5.1	August.....	8,002	23.5	10.8	3	12.4
1940.....	September.....	3,906	104.8	27.9	72.3	4.6	September.....	8,132	129.9	120.9	-.1	9.1
1941.....	October.....	3,977	70.8	20.6	48.8	4.5	October.....	8,238	106.2	92.1	.1	14.1
1942.....	November.....	4,083	75.6	21.7	48.6	5.3	November.....					
1943.....	December.....	4,236	173.5	100.9	71.0	1.6	December.....					

¹ Revised to exclude \$287,000,000; see table 1, note 2.

² Gold released from earmark at Federal Reserve banks less gold placed under earmark (with allowance made when necessary for change in gold earmarked abroad for account of Federal Reserve banks). See table 43, note 1, and table 45.

³ Derived from preceding columns, reflecting net result of such factors as domestic production, movements into and out of nonmonetary use, imports and exports that do not affect gold stock during month or year, and increment resulting from reduction in weight of gold dollar.

⁴ Differs from Department of Commerce figures, since \$8,900,000 declared for export on Feb. 28 was not actually taken from the Federal Reserve Bank of New York until Mar. 1.

⁵ Increase in gold stock during February 1934 represents principally reduction in weight of gold dollar on Jan. 31; see note to table 1. Figures based on rate of \$20.67 a fine ounce through January 1934 and \$35 a fine ounce thereafter.

Back figures.—For data by months in earlier years see Annual Report for 1933 (table 51).

No. 45.—GOLD HELD UNDER EARMARK BY FEDERAL RESERVE BANKS FOR FOREIGN ACCOUNT, BY MONTHS, 1926-34

[In thousands of dollars]¹

End of month	1926	1927	1928	1929	1930	1931	1932	1933	1934
January.....	19,012	19,770	193,919	144,896	134,794	128,795	433,140	92,552	46,873
February.....	30,012	16,599	191,051	144,898	134,794	122,295	406,781	270,837	10,706
March.....	53,000	18,101	155,251	137,391	119,795	120,286	348,459	370,929	11,545
April.....	53,000	19,101	106,511	88,321	119,295	127,795	344,501	337,228	12,578
May.....	53,000	114,101	136,030	72,694	117,295	123,795	306,050	315,114	12,189
June.....	53,580	114,001	105,997	80,207	115,295	81,531	395,447	311,569	11,204
July.....	49,580	114,417	45,050	102,194	118,295	61,231	339,210	227,069	10,015
August.....	30,350	115,918	29,134	103,194	118,295	77,231	238,709	147,632	11,971
September.....	32,780	123,918	40,334	106,795	114,303	356,321	166,421	96,226	9,252
October.....	32,776	150,919	30,134	114,296	120,410	483,931	120,646	71,459	8,992
November.....	40,274	180,919	64,136	113,292	122,536	433,821	72,060	70,550	9,077
December.....	39,268	199,419	79,897	135,295	127,963	458,534	73,994	69,079	9,017

¹ At \$20.67 a fine ounce through January 1934 and at \$35 a fine ounce thereafter. See footnotes to table 1.

NOTE.—For statistics of gold earmarked abroad for account of Federal Reserve banks see table 43, note 1.

Back figures.—See Annual Report for 1933 (table 52).

GOLD

121

No. 46.—GOLD MOVEMENTS TO AND FROM UNITED STATES, BY COUNTRIES, 1931-34

[In thousands of dollars]¹

IMPORTS					EXPORTS				
From—	1931	1932	1933	1934	To—	1931	1932	1933	1934
Belgium.....	24	1,031	.....	12,958	Belgium.....	15,607	83,602	895	4,059
France.....	19,394	16,949	30,079	200,531	Czechoslovakia.....	40	.....	6,504	.....
Germany.....	37,073	381	1,071	4	France.....	263,908	452,238	246,113	26,991
Great Britain.....	7,015	68,718	55,204	510,161	Germany.....	1,047	13,738	3,603	147
Italy.....	9	2	1	899	Great Britain.....	2,19	16,132	43,826	8,830
Netherlands.....	.....	18,600	19,347	102,024	Italy.....	5,320	107	24,044	12
Spain.....	40	16	22	7	Netherlands.....	50,327	115,277	11,445	7,414
Sweden.....	5,573	.....	.....	.....	Norway.....	.....	.....	6,100	.....
Switzerland.....	55	227	.....	12,056	Poland and Dan- zig.....	620	63	.....	.....
Canada.....	81,252	64,757	20,141	83,735	Portugal.....	2,089	2,386	602	.....
Central America.....	1,090	1,352	850	2,978	Sweden.....	35	.....	5,002	.....
Mexico.....	25,319	20,407	4,859	30,388	Switzerland.....	19,523	118,560	11,631	254
West Indies.....	8,869	3,783	625	2,221	Canada.....	116	184	247	173
Argentina.....	141,293	13,000	14	12	Central America.....	100	3	6	.....
Bolivia.....	16	19	105	124	Mexico.....	3,052	320	579	288
Brazil.....	16	1,312	.....	12	Argentina.....	.....	9	16	.....
Chile.....	290	1,624	2,337	5,232	Ecuador.....	1,060	.....	.....	.....
Colombia.....	15,116	3,242	97	13,922	Peru.....	1,082	126	.....	.....
Ecuador.....	1,015	1,053	1,007	1,555	Venezuela.....	52	.....	160	.....
Peru.....	7,522	3,242	1,637	1,396	Turkey.....	3,004	.....	.....	.....
Uruguay.....	6,080	4,354	.....	.....	All other.....	355	65	867	1,691
Venezuela.....	1,073	1,770	606	840					
Australia.....	2,643	7,510	3,178	1,029					
British India.....	8,064	28,596	25,629	76,820					
China.....	19,053	23,280	5,311	171					
Dutch East Indies.....	4,870	2,901	801	7					
Hong Kong.....	14,641	15,783	6,890	18,281					
Japan.....	190,328	49,720	6,702	4					
New Zealand.....	185	1,631	187	.....				
Philippine Islands.....	3,740	7,052	6,023	12,038					
All other.....	893	3,055	155	1,681					
Total.....	612,119	363,316	193,197	1,186,671	Total.....	496,794	809,528	366,652	62,750

¹ With some exceptions figures represent customs valuations at rate of \$20.67 a fine ounce through January 1934 and \$35 a fine ounce thereafter. See note to table 1.

Back figures.—See Annual Report for 1930 (table 26). For figures by months see Federal Reserve Bulletin.

122 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 47.—GOLD MOVEMENTS TO AND FROM UNITED STATES, 1921-34

[In thousands of dollars]:

Year and month	Imports	Exports	Net imports or exports or exports (-)	Month	Imports	Exports	Net imports or exports or exports (-)
1921.....	691,248	23,891	667,357	1933			
1922.....	275,170	30,875	238,295	January.....	128,479	14	128,465
1923.....	322,716	28,643	294,073	February.....	¹ 39,297	21,521	¹ 17,776
1924.....	319,721	61,648	258,073	March.....	¹ 6,048	28,123	¹ -22,075
1925.....	128,273	262,040	-134,867	April.....	6,799	16,741	-9,972
1926.....	213,594	115,708	97,796	May.....	1,788	22,625	-21,140
1927.....	207,535	201,455	6,080	June.....	1,136	4,380	-3,243
1928.....	108,897	593,759	-484,862	July.....	1,496	85,373	-83,879
1929.....	291,649	116,583	175,066	August.....	1,085	81,473	-80,388
1930.....	396,064	115,987	280,087	September.....	1,545	58,281	-56,736
1931.....	612,119	466,794	145,325	October.....	1,696	34,046	-32,350
1932.....	363,315	809,628	-446,314	November.....	2,174	2,957	-783
1933.....	193,197	366,652	-173,455	December.....	1,687	10,816	-9,128
1934.....	1,186,671	52,759	1,133,912	1934			
1932				January.....	1,047	4,715	-2,768
January.....	34,912	107,863	-72,951	February.....	452,622	51	452,571
February.....	37,644	128,211	-90,567	March.....	237,380	44	237,336
March.....	19,238	43,909	-24,671	April.....	54,785	37	54,748
April.....	19,271	49,509	-30,239	May.....	35,362	1,789	33,582
May.....	16,715	212,229	-195,514	June.....	70,291	6,586	63,705
June.....	20,070	226,117	-206,047	July.....	52,460	114	52,346
July.....	20,087	23,474	-3,437	August.....	51,781	14,556	37,225
August.....	24,170	18,067	6,103	September.....	3,585	22,255	-18,670
September.....	27,927	60	27,897	October.....	13,610	2,173	10,537
October.....	26,674	16	26,613	November.....	121,199	310	120,889
November.....	21,756	16	21,740	December.....	92,249	140	92,109
December.....	190,872	13	190,859				

¹ With some exceptions figures represent customs valuations at rate of \$20.67 a fine ounce through January 1934 and \$35 a fine ounce thereafter. See note to table 1.

² Differs from Department of Commerce figure, since \$8,900,000 declared for export on Feb. 28 was not actually taken from the Federal Reserve Bank of New York until Mar. 1.

Back figures.—See Annual Report for 1933 (table 54).

MONEY IN CIRCULATION

No. 48.—UNITED STATES MONEY IN CIRCULATION,¹ BY MONTHS, 1914-34

[In millions of dollars. For figures by weeks, see tables 3 and 4]

End of month	End of month figures											
	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	
January.....	3, 215	2, 966	3, 305	3, 702	3, 849	4, 632	4, 890	5, 016	4, 154	4, 327	4, 490	
February.....	3, 216	2, 955	3, 216	3, 833	4, 028	4, 635	5, 073	4, 986	4, 204	4, 416	4, 600	
March.....	3, 221	2, 977	3, 326	3, 886	4, 109	4, 661	5, 104	4, 837	4, 210	4, 460	4, 612	
April.....	3, 243	2, 997	3, 334	3, 907	4, 147	4, 656	5, 122	4, 793	4, 181	4, 472	4, 596	
May.....	3, 246	3, 030	3, 298	3, 960	4, 129	4, 631	5, 165	4, 728	4, 168	4, 510	4, 618	
June.....	3, 172	3, 033	3, 362	3, 779	4, 195	4, 590	5, 181	4, 624	4, 176	4, 535	4, 562	
July.....	3, 107	3, 036	3, 371	3, 686	4, 277	4, 583	5, 167	4, 510	4, 137	4, 500	4, 469	
August.....	3, 254	3, 115	3, 450	3, 863	4, 489	4, 691	5, 261	4, 453	4, 193	4, 589	4, 572	
September.....	3, 443	3, 108	3, 535	3, 704	4, 740	4, 750	5, 329	4, 457	4, 321	4, 658	4, 576	
October.....	3, 457	3, 232	3, 589	3, 820	4, 858	4, 840	5, 411	4, 408	4, 359	4, 642	4, 555	
November.....	3, 123	3, 257	3, 590	3, 965	4, 908	4, 982	5, 356	4, 364	4, 417	4, 731	4, 765	
December.....	3, 032	3, 302	3, 979	4, 086	4, 951	5, 091	5, 325	4, 403	4, 530	4, 757	4, 760	

End of month	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
January.....	4, 515	4, 554	4, 559	4, 390	4, 370	4, 275	4, 323	5, 354	5, 358	5, 289
February.....	4, 561	4, 617	4, 598	4, 403	4, 411	4, 292	4, 333	5, 317	6, 258	5, 354
March.....	4, 524	4, 573	4, 575	4, 462	4, 461	4, 262	4, 321	5, 172	6, 033	5, 394
April.....	4, 495	4, 620	4, 604	4, 461	4, 389	4, 189	4, 365	5, 178	5, 716	5, 368
May.....	4, 550	4, 636	4, 606	4, 457	4, 451	4, 264	4, 415	5, 193	5, 525	5, 357
June.....	4, 524	4, 598	4, 564	4, 510	4, 439	4, 235	4, 535	5, 408	5, 434	5, 373
July.....	4, 505	4, 622	4, 559	4, 414	4, 430	4, 139	4, 550	5, 439	5, 343	5, 317
August.....	4, 579	4, 643	4, 567	4, 516	4, 533	4, 246	4, 765	5, 405	5, 325	5, 396
September.....	4, 629	4, 691	4, 661	4, 559	4, 532	4, 214	4, 959	5, 366	5, 363	5, 456
October.....	4, 682	4, 734	4, 659	4, 519	4, 551	4, 206	5, 253	5, 341	5, 348	5, 453
November.....	4, 757	4, 750	4, 665	4, 703	4, 642	4, 373	5, 249	5, 361	5, 455	5, 649
December.....	4, 817	4, 808	4, 716	4, 686	4, 578	4, 903	5, 360	5, 388	5, 519	5, 636

Month	Averages of end of month figures					Averages of daily figures						
	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	
January.....	3, 210	2, 969	3, 304	3, 691	4, 019	4, 763	4, 944	5, 114	4, 240	4, 392	4, 560	
February.....	3, 215	2, 960	3, 311	3, 768	3, 993	4, 645	4, 908	4, 076	4, 164	4, 385	4, 545	
March.....	3, 219	2, 966	3, 321	3, 860	4, 096	4, 656	5, 111	4, 917	4, 196	4, 426	4, 583	
April.....	3, 232	2, 987	3, 330	3, 897	4, 136	4, 683	5, 085	4, 791	4, 195	4, 444	4, 599	
May.....	3, 244	3, 013	3, 316	3, 938	4, 114	4, 654	5, 127	4, 755	4, 163	4, 477	4, 579	
June.....	3, 209	3, 031	3, 330	3, 874	4, 151	4, 604	5, 161	4, 649	4, 142	4, 492	4, 643	
July.....	3, 139	3, 034	3, 366	3, 733	4, 233	4, 609	5, 191	4, 570	4, 156	4, 525	4, 523	
August.....	3, 180	3, 076	3, 410	3, 714	4, 370	4, 626	5, 222	4, 484	4, 161	4, 546	4, 513	
September.....	3, 350	3, 142	3, 492	3, 774	4, 624	4, 702	5, 313	4, 465	4, 265	4, 614	4, 566	
October.....	3, 451	3, 200	3, 562	3, 865	4, 847	4, 819	5, 386	4, 434	4, 356	4, 654	4, 604	
November.....	3, 290	3, 245	3, 590	3, 916	4, 866	4, 921	5, 375	4, 386	4, 384	4, 666	4, 683	
December.....	3, 078	3, 280	3, 635	4, 055	4, 956	5, 055	5, 371	4, 431	4, 540	4, 784	4, 801	

Month	Averages of daily figures									
	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
January.....	4, 576	4, 604	4, 617	4, 498	4, 461	4, 365	4, 408	5, 358	5, 344	5, 382
February.....	4, 518	4, 567	4, 556	4, 422	4, 399	4, 287	4, 311	5, 340	5, 605	5, 339
March.....	4, 528	4, 577	4, 569	4, 423	4, 422	4, 245	4, 305	5, 244	6, 711	5, 365
April.....	4, 516	4, 595	4, 562	4, 443	4, 392	4, 231	4, 360	5, 165	5, 850	5, 396
May.....	4, 504	4, 584	4, 573	4, 435	4, 397	4, 210	4, 392	5, 169	5, 589	5, 355
June.....	4, 503	4, 594	4, 544	4, 449	4, 400	4, 202	4, 463	5, 243	5, 455	5, 341
July.....	4, 507	4, 629	4, 564	4, 459	4, 477	4, 196	4, 549	5, 464	5, 388	5, 350
August.....	4, 530	4, 625	4, 562	4, 450	4, 490	4, 189	4, 660	5, 432	5, 329	5, 355
September.....	4, 621	4, 682	4, 630	4, 517	4, 524	4, 206	4, 846	5, 398	5, 345	5, 427
October.....	4, 658	4, 714	4, 647	4, 549	4, 525	4, 214	5, 191	5, 356	5, 369	5, 473
November.....	4, 673	4, 718	4, 649	4, 573	4, 558	4, 241	5, 231	5, 356	5, 394	5, 494
December.....	4, 832	4, 844	4, 761	4, 721	4, 656	4, 636	5, 324	5, 412	5, 524	5, 577

¹ Money outside Treasury and Federal Reserve banks (prior to November 1914, money outside Treasury). Figures after Jan. 31, 1934, do not include gold coin and prior figures for purposes of comparison with current figures have been reduced by \$287,000,000, the estimated amount of gold coin in circulation on Jan. 31, 1934. See also footnotes to table 1, p. 67. For figures as of other dates see tables 1, 3, 4, and 6.

² Figures prior to June 21, 1917 (when legislation became effective changing reserve requirements of member banks), while comparable with one another, are not strictly comparable with those for succeeding dates; the transfer to the Federal Reserve banks of that part of legal reserves of member banks formerly held in own vaults reduced the volume of money outside Treasury and Federal Reserve banks (see note 1). The increasing membership of State banks in the Federal Reserve System after June 1917, had a similar effect upon the figures.

124 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 49.—KINDS OF MONEY IN CIRCULATION

(Money outside Treasury and Federal Reserve banks. In millions of dollars)

End of month or year	Total	Gold coin	Gold certificates	Standard silver dollars	Silver certificates	Treasury notes of 1890	Subsidiary silver	Minor coin	United States notes	Federal Reserve notes	National Reserve bank notes	National bank notes
1919.....	5,091	189	286	80	141	2	244	88	274	2,916	198	672
1920.....	5,325	188	219	75	70	2	255	95	261	3,256	229	695
1921.....	4,405	152	177	58	236	2	237	91	275	2,372	97	705
1922.....	4,630	136	303	60	288	1	246	93	285	2,373	87	708
1923.....	4,757	123	584	58	274	1	261	98	306	2,224	14	714
1924.....	4,790	122	970	57	390	1	265	100	287	1,842	8	706
1925.....	4,817	127	1,113	55	390	1	273	105	295	1,810	6	635
1926.....	4,808	123	1,092	52	367	1	281	108	297	1,824	5	629
1927.....	4,716	115	1,074	49	400	1	286	112	293	1,763	4	619
1928.....	4,686	108	991	45	410	1	291	116	294	1,808	4	616
1929.....	4,578	97	880	42	417	1	294	119	295	1,862	3	627
1930.....	4,603	81	1,118	37	404	1	281	119	296	1,641	3	628
1931—January.....	4,323	71	1,050	35	372	1	270	116	289	1,470	3	640
February.....	4,321	69	1,051	35	373	1	270	116	295	1,461	3	649
March.....	4,321	67	1,047	35	372	1	271	116	299	1,471	3	648
April.....	4,365	65	1,035	34	375	1	272	117	295	1,518	3	651
May.....	4,416	66	1,020	34	380	1	273	117	300	1,566	3	655
June.....	4,536	76	997	34	377	1	273	117	299	1,708	3	648
July.....	4,550	76	976	34	375	1	271	117	301	1,749	3	647
August.....	4,765	76	989	34	380	1	271	117	301	1,947	3	646
September.....	4,659	89	1,037	34	383	1	273	117	299	1,989	3	645
October.....	5,253	100	972	33	388	1	271	117	300	2,412	3	657
November.....	5,249	96	928	33	387	1	272	117	294	2,463	3	657
December.....	5,300	122	877	33	389	1	271	117	288	2,603	3	666
1932—January.....	5,354	120	850	32	367	1	260	115	282	2,646	3	677
February.....	5,317	119	820	31	363	1	260	114	280	2,654	3	691
March.....	5,172	117	779	31	355	1	259	114	274	2,646	3	693
April.....	5,178	124	756	30	356	1	257	114	282	2,651	3	705
May.....	5,193	148	735	30	358	1	257	114	290	2,658	3	702
June.....	5,408	166	716	30	353	1	256	114	289	2,780	3	701
July.....	5,439	167	694	30	351	1	254	113	289	2,838	3	700
August.....	5,405	162	669	30	350	1	255	113	285	2,793	3	744
September.....	5,396	158	644	29	359	1	257	113	286	2,731	3	785
October.....	5,341	158	624	29	361	1	257	113	289	2,689	3	817
November.....	5,361	157	635	29	361	1	258	113	291	2,675	3	826
December.....	5,388	181	601	29	371	1	258	113	294	2,718	3	830
1933—January.....	5,358	192	591	28	350	1	250	111	287	2,707	3	836
February.....	6,258	264	649	28	362	1	252	111	301	3,405	3	861
March.....	6,033	80	393	28	376	1	258	112	286	3,621	17	879
April.....	6,716	48	323	28	390	1	255	112	261	3,362	50	915
May.....	5,525	37	280	28	359	1	258	112	265	3,167	99	922
June.....	5,434	34	265	28	361	1	257	113	259	3,061	126	920
July.....	5,473	33	252	28	365	1	258	113	275	2,974	129	914
August.....	5,325	32	242	28	372	1	261	114	277	2,933	133	911
September.....	5,363	26	232	28	385	1	265	115	280	2,996	156	909
October.....	5,348	25	225	29	387	1	267	115	277	2,950	159	903
November.....	5,454	24	219	29	390	1	269	117	285	2,998	208	913
December.....	5,619	24	213	29	407	1	272	117	286	3,044	208	918
1934—January.....	5,289	(¹)	178	28	391	1	267	116	283	2,894	202	927
February.....	5,354	(¹)	167	29	399	1	270	117	289	2,949	194	938
March.....	5,394	(¹)	161	30	403	1	272	118	289	3,005	178	936
April.....	5,368	(¹)	157	30	400	1	274	118	282	3,025	162	918
May.....	5,357	(¹)	153	30	402	1	277	120	279	3,038	151	908
June.....	5,373	(¹)	150	30	401	1	280	119	280	3,098	142	902
July.....	5,317	(¹)	145	30	399	1	280	121	277	3,044	133	885
August.....	5,306	(¹)	143	31	438	1	282	122	274	3,108	125	876
September.....	5,456	(¹)	139	31	458	1	284	122	274	3,170	119	870
October.....	5,453	(¹)	134	31	410	1	288	123	273	3,124	112	846
November.....	5,449	(¹)	133	32	458	1	291	124	273	3,176	107	830
December.....	5,536	(¹)	130	32	462	1	294	125	265	3,176	101	823

¹ Figures for period prior to 1934 revised; see footnote 1.

² Omission of figures for gold coin reflects change in reporting practice of Treasury and Federal Reserve banks (effective Jan. 31, 1934, when figure would have been \$267,000,000). Figures prior to Jan. 31, 1934, have been reduced by \$267,000,000 for purposes of comparison with current figures. The private holding of gold coin and gold certificates became illegal with minor exceptions as to numismatic collections as a result of a series of Executive and Treasury orders including those of Apr. 5, Aug. 26, and Dec. 29, 1933. See also footnotes to table 1, p. 67.

Back figures.—See Annual Report for 1930 (table 32).

MONEY IN CIRCULATION

125

No. 50.—PAPER CURRENCY OF EACH DENOMINATION IN CIRCULATION

[Outside Treasury and Federal Reserve banks. In millions of dollars]

End of month	Total in circulation											Unassorted in Federal Reserve banks and Treasury
		\$1	\$2	\$5	\$10	\$20	\$50	\$100	\$500	\$1,000	\$5,000		$10,000
1930												
October	3,716	389	43	661	1,029	1,054					644	104
November	3,880	397	43	676	1,039	1,081					704	90
December	4,035	404	45	666	1,083	1,130					852	114
1931												
January	3,830	370	41	644	1,012	1,073					789	96
February	3,849	371	41	637	1,013	1,078					784	76
March	3,839	369	40	630	1,015	1,070					785	72
April	3,885	373	41	630	1,021	1,085					847	112
May	3,833	377	40	639	1,036	1,090					861	106
June	3,941	374	39	644	1,037	1,115					932	100
July	4,038	373	39	640	1,041	1,118					949	108
August	4,276	378	39	659	1,077	1,178					1,047	103
September	4,432	382	39	664	1,089	1,229					1,154	108
October	4,739	385	39	685	1,136	1,259					1,273	84
November	4,737	385	39	682	1,134	1,301					1,281	85
December	4,823	388	40	684	1,145	1,329					1,336	98
1932												
January	4,836	366	37	650	1,116	1,329					1,410	71
February	4,797	361	37	643	1,112	1,326					1,387	69
March	4,657	353	36	624	1,077	1,289					1,343	65
April	4,660	352	35	629	1,076	1,280					1,349	62
May	4,650	353	35	625	1,069	1,275					1,392	68
June	4,948	350	34	623	1,081	1,313					1,513	05
July	4,882	348	33	625	1,101	1,335					1,506	66
August	4,850	348	33	622	1,097	1,328					1,491	69
September	4,815	356	33	627	1,102	1,311					1,458	71
October	4,790	358	33	629	1,103	1,301					1,435	70
November	4,797	358	34	628	1,098	1,315					1,434	70
December	4,812	368	34	635	1,109	1,367					1,435	77
1933												
January	4,783	350	32	615	1,077	1,311					1,464	66
February	5,581	361	32	675	1,190	1,478					1,924	79
March	5,534	375	35	729	1,234	1,488					1,778	103
April	5,275	358	32	688	1,205	1,406					1,664	79
May	5,092	356	32	660	1,160	1,349	404	686	163			8
June	5,092	355	32	654	1,143	1,335	391	662	145	275	9	7
July	4,911	350	32	656	1,138	1,312	377	636	136	254	8	10
August	4,890	366	33	664	1,163	1,300	367	620	131	246	7	10
September	4,930	380	33	685	1,181	1,302	362	612	127	239	7	10
October	4,811	382	33	682	1,178	1,308	357	607	124	232	7	12
November	5,017	388	33	702	1,205	1,336	362	618	126	239	7	12
December	5,077	402	33	719	1,229	1,343	364	618	126	237	8	10
1934												
January	4,876	366	32	699	1,173	1,288	350	603	110	228	7	10
February	4,938	393	33	722	1,212	1,304	347	687	117	225	7	10
March	4,974	397	33	730	1,230	1,302	346	684	117	230	7	9
April	4,849	394	33	722	1,225	1,292	342	681	117	230	8	8
May	4,930	396	33	719	1,226	1,298	341	679	116	228	7	9
June	4,944	396	33	724	1,231	1,293	342	679	117	225	6	7
July	4,836	363	32	719	1,219	1,277	336	669	113	223	5	8
August	4,803	363	33	741	1,239	1,294	335	668	112	222	5	8
September	5,019	411	32	785	1,296	1,311	336	671	113	223	6	7
October	5,012	410	32	782	1,285	1,314	335	671	112	221	5	7
November	5,192	422	32	776	1,309	1,332	337	671	111	214	5	10
December	5,084	423	32	771	1,298	1,326	337	677	112	216	5	11

¹ Total of amounts sorted by denominations less unsorted amounts in Treasury and Federal Reserve banks.

² Separate figures for different denominations not available prior to May 1933.

³ Includes \$1,000,000 of currency of unknown denominations reported by the Treasury as destroyed.

DISCOUNT RATES AND MONEY RATES

DOMESTIC MONEY RATES

No. 51.—FEDERAL RESERVE BANK DISCOUNT RATES

[Percent]

Date effective	Federal Reserve Bank											
	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
A. Rates on rediscounts for and advances to member banks under secs. 13 and 13a of the Federal Reserve Act												
In effect Jan. 1, 1933.....	3½	2½	3½	3½	3½	3½	2½	3½	3½	3½	3½	3½
1933—Mar. 3.....		3½										
Mar. 4.....												
Apr. 7.....		3					3½					
May 26.....		2½										
May 27.....							3					
June 1.....	3											3
June 2.....												
June 8.....			3					3				3
June 10.....				3								
Oct. 20.....		2										
Oct. 21.....					3½		2½					
Nov. 2.....	2½											
Nov. 3.....												2½
Nov. 16.....			2½									
1934—Feb. 2.....		1½										
Feb. 3.....				3								
Feb. 8.....	2							2½			3	
Feb. 9.....					3					3		3
Feb. 10.....						3						
Feb. 16.....												
Mar. 16.....									3			
Dec. 15.....							2½					
Dec. 21.....										2½		
In effect Dec. 31, 1934....	2	1½	2½	2	3	2½	2½	2½	3	2½	3	2
B. Rates on advances to member banks under sec. 10 (b) of the Federal Reserve Act (expired Mar. 3, 1936)												
1933—Jan. 1.....	5	5	5	5	5	5	5	5	5	5	5	5
July 3.....		4½										
July 7.....			4½									
July 12.....	4½											
July 14.....												4½
July 15.....							4½	4½				
Aug. 5.....				4½								
Oct. 2.....		4										
Oct. 16.....							4					
Oct. 18.....												4
Oct. 20.....	4		4									
Oct. 21.....				4				4½				
Dec. 9.....												4½
1934—Mar. 12.....												4
July 10.....						4½				4		4
July 16.....												
In effect Dec. 31, 1934....	4	4	4	4	4½	4½	4	4½	5	4	4	4

¹ A general rate of 5 percent was adopted effective Jan. 1, 1933, prior to which time the rate of 6½ percent was specified for each advance made under sec. 10 (b).

130 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 51.—FEDERAL RESERVE BANK DISCOUNT RATES—Continued

[Percent]

Date effective	Federal Reserve Bank											
	Bos- ton	New York	Phila- del- phia	Cleve- land	Rich- mond	At- lanta	Chi- cago	St. Louis	Min- ne- apolis	Kan- sas City	Dal- las	San Fran- cisco
C. Rates on advances to nonmember banks and trust companies under sec. 404 of the act of Mar. 9, 1933, as amended by the act of Mar. 24, 1933 (expired Mar. 24, 1934)												
1933—Mar. 27		5										
Mar. 29								5				
Mar. 31							5					
Apr. 1				5								
Apr. 3					5							
Apr. 6												5
Apr. 10										5		
Apr. 12									5			
Apr. 15												
May 3												
May 4	5		5						5			
July 6		4½										
July 7			4½									
July 12	4½											
July 14												4½
July 15						4½	4½					
Aug. 5				4½								
Oct. 2		4										
Oct. 16							4					
Oct. 19												4
Oct. 20	4		4									
Oct. 21				4								
Dec. 9											4½	
1934—Mar. 12											4	
D. Rates on discounts for and advances to individuals, partnerships, and corporations under the third paragraph of sec. 13 of the Federal Reserve Act, as amended by sec. 210 of the act of July 21, 1932												
1932—Aug. 10		6			6			6	6			
Aug. 11	6											
Aug. 12			6									
Aug. 13						6						
Aug. 20				6						6		
Sept. 2												6
Sept. 8											6	
1934—Mar. 20						5						
July 10								5½		5		
July 16					5½							
July 24				5								
In effect Dec. 31, 1934	6	6	6	5	5½	5	6	5½	6	5	6	6

DOMESTIC MONEY RATES

134 C

No. 51.—FEDERAL RESERVE BANK DISCOUNT RATES—Continued

[Percent]

Date effective	Federal Reserve Bank											
	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
E. Rates on advances to individuals, partnerships, and corporations, secured by direct obligations of the United States, under the last paragraph of sec. 13 of the Federal Reserve Act, as amended by sec. 403 of the act of Mar. 9, 1933												
1933—Mar. 13		4½	4½			4½						
Mar. 14				4½			4½					
Mar. 15								4½				
Mar. 16					4½						4½	4½
Mar. 23	4½								4½	4½		
Apr. 15												
Oct. 2		4										
Oct. 16							4					
Oct. 19												4
Oct. 20	4		4									
Oct. 21				4								
1934—Feb. 8		3½										
Feb. 19					4							
Feb. 23									4			
Mar. 12										4		
Mar. 17						4						
In effect Dec. 31, 1934	4	3½	4	4	4	4	4	4½	4½	4	4	4
F. Rates on direct advances to established industrial or commercial businesses for working capital purposes under the first paragraph of sec. 13b of the Federal Reserve Act.												
1934—July 10		4-6	5-6	6	6		5-6	5½	6	6		
July 12	4-6											
July 13											5-6	
July 14												
July 20			4-6									5-6
In effect Dec. 31, 1934	4-6	4-6	4-6	6	6	6	5-6	5½	6	6	5-6	5-6
G. Rates on portion of discounts for financing institutions under the second paragraph of sec. 13h of the Federal Reserve Act, on which the financing institution is not obligated for any loss.												
1934—July 10		4-5	(?)	(?)	5-6		5-6	4½	4½-5	4		
July 12	3½-5											
July 13											5-6	
July 14						5						
July 17					4-6							
July 20												4-5
In effect Dec. 31, 1934	3½-5	4-5	(?)	(?)	4-6	5	5-6	4½	4½-5	4	5-6	4-5

¹ Same as rate charged borrower by financing institution but not less than 4 percent.

² 1 percent below rate charged borrower by financing institution but not less than 4 percent.

132 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 51.—FEDERAL RESERVE BANK DISCOUNT RATES—Continued

[Percent]

Date effective	Federal Reserve Bank											
	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
H. Rates on portion of discounts for financing institutions under the second paragraph of sec. 13b of the Federal Reserve Act, on which the financing institution is obligated for any loss.												
1934—July 10.....		3	3½	4	5-6		5-6	4¼	4½-5	4		
July 12.....		3	3½	4	5-6		5-6	4¼	4½-5	4		
July 13.....							5				4	
July 14.....					4-6							
July 17.....												3-4
July 20.....												3-4
In effect Dec. 31, 1934....	3	3	3½	4	4-6	5	5-6	4½	4½-5	4	4	3-4
I. Rates on commitments under the second paragraph of sec. 13b of the Federal Reserve Act.												
1934—July 10.....	¼	1-2		¼-1	1-2			¼	1	1-2		
July 12.....								¼	1	1-2		* 1
July 14.....						¼-2						1-2
July 20.....				¼-2								
July 23.....												
Aug. 24.....						1						
Aug. 30.....							1					
Sept. 4.....							1-2					
Sept. 6.....	¼-2											
Sept. 15.....						¼					¼-2	
Nov. 21.....	¼-2										¼-2	
Dec. 3.....	¼-2										¼-2	
In effect Dec. 31, 1934....	¼-2	1-2		¼-2	1-2	¼	1-2	¼	1	¼-2	* 1	1-2

* Flat charge.

Back figures.—See Annual Report for 1933 (table 37); for years previous to 1922, when different rates were generally in effect for different classes of bills, see Annual Reports, Federal Reserve Bulletin, and pamphlet issued by the Board in 1922, Discount Rates of the Federal Reserve Banks, 1914-21.

DOMESTIC MONEY RATES

No. 52.—FEDERAL RESERVE BANK BUYING RATES ON ACCEPTANCES—
CHANGES FROM JAN. 1, 1931, TO DEC. 31, 1934

[Buying rates at the Federal Reserve Bank of New York. Percent]

Date effective	1 to 15 days	16 to 30 days	31 to 45 days	46 to 60 days	61 to 90 days	91 to 120 days	121 to 180 days
In effect Jan. 1, 1931.....	1½	1½	1½	1½	1½	1½	2
1931—Jan. 16.....	1½						
Jan. 26.....	1½	1½	1½	1½	1½	1½	
Apr. 9.....				1½	1½	1½	
Apr. 21.....	1½	1½	1½				
Apr. 27.....	1½	1½	1½	1½	1½	1½	
May 8.....				1½	1½		
May 8.....	1½	1½					
May 10.....	1		1½	1½	1½	1½	1½
May 13.....		1					1½
Sept. 25.....	1½	1½	1½	1½	1½	1½	1½
Oct. 9.....	1½	1½	1½	1½	1½	2	2½
Oct. 13.....	2½	2½	2½	2½	2½	2½	3
Oct. 15.....	2½	2½	2½	2½	2½	2½	2½
Nov. 20.....	3	3	3				3½
1932—Jan. 12.....	2½	2½	2½	3	3	3	3½
Feb. 26.....	2½	2½	2½	2½	2½	2½	3
Mar. 25.....	2½	2½	2½	2½	2½	2½	2½
June 24.....	1	1	1	1	1	1½	1½
1933—Feb. 16.....	¾	¾	¾	¾	¾	¾	
Feb. 27.....	1	1	1	1	1		
Mar. 1.....	1½	1½	1½	1½	1½	1½	2
Mar. 2.....	2	2	2	2	2	2	2½
Mar. 3.....	2½	2½	2½	2½	2½	2½	2½
Mar. 12.....	2½	2½	2½	2½	2½	2½	4
Mar. 17.....	3	3	3	3	3	3	3½
Mar. 20.....	2½	2½	2½	2½	2½	2½	3
Mar. 22.....	2	2	2	2	2	2	2½
June 26.....	1	1	1	1	1	1	1½
Oct. 20.....	¾	¾	¾	¾	¾	¾	1
In effect Dec. 31, 1934.....	¾	¾	¾	¾	¾	¾	1

¹ Rates on prime bankers' acceptances. Higher rates may be charged for other classes of bills.

² Rate for 75 to 90 days 2½ percent.

Back figures.—See Annual Report for 1933 (table 88).

No. 53.—AVERAGE RATES EARNED BY FEDERAL RESERVE BANKS ON BILLS AND SECURITIES, 1930-34

[Percent]

Month	1930	1931	1932	1933	1934	Month	1930	1931	1932	1933	1934
Total bills and securities:						Total bills and securities—Con.					
January.....	4.23	2.51	2.90	1.80	1.80	November.....	2.64	2.33	1.90	1.81	1.83
February.....	4.05	2.48	3.02	1.84	1.87	December.....	2.61	2.67	1.77	1.91	1.84
March.....	3.78	2.26	3.02	2.15	1.96	Year.....	3.25	2.20	2.33	1.96	1.91
April.....	3.54	2.08	2.89	2.08	1.96	Bills discounted.....	3.93	3.01	3.43	3.23	3.44
May.....	3.40	2.00	2.47	2.27	1.96	Bills bought.....	2.85	2.04	3.09	1.49	.57
June.....	3.23	1.89	2.23	2.18	1.93	U. S Government securities.....	3.06	1.96	1.84	1.83	1.90
July.....	3.03	1.99	2.13	2.03	1.92						
August.....	2.86	2.01	2.11	1.95	1.91						
September.....	2.72	1.95	2.10	1.87	1.90						
October.....	2.69	1.97	1.96	1.85	1.91						

Back figures.—See Annual Report for 1933 (table 59).

134 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 54.—OPEN-MARKET RATES IN NEW YORK CITY, BY MONTHS, 1931-34

[Percent per annum]

Month	Prevailing rate on—			Average rate on 1—			Average yield on 2—	
	Prime commercial paper, 4-6 months	Prime bankers' acceptances, 90 days	Time loans, 90 days ¹	Call loans ⁴		Prime bankers' acceptances, 90 days	U. S. Treasury bills, 3-6 months ⁵	U. S. Treasury notes and certificates, 3-6 months
				New	Renewal			
1931-January	2½-3	1¾-1¾	1¾-2¼	1.50	1.57	1.58	0.95	1.24
February	2½-2¾	1¾-1¾	1¾-2	1.50	1.50	1.39	1.21	1.06
March	2½	1¾	2-2¼	1.56	1.55	1.50	1.46	1.38
April	2¼-2½	1½	1¾-2¼	1.57	1.52	1.43	1.33	1.49
May	2-2¼	¾-1¼	1½-2	1.45	1.45	1.01	1.08	.88
June	2	¾	1¼-1¾	1.50	1.50	.88	.53	.55
July	2	¾	1¼-1¾	1.50	1.50	.88	.49	.41
August	2	¾	1¼-1¾	1.50	1.50	.88	.60	.42
September	2	¾-1¼	1¼-2	1.50	1.50	.98	1.22	.45
October	2-4¼	1¼-¾	2¼-4	2.10	2.10	2.47	2.47	1.70
November	3¼-4¼	2¾-¾	3-4	2.50	2.50	2.99	2.22	1.77
December	3¼-4	3	3-4	2.75	2.70	3.00	3.25	2.41
1932-January	2¼-4	2¼-3	2¼-4	2.61	2.65	2.85	2.86	2.48
February	3¼-4	2¼-2¾	2¼-3¾	2.50	2.50	2.78	2.95	2.43
March	3¼-3¾	2¾-2¾	2¾-3¾	2.50	2.50	2.61	2.08	2.25
April	3¼-3¾	¾-2¼	2-3	2.50	2.50	1.39	.77	1.11
May	2¼-3¾	¾-1¼	1½-2	2.50	2.50	.92	.43	.81
June	2¼-3¾	¾-1¼	¾	2.50	2.50	.86	.41	.34
July	2¼-2¾	¾	1¼-1½	2.08	2.08	.75	.42	.22
August	2-2¾	¾	1¼-1½	2.00	2.00	.75	.44	.14
September	2-2¾	¾	1¼-1½	2.00	2.00	.75	.23	.08
October	1¾-2¾	¾	1¼-1½	1.35	1.35	.59	.18	(⁶)
November	1¼-1¾	¾	1¼-1½	1.00	1.00	.50	.18	(⁶)
December	1¼-1¾	¾	1¼	1.00	1.00	.39	.09	.04
1933-January	1¼-1½	¾	¾	1.00	1.00	.33	.21	.07
February	1¼-1½	¾	¾-1½	1.00	1.00	.47	.49	.04
March	1¼-1½	¾-¾	2¼-3¾	3.27	3.32	2.49	2.29	1.34
April	2-3½	¾-1¼	1-1½	1.39	1.37	.81	.57	.45
May	2-2¾	¾	1-1½	1.00	1.00	.50	.42	.29
June	1¼-2	¾	¾-1	1.00	1.00	.38	.27	.07
July	1¼-1¾	¾	¾-1½	1.00	1.00	.46	.37	.19
August	1¾	¾	1-1½	.98	.98	.45	.21	.01
September	1¼-1½	¾	¾	.75	.75	.25	.10	.04
October	1¾	¾	¾	.75	.75	.25	.16	.09
November	1¾	¾	¾-1	.75	.75	.39	.42	.22
December	1¼-1½	¾	¾-1¼	.94	.94	.62	.70	.29
1934-January	1¼-1½	¾	1-1¼	1.00	1.00	.50	.67	.25
February	1¼-1½	¾	¾-1	1.00	1.00	.50	.55	.08
March	1-1½	¾	¾-1	1.00	1.00	.31	.08	.01
April	1-1½	¾	¾-1	1.00	1.00	.20	.08	(⁹)
May	1	¾	¾-1	1.00	1.00	.19	.06	(⁹)
June	¾	¾	¾-1	1.00	1.00	.19	.07	(⁹)
July	¾-1	¾	¾-1	1.00	1.00	.19	.06	(⁹)
August	¾-1	¾	¾-1	1.00	1.00	.19	.20	(⁹)
September	¾-1	¾	¾-1	1.00	1.00	.19	.27	(⁹)
October	¾-1	¾-3½	¾-1	1.00	1.00	.17	.21	(⁹)
November	¾-1	¾	¾-1	1.00	1.00	.13	.22	(⁹)
December	¾-1	¾	¾-1	1.00	1.00	.13	.15	(⁹)

¹ Monthly averages of daily quotations.

² For yield on Treasury bonds see table 94.

³ Stock exchange call loans; new and renewal rates.

⁴ Revised to show average rate of discount on issues offered instead of issues sold by U. S. Treasury within month. Figures from January 1931 to May 1934 are for 3-month bills; those from June to December 1934 are for 6-month bills.

⁵ Negative yield.

Beck figures.—See Annual Report for 1930 (table 26).

DOMESTIC MONEY RATES

135

No. 55.—OPEN-MARKET RATES IN NEW YORK CITY, BY WEEKS

[Percent per annum]

Week ending (Saturday)	Prevailing rate on—			Average rate on 1—			Average yield on—	
	Prime commercial paper, 4-6 months	Prime bankers' acceptances, 90 days	Time loans, 90 days ¹	Call loans: ²		Prime bankers' acceptances, 90 days	U. S. Treasury bills: ³	
				New	Renewal		3 months	6 months
1934								
Jan. 6	1 1/4	1/4	1	1.00	1.00	0.80	0.82	
Jan. 13	1 1/4	1/4	1-1 1/4	1.00	1.00	.80	.87	
Jan. 20	1 1/4	1/4	1-1 1/4	1.00	1.00	.80	.87	
Jan. 27	1 1/4-1 1/4	1/4	1-1 1/4	1.00	1.00	.80	.73	
Feb. 3	1 1/4-1 1/4	1/4	1-1 1/4	1.00	1.00	.80	.86	0.94
Feb. 10	1 1/4-1 1/4	1/4	1/4	1.00	1.00	.80	.85	.99
Feb. 17	1 1/4-1 1/4	1/4	1/4-1	1.00	1.00	.80	.87	
Feb. 24	1 1/4-1 1/4	1/4	1/4-1	1.00	1.00	.80	.87	.82
Mar. 3	1 1/4-1 1/4	1/4	1/4-1	1.00	1.00	.80		.43
Mar. 10	1 1/4	1/4-1/2	1/4-1	1.00	1.00	.80		
Mar. 17	1 1/4	1/4	1/4-1	1.00	1.00	.85	.09	
Mar. 24	1-1 1/4	1/4	1/4-1	1.00	1.00	.85	.08	.19
Mar. 31	1-1 1/4	1/4	1/4-1	1.00	1.00	.85	.08	.19
Apr. 7	1-1 1/4	1/4	1/4-1	1.00	1.00	.84	.07	.18
Apr. 14	1	1/4-1/4	1/4-1	1.00	1.00	.19	.08	.19
Apr. 21	1	1/4-1/4	1/4-1	1.00	1.00	.19	.08	.18
Apr. 28	1	1/4-1/4	1/4-1	1.00	1.00	.19	.07	.16
May 5	1	1/4-1/4	1/4-1	1.00	1.00	.19	.07	.15
May 12	1	1/4-1/4	1/4-1	1.00	1.00	.19	.06	.14
May 19	1	1/4-1/4	1/4-1	1.00	1.00	.19	.06	.13
May 26	1	1/4-1/4	1/4-1	1.00	1.00	.19		
June 2	1	1/4-1/4	1/4-1	1.00	1.00	.19		
June 9	1	1/4-1/4	1/4-1	1.00	1.00	.19		
June 16	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.07
June 23	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.07
June 30	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.07
July 7	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.07
July 14	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.07
July 21	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.07
July 28	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.09
Aug. 4	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.12
Aug. 11	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.25
Aug. 18	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.23
Aug. 25	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.22
Sept. 1	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.18
Sept. 8	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.23
Sept. 15	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.23
Sept. 22	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.19		.29
Sept. 29	1/4-1	1/4	1/4-1	1.00	1.00	.19		.28
Oct. 6	1/4-1	1/4	1/4-1	1.00	1.00	.19		.24
Oct. 13	1/4-1	1/4	1/4-1	1.00	1.00	.19		.21
Oct. 20	1/4-1	1/4	1/4-1	1.00	1.00	.19		.20
Oct. 27	1/4-1	1/4-1/4	1/4-1	1.00	1.00	.15		.19
Nov. 3	1/4-1	1/4	1/4-1	1.00	1.00	.18		.21
Nov. 10	1/4-1	1/4	1/4-1	1.00	1.00	.18		.22
Nov. 17	1/4-1	1/4	1/4-1	1.00	1.00	.18		.21
Nov. 24	1/4-1	1/4	1/4-1	1.00	1.00	.18		.23
Dec. 1	1/4-1	1/4	1/4-1	1.00	1.00	.18		.22
Dec. 8	1/4-1	1/4	1/4-1	1.00	1.00	.18		.20
Dec. 15	1/4-1	1/4	1/4-1	1.00	1.00	.18		.16
Dec. 22	1/4-1	1/4	1/4-1	1.00	1.00	.18		.12
Dec. 29	1/4-1	1/4	1/4-1	1.00	1.00	.18		.10

¹ Weekly averages of daily quotations.

² Stock exchange 90-day time loans.

³ Stock exchange call loans; new and renewal rates.

⁴ Average rate of discount on issues offered by U. S. Treasury within week; in weeks for which no figures are shown, there were no issues.

Back figures.—See Annual Report for 1933 (table 61).

136 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 56.—MONEY RATES IN NEW YORK CITY—PREVAILING RATES CHARGED CUSTOMERS, 1930-34

[Rates prevailing during 7-day period ending with 15th of month. Percent per annum]

Month	Prime commercial loans	Inter-bank loans	Loans secured by stocks and bonds		Loans secured by warehouse receipts
			Demand	Time	
1930					
January.....	5½-5¼	5½-6	5½-6	5½-6	5½-6
February.....	5-6¼	5-6¼	5½-6	5½-6	5½-6
March.....	4½-5	4½-5½	5-5	5-5	5-5½
April.....	4½-4¾	4½-5	4½-5½	5-5½	4½-5
May.....	4½-4¾	4½-5	4½-5½	4½-5½	4½-5
June.....	4-4½	4-5	4-5	4-5	4-5
July.....	4-4½	4-4½	4-5	4-5	4-5
August.....	4-4½	4-4½	4-5	4-5	4-4½
September.....	4-4	4-4½	4-5	4-5	4-5
October.....	3¾-4	4-4½	4-5	4-5	4-5
November.....	3¾-4	4-4½	4-5	4-5	4-5½
December.....	3¾-4	4-4½	4-5	4-5	4-5
1931					
January.....	3¼-4	3¼-5	4¼-5	4¼-5	3¼-4
February.....	3¼-4½	4-4½	4¼-5	4¼-5	3¼-4
March.....	3¼-4	3¼-5	4¼-5	4¼-5	3¼-4½
April.....	3¼-4	4-4½	4¼-5	4¼-5	3¼-4½
May.....	3-4	4-4½	4¼-5	4¼-5	3¼-4½
June.....	3¼-4	4-4½	4¼-5	4-5	3¼-4½
July.....	3¼-4	4-5	4-5	4-5	3¼-4
August.....	3-4	4-4½	4-4½	4-4	3¼-5
September.....	3-4	4-4½	4-4½	4-4½	3¼-4½
October.....	3-4½	4-5	4¼-5	4¼-5	3-4½
November.....	4-5	4½-5	4½-5	4½-5	4-5
December.....	4-5	4½-5	4½-5	4½-5	4½-5
1932					
January.....	4-5	4½-5½	4½-5½	4½-5½	4½-5
February.....	4-5	4½-5	4½-5½	4½-5½	4½-5
March.....	4-5	4½-5	4½-5½	4½-5½	4½-5
April.....	4-5	4½-5	4½-5½	4½-5½	4½-5
May.....	4-4½	4½-5	4½-5	4½-5	4-4½
June.....	4-4½	4½-5	4½-5	4½-5	4-4½
July.....	4-4½	4-4½	4-5	4-5	4-5
August.....	4-4½	4-5	4½-5	4½-5	3½-4½
September.....	3-4½	4-5	4-5	4-5	3-4½
October.....	3-4½	4-5	4-5	4-5	3½-4½
November.....	3-4	4½-5	4-5	4-5	3-4½
December.....	3-4	4½-5	4-5	4-5	3-4½
1933					
January.....	3-4	4-5	4-5	4-5	3-4
February.....	3-4	4-4¾	4-5	4-5	3-4
March.....	4½-5	4½-5	4½-5½	4½-5½	4½-5
April.....	3½-4½	4-5	4-5	4-5	3½-4
May.....	3½-4	4½-5	4-5	4-5	3½-4
June.....	3-4	4-5	4-5	4-5	3-4½
July.....	3-3½	4-5	4-5	4-5	3-4½
August.....	3-3½	3½-4	4-5	4-5	3-4½
September.....	2½-3½	3½-4	4-5	4-5	2½-3½
October.....	2½-3½	3½-4	4-5	4-5	2½-3½
November.....	2-3½	3½-4½	4-4½	4-4½	2-3½
December.....	1½-3½	3½-4½	4-4½	4-4½	2½-4
1934					
January.....	2-3½	3½-5	4-5	4-4½	2½-4
February.....	1½-3½	3-4½	4-5	3½-5	2½-4
March.....	1½-3½	3-4½	3-4½	3½-5	2½-4
April.....	1½-3½	3-4½	3-4½	3½-5	2-4
May.....	1½-3½	3-4½	3-4½	3½-5	1½-4
June.....	1½-3	3-4	3-4	3½-5	1½-4
July.....	1½-3	3-4	3-4	3½-5	2-4
August.....	1½-3	3-4	3-4	3½-5	1½-4
September.....	1½-3	3-4	3-4	3½-5	1½-3
October.....	1½-3	3-4	3-4	3½-5	1½-3
November.....	1½-3	3-4	3-4	3-4½	1½-3
December.....	1½-3	2½-3½	3-5	3½-5	1½-3½

See note to table 57.

Bank figures.—See Annual Report for 1933 (table 37).

DOMESTIC MONEY RATES

No. 57.—RATES CHARGED CUSTOMERS BY BANKS IN PRINCIPAL CITIES, 1922-34

[Weighted averages of prevailing rates]

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
New York City:													
January.....	5.50	4.93	5.21	4.16	4.64	4.65	4.55	5.74	5.64	4.24	4.71	4.12	5.58
February.....	5.48	4.91	5.07	4.43	4.68	4.66	4.44	5.73	5.35	4.31	4.72	4.11	5.43
March.....	5.43	4.98	5.06	4.58	4.62	4.66	4.39	5.81	5.22	4.20	4.72	4.08	5.31
April.....	5.46	5.23	4.98	4.46	4.63	4.53	4.72	5.35	4.91	4.17	4.69	4.23	5.39
May.....	5.06	5.27	4.89	4.36	4.65	4.63	4.67	5.88	4.74	4.11	4.55	4.24	5.42
June.....	4.93	5.21	4.64	4.26	4.58	4.60	5.09	5.93	4.59	4.13	4.61	4.10	5.30
July.....	4.16	5.29	4.21	4.46	4.38	4.69	5.28	5.88	4.45	4.05	4.42	3.95	5.30
August.....	4.06	5.19	4.09	4.35	4.32	4.41	5.58	5.05	4.41	3.97	4.45	3.97	5.33
September.....	4.70	5.35	4.30	4.57	4.81	4.44	5.63	6.06	4.29	3.99	4.30	3.79	5.26
October.....	4.74	5.37	4.41	4.62	4.85	4.49	5.63	5.08	4.26	4.27	4.35	3.76	5.26
November.....	4.82	5.39	4.13	4.61	4.79	4.58	5.56	5.96	4.17	4.67	4.12	3.62	5.22
December.....	4.98	5.21	4.29	4.70	4.79	4.50	5.68	5.74	4.16	4.64	4.22	3.48	5.18
Eight other north- eastern cities:													
January.....	6.08	5.34	5.33	4.80	5.14	4.98	4.78	5.87	5.88	4.61	5.07	4.99	4.65
February.....	5.89	5.38	5.38	4.79	5.11	4.98	4.76	5.89	5.66	4.68	5.13	4.94	4.49
March.....	5.77	5.53	5.37	4.89	5.18	4.88	4.51	5.91	5.47	4.62	5.14	5.39	4.52
April.....	5.45	5.49	5.31	4.92	5.17	4.90	4.91	6.00	5.22	4.57	5.10	5.09	4.52
May.....	5.43	5.54	5.26	4.95	5.07	4.95	5.04	6.09	5.18	4.55	5.14	4.99	4.39
June.....	5.43	5.45	5.12	4.95	4.87	4.93	5.36	6.02	5.06	4.49	5.13	4.97	4.89
July.....	5.31	5.47	5.50	4.90	4.92	4.90	5.67	6.09	4.31	4.48	5.06	4.32	4.16
August.....	5.27	5.64	4.89	4.98	4.91	4.87	5.69	6.11	4.79	4.47	5.12	4.68	4.12
September.....	5.12	5.59	4.37	5.04	5.08	4.77	5.80	6.24	4.74	4.48	5.03	4.65	4.11
October.....	5.39	5.67	4.37	5.16	5.15	4.79	5.89	6.26	4.76	4.62	4.96	4.51	4.13
November.....	5.38	5.51	4.30	5.20	5.07	4.82	5.83	6.12	4.68	4.37	4.88	4.44	4.08
December.....	5.44	5.48	4.87	5.17	5.09	4.76	5.91	6.94	4.68	4.91	4.88	4.69	3.98
Twenty-seven southern and western cities:													
January.....	6.56	5.90	6.02	5.37	5.56	5.72	6.33	5.94	6.12	5.60	5.61	5.60	5.40
February.....	6.46	5.91	5.91	5.55	5.55	5.71	5.53	5.96	6.05	5.48	5.51	5.56	5.39
March.....	6.36	5.83	5.89	5.51	5.62	5.85	5.64	6.04	6.03	5.49	5.64	5.64	5.49
April.....	6.23	5.94	5.99	5.61	5.66	5.87	5.54	6.07	5.99	5.36	5.63	5.58	5.34
May.....	6.22	5.93	5.79	5.68	5.61	5.59	5.66	6.10	6.75	5.39	5.64	5.66	5.28
June.....	6.13	5.91	5.69	5.39	5.55	5.54	5.67	6.16	6.69	5.24	5.62	5.62	5.19
July.....	6.04	5.96	5.68	5.59	5.54	5.62	5.77	6.17	6.63	5.20	5.63	5.54	5.07
August.....	6.02	5.98	5.67	5.69	5.55	5.53	5.80	6.22	6.68	5.28	5.68	5.63	5.05
September.....	5.94	5.94	5.55	5.38	5.60	5.51	5.82	6.27	6.55	5.22	5.63	5.55	5.04
October.....	5.89	5.95	5.47	5.33	5.66	5.56	5.57	6.29	6.54	5.39	5.63	5.80	5.05
November.....	5.94	5.99	5.53	5.55	5.97	5.56	5.90	6.29	6.50	5.33	5.55	5.42	4.93
December.....	5.90	5.99	5.53	5.61	5.68	5.60	5.61	6.20	6.43	5.66	5.60	5.43	4.92

NOTE.—Figures relate to rates charged by reporting banks to their own customers (see table 56) as distinguished from open-market rates, which are given in tables 54 and 55. All averages are based on rates reported for 3 types of customer loans—commercial loans, and demand and time loans on securities. The method of computing the averages takes into account (a) the relative importance of each of these 3 types of loans and (b) the relative importance of each reporting bank, as measured by total loans. In the 2 group averages the average rate for each city included is weighted according to the importance of that city in the group, as measured by the loans of all banks.

Best figures.—See Annual Report for 1931 (table 42).

138 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

MONEY RATES IN FOREIGN COUNTRIES

No. 58.—DISCOUNT RATES OF FOREIGN CENTRAL BANKS, 1933-34

Date effective	Central bank of—							
	England	France	Germany	Italy	Japan	Netherlands	Sweden	Switzerland
In effect Jan. 1, 1933.....	2	2½	4	5	4.88	2½	2½	2
1933—Jan. 9.....				4		2½		
May 12.....						2½		
June 1.....						4½		
June 20.....					2.68			
July 3.....						4		
July 15.....						2½		
July 29.....						3		
Aug. 15.....								
Sept. 4.....				2½				
Sept. 19.....						2½		
Dec. 1.....							2½	
Dec. 11.....				3				
1934—Feb. 9.....		2						
June 1.....		2½						
Nov. 26.....				4				
In effect Dec. 31, 1934.....	2	2½	4	4	2.68	2½	2½	3

Back figures.—See Annual Report for 1933 (table 64).

No. 59.—OPEN-MARKET RATES IN FOREIGN COUNTRIES, 1933-34

Month	England (London)	France (Paris)	Germany (Berlin)	Italy (Milan)	Japan (Tokyo)	Netherlands (Amsterdam)	Switzerland (Zurich)
	Bankers' acceptances, 3 months	Private discount rate	Private discount rate	Private discount rate	Discounted bills	Private discount rate	Private discount rate
1933							
January.....	0.87	1.12	2.87	4.42	£.48-£.84	0.37	1.80
February.....	.83	1.50	2.87	4.26	£.48-£.84	.37	1.80
March.....	.82	2.04	2.87	4.20	£.48-£.84	.64	1.80
April.....	.59	1.87	2.87	4.09	£.48-£.84	.66	1.80
May.....	.59	1.76	2.87	4.00	£.11-£.48	2.11	1.80
June.....	.50	1.50	2.87	4.00	£.11-£.48	2.12	1.50
July.....	.48	1.20	2.87	4.00	£.11-£.48	2.54	1.50
August.....	.41	1.45	2.87	4.00	£.11-£.48	1.11	1.80
September.....	.44	1.12	2.87	3.45	£.11-£.48	.77	1.80
October.....	.70	1.25	2.87	3.50	£.11-£.48	.60	1.50
November.....	1.05	1.85	2.87	3.50	£.11-£.48	.45	1.50
December.....	1.06	2.26	2.87	3.00	£.11-£.48	.52	1.80
1934							
January.....	1.01	2.12	2.87	3.00	£.20	.50	1.80
February.....	.96	2.50	2.87	3.00	£.20	.78	1.80
March.....	.88	2.75	2.87	3.00	£.20	1.24	1.80
April.....	.66	2.70	2.87	3.00	£.20	2.07	1.80
May.....	.91	2.00	2.87	3.00	£.20	1.23	1.80
June.....	.91	2.00	2.76	3.00	£.20	.78	1.80
July.....	.87	1.75	2.75	3.00	£.11	.74	1.80
August.....	.79	1.75	2.75	3.00	£.11	.70	1.80
September.....	.73	1.80	2.81	3.00	£.11	.61	1.60
October.....	.77	1.45	2.81	3.00	£.11	.39	1.50
November.....	.45	1.44	2.83	3.19	£.11	.63	1.50
December.....	.87	1.80	2.80	4.00	£.11	.60	1.80

Note.—For explanation of table, see Federal Reserve Bulletin for November 1934, pp. 764-766; April 1937, p. 292; July 1926, p. 803; November 1926, p. 726; and May 1930, p. 318.

Back figures.—See Annual Report for 1933 (table 65).

**MEMBER AND NONMEMBER
BANK CREDIT**

ALL BANKS IN THE UNITED STATES

No. 60.—ALL BANKS¹ IN THE UNITED STATES—NUMBER OF BANKS, AND DEPOSITS OTHER THAN INTERBANK DEPOSITS, 1914-34

Date ²	Number of banks						Deposits, other than interbank deposits (in millions of dollars)					
	Total, all banks	Member banks			Nonmember banks		Total, all banks	Member banks			Nonmember banks	
		Total	National	State	Mutual savings	Other		Total	National	State	Mutual savings	Other
1914—June 30..	26, 274	7, 614			18, 660	18, 560	5, 374			3, 016	8, 276	
1915—June 30..	26, 926	7, 614			18, 312	18, 352	5, 678			3, 961	8, 402	
1916—June 30..	27, 041	7, 935			19, 106	18, 804	22, 769	8, 395	8, 159	235	4, 188	
1917—June 30..	27, 495	7, 652			19, 843	19, 211	26, 352	10, 301	9, 742	559	4, 222	
1918—June 30..	28, 334	8, 212			20, 122	19, 486	28, 765	15, 671	11, 214	4, 467	4, 222	
1919—June 30..	28, 000	8, 821			19, 179	18, 140	33, 663	19, 170	12, 951	6, 219	4, 761	
1920—June 30..	29, 829	9, 598			20, 231	19, 800	37, 271	21, 915	14, 316	7, 500	5, 187	
1921—June 30..	30, 580	9, 745			20, 835	20, 181	35, 742	20, 637	12, 991	7, 646	5, 676	
1922—June 30..	30, 158	9, 892			20, 266	19, 636	37, 610	22, 397	13, 821	8, 576	5, 790	
1923—June 30..	29, 553	9, 856			19, 697	19, 949	40, 688	23, 871	14, 490	9, 380	6, 290	
1923—Dec. 31..	29, 505	9, 774			19, 731	19, 101	42, 183	24, 996	15, 281	9, 764	6, 455	
1924—Dec. 31..	28, 806	9, 587			19, 219	18, 599	45, 533	27, 536	16, 094	11, 141	6, 898	
1925—Dec. 31..	28, 257	9, 489			18, 768	18, 447	49, 224	30, 029	18, 066	11, 964	7, 293	
1926—Dec. 31..	27, 367	9, 200			18, 167	17, 489	50, 155	30, 474	18, 022	12, 453	7, 763	
1927—Dec. 31..	26, 416	9, 034			17, 382	16, 794	52, 909	32, 063	18, 622	12, 401	8, 344	
1928—Dec. 31..	25, 576	8, 837			16, 739	15, 128	56, 768	34, 826	21, 407	13, 419	8, 849	
1929—Dec. 31..	24, 656	8, 622			16, 034	15, 039	55, 280	33, 958	20, 208	12, 575	8, 910	
1930—Dec. 31..	23, 799	8, 052			15, 747	14, 114	53, 039	32, 660	20, 138	12, 422	9, 507	
1931—Dec. 31..	19, 966	7, 246			12, 720	12, 123	45, 821	27, 432	17, 271	10, 101	10, 105	
1932—Dec. 31..	18, 390	6, 816			11, 574	10, 980	41, 643	24, 808	16, 101	8, 701	10, 022	
1933—June 30..	14, 519	5, 606			8, 913	8, 337	37, 996	23, 328	14, 772	8, 506	9, 713	
Dec. 30..	15, 011	6, 011			8, 999	8, 421	38, 605	23, 771	15, 386	8, 385	9, 708	
1934—June 30..	15, 838	6, 378			9, 460	8, 882	41, 870	26, 618	17, 007	9, 518	9, 780	
Dec. 31..	16, 442	6, 442			9, 999	9, 021	44, 771	28, 943	18, 519	10, 424	9, 828	

¹ Comprise all national banks in the continental United States and all State commercial banks, trust companies, mutual and stock savings banks, and such private and industrial banks as are included in abstracts issued by State banking departments. Also includes beginning with June 1934, private banks which, pursuant to the provisions of sec. 21(a) of the Banking Act of 1933, have agreed to examination by the Comptroller of the Currency or a Federal Reserve bank; for comparative figures of private banks included in this compilation, see p. 127 of the Federal Reserve Bulletin for February 1935.

² Date of reports of member banks; figures for nonmember banks are as of nearest available date.

³ Figures for this date, which preceded establishment of the Federal Reserve System, relate to national banks and banks other than national, respectively, rather than to member and nonmember banks.

⁴ Beginning June 30, 1933, all figures (other than for mutual savings banks) relate to licensed banks only, with some exceptions as to nonmember banks.

⁵ Prior to Dec. 30, 1933, member bank figures include interbank deposits not subject to immediate withdrawal, which aggregated \$103,000,000 on that date.

⁶ In connection with the increase over preceding date, see footnote 1.

⁷ Revised.

NOTE.—Figures for all banks for June 1914 to June 1922, inclusive, are based on data contained in annual reports of the Comptroller of the Currency.

Back figures.—See Annual Report for 1933 (tables 66 and 70) for intermediate dates.

No. 61.—ALL BANKS IN THE UNITED STATES—LOANS AND INVESTMENTS OF MEMBER AND NONMEMBER BANKS, 1914-34

(In millions of dollars)

Date	Loans and investments					Loans					Investments										
	Total— all banks	Member banks			Nonmember banks		Total— all banks	Member banks			Nonmember banks		Total— all banks	Member banks			Nonmember banks				
		Total	National	State	Mutual savings	Other		Total	National	State	Mutual savings	Other		Total	National	State	Mutual savings	Other			
1914—June 30	20,788	8,313	8,888	76	3,979	8,496	15,257	4,040	8,592	15,686	6,720	6,663	87	2,124	6,689	5,332	2,044	1,870	1,856	1,807	
1915—June 30	21,466	8,794	8,888	76	4,040	8,592	15,686	4,221	10,090	17,972	7,954	7,767	197	2,221	7,786	6,614	2,351	2,319	82	1,909	2,203
1916—June 30	24,586	10,315	10,386	230	4,500	11,383	20,526	4,500	11,383	20,526	9,870	8,936	434	2,308	8,785	7,764	6,084	2,982	123	2,132	2,647
1917—June 30	28,286	12,453	11,897	558	4,489	8,817	22,404	4,828	9,502	24,723	15,418	10,903	4,510	2,386	8,974	11,847	6,274	4,509	2,018	2,452	1,901
1918—June 30	31,813	18,507	13,913	4,694	4,489	8,817	22,404	4,828	9,502	24,723	15,418	10,903	4,510	2,386	8,974	11,847	6,274	4,509	2,018	2,452	1,901
1919—June 30	26,570	15,712	15,547	8,012	4,489	8,817	22,404	4,828	9,502	24,723	15,418	10,903	4,510	2,386	8,974	11,847	6,274	4,509	2,018	2,452	1,901
1920—June 30	41,694	25,559	17,547	8,012	4,489	8,817	22,404	4,828	9,502	24,723	15,418	10,903	4,510	2,386	8,974	11,847	6,274	4,509	2,018	2,452	1,901
1921—June 30	40,001	24,121	15,895	8,228	4,489	8,817	22,404	4,828	9,502	24,723	15,418	10,903	4,510	2,386	8,974	11,847	6,274	4,509	2,018	2,452	1,901
1922—June 30	39,956	24,182	15,705	8,477	4,489	8,817	22,404	4,828	9,502	24,723	15,418	10,903	4,510	2,386	8,974	11,847	6,274	4,509	2,018	2,452	1,901
1923—June 30	48,737	26,507	16,895	9,708	4,489	8,817	22,404	4,828	9,502	24,723	15,418	10,903	4,510	2,386	8,974	11,847	6,274	4,509	2,018	2,452	1,901
1923—Dec. 31	44,063	26,487	16,807	9,680	4,743	10,773	30,797	7,228	11,211	32,458	19,933	12,214	7,719	3,971	8,554	14,724	8,818	5,628	3,187	3,256	2,655
1924—Dec. 31	47,182	28,745	17,940	10,806	7,591	12,039	35,658	7,591	12,039	35,658	21,990	18,419	8,577	4,393	9,269	14,945	8,888	5,734	3,154	3,298	2,769
1925—Dec. 31	50,603	30,384	19,153	11,731	8,204	12,178	36,777	8,860	12,944	38,426	22,652	18,482	9,170	4,821	9,304	15,246	8,990	6,780	3,204	3,363	2,873
1926—Dec. 31	52,024	31,642	19,267	12,374	8,860	12,944	38,426	8,860	12,944	38,426	22,652	18,482	9,170	4,821	9,304	15,246	8,990	6,780	3,204	3,363	2,873
1927—Dec. 31	55,450	34,247	21,535	12,712	9,390	13,162	40,782	9,390	13,162	40,782	25,155	19,285	9,570	5,094	9,533	17,024	10,851	6,994	3,466	3,587	3,077
1928—Dec. 31	58,266	35,684	22,407	13,277	9,468	13,020	41,918	9,468	13,020	41,918	26,150	19,338	11,014	5,245	9,823	16,499	9,784	6,448	3,395	3,518	3,107
1929—Dec. 31	58,417	35,934	21,584	14,350	9,468	13,020	41,918	9,468	13,020	41,918	26,150	19,338	11,014	5,245	9,823	16,499	9,784	6,448	3,395	3,518	3,107
1930—Dec. 31	56,209	34,800	21,423	13,434	9,587	11,302	38,135	9,587	11,302	38,135	23,870	14,847	9,524	6,068	8,198	18,074	10,989	7,079	3,910	3,920	3,105
1931—Dec. 31	49,794	30,375	19,094	11,482	10,488	8,641	31,305	10,261	11,905	32,566	16,204	11,905	7,856	6,218	5,827	18,890	11,314	7,180	4,126	4,270	2,814
1932—Dec. 31	44,945	27,459	17,399	10,071	10,132	7,284	26,603	16,204	11,905	32,566	16,204	11,905	7,856	6,079	4,780	18,888	12,265	7,571	4,065	4,103	2,514
1933—June 30	40,076	24,786	15,460	9,328	10,044	5,246	22,203	12,858	8,102	4,766	5,941	8,404	17,872	11,028	7,858	4,570	4,103	1,841	1,841	1,841	1,841
Dec. 30	40,319	25,220	15,941	9,278	9,985	5,114	21,977	12,833	8,086	4,747	5,906	8,238	18,842	12,380	7,855	4,079	4,079	1,841	1,841	1,841	1,841
1934—June 30	42,502	17,011	10,163	9,004	9,423	5,278	21,278	12,523	7,681	4,842	5,648	8,108	21,224	14,652	9,331	5,321	4,256	4,256	2,315	2,315	2,315
Dec. 31	43,458	28,150	17,910	10,240	9,782	5,520	20,474	12,028	7,475	4,553	5,491	2,955	22,084	16,122	10,436	5,087	4,201	2,571	2,571	2,571	2,571

(For footnotes see table 60, p. 140.)

ALL BANKS IN THE UNITED STATES

ALL MEMBER BANKS

No. 62.—ALL LICENSED MEMBER BANKS—CONDITION ON DEC. 31, 1934, BY CLASSES OF BANKS

(Amounts in thousands of dollars)

	All member banks	All national member banks	All State member banks	Central reserve city member banks		Reserve city member banks	Country member banks
				New York	Chicago		
ASSETS							
Loans (including overdrafts).....	12,028,103	7,475,377	4,552,726	3,158,700	532,432	4,312,211	4,024,760
U. S. Government direct obligations.....	9,905,692	6,250,822	3,654,870	3,246,203	742,509	3,808,860	2,108,120
Securities fully guaranteed by U. S. Government.....	989,208	696,728	292,480	277,977	77,550	278,786	354,895
Other securities.....	5,227,276	3,487,405	1,739,870	1,078,124	228,820	1,627,761	2,292,570
Total loans and investments.....	28,149,278	17,919,332	10,239,946	7,781,994	1,581,811	10,027,518	8,780,245
Customers' liability on account of acceptances.....	241,951	135,857	106,264	187,189	10,920	41,073	2,789
Banking house, furniture, and fixtures.....	1,001,087	652,000	349,087	249,688	25,695	331,223	394,681
Other real estate owned.....	313,556	161,891	161,665	26,090	3,757	130,729	182,380
Reserve with Federal Reserve banks.....	4,081,565	2,525,448	1,556,117	1,576,317	414,919	1,268,130	822,199
Cash in vault.....	608,602	453,749	164,853	86,305	40,264	206,683	275,350
Due from member banks.....	2,950,105	2,260,186	669,920	100,612	168,422	1,445,714	1,205,357
Due from nonmember banks.....	55,729	66,938	18,791	2,410	7,236	42,576	53,507
Balances with domestic banks, not subject to immediate withdrawal.....	113,139	92,660	20,579	41	1,000	64,842	87,256
Balances with banks in foreign countries (excluding own branches).....	184,515	85,993	98,522	121,727	8,816	49,043	4,929
Due from own foreign branches.....	62,536	34,352	68,184	83,894	.....	8,642	.....
Items with Federal Reserve banks in process of collection.....	690,967	385,201	205,786	167,167	36,015	262,574	135,231
Exchanges for clearing house and other checks on local banks.....	1,283,067	634,563	668,504	907,026	49,198	222,464	64,379
Outside checks and other cash items.....	79,253	57,517	21,736	4,571	4,463	52,355	17,864
Redemption fund and due from U. S. Treasurer.....	33,356	33,356	.....	.....	150	12,246	30,532
Acceptances of other banks and bills sold with endorsement.....	1,761	750	1,011	1,235	.....	339	187
Securities borrowed.....	1,896	1,529	367	.....	.....	362	1,694
Other assets.....	313,208	168,261	144,927	106,817	43,789	95,362	67,240
Total assets.....	40,077,191	28,880,932	14,496,259	11,373,401	2,425,855	14,251,915	12,026,020
LIABILITIES							
Demand deposits.....	16,774,164	10,393,761	6,380,403	5,699,355	1,255,030	5,823,859	4,395,920
Time deposits.....	9,907,928	6,996,314	2,911,614	658,603	382,105	4,002,919	4,864,301
United States deposits.....	1,635,516	854,935	750,581	791,698	45,831	620,182	177,805
Due to Federal Reserve banks (deferred credits).....	48,204	34,006	14,198	.....	.....	7,004	41,200
Due to other banks in United States.....	4,546,038	2,883,555	1,662,483	1,797,455	444,894	1,963,773	339,916

Due to banks in foreign countries (excluding own branches).....	146,504	73,804	72,700	125,787	2,337	16,727	1,653
Certified and officers' checks outstanding.....	732,018	365,503	417,115	535,539	22,838	159,379	64,563
Cash letters of credit and travelers' checks outstanding.....	7,433	5,272	2,161	3,948	601	2,713	171
Total deposits.....	33,848,465	21,687,150	12,311,255	9,812,695	3,163,636	12,296,556	9,985,538
Secured by pledge of loans and/or investments.....	3,094,711	2,443,433	1,251,278	1,010,605	144,155	1,611,410	928,641
Not secured by pledge of loans and/or investments.....	30,163,694	19,193,717	10,959,977	8,502,180	2,009,481	10,685,146	8,956,887
National bank notes outstanding.....	650,955	650,955		9,438	8,000	224,738	413,781
Agreements to repurchase securities sold.....	6,321	2,341	8,980	1,042		3,541	1,738
Bills payable with Federal Reserve banks.....	6,291	3,777	2,614			185	6,106
Rediscounts with Federal Reserve banks.....	598	383	215				598
Bills payable—all other.....	5,830	3,565	2,265				5,830
Rediscounts—all other.....	68		68				68
Acceptances of other banks and bills sold with endorsement.....	1,791	780	1,011	1,235			339
Acceptances executed for customers.....	263,791	158,913	114,878	199,010	11,045	41,363	2,383
Acceptances executed by other banks for reporting banks.....	8,976	4,717	4,259	5,977		2,544	445
Securities borrowed.....	1,896	1,629	367				302
Interest, taxes, and other expenses accrued and unpaid.....	63,378	28,911	24,467	15,246	7,702	24,882	15,548
Dividends declared but not yet payable and amounts set aside for undeclared dividends and for accrued interest on capital notes and debentures.....	40,312	22,642	17,670	19,848	1,438	13,010	6,018
Other liabilities.....	134,114	81,187	82,927	44,571	29,639	30,638	36,265
Capital notes and debentures.....	120,465		120,465	25,700	250	61,675	42,840
Capital stock (see par value below).....	2,543,621	1,782,746	760,375	646,280	147,250	813,035	943,056
Surplus.....	1,681,556	838,056	825,600	670,761	37,695	497,329	455,981
Undivided profits—net.....	391,513	261,456	130,057	101,872	11,285	137,820	140,630
Reserves for contingencies.....	334,718	141,534	163,184	126,038	29,707	115,158	65,815
Retirement fund for preferred stock and capital notes and debentures.....	2,522	2,520	202	10		804	1,708
Total liabilities (including capital account).....	40,077,191	25,580,932	14,496,259	11,973,401	2,425,855	14,261,915	12,026,020
Par value of capital stock:							
First preferred.....	530,628	464,714	65,914	100,300	76,160	164,321	199,857
Second preferred.....	22,946	17,178	5,768			7,800	15,446
Common.....	1,994,130	1,302,699	691,531	539,980	71,100	661,312	751,788
Total.....	2,547,704	1,784,491	763,113	640,280	147,250	813,133	947,041
Number of banks.....	6,442	5,462	980	88	18	328	6,058

Back figures.—See Annual Report for 1933 (tables 71 and 72).

ALL MEMBER BANKS

133

No. 63.—ALL LICENSED MEMBER BANKS—CLASSIFICATION OF LOANS, INVESTMENTS, AND DEPOSITS ON DEC. 31, 1934, BY CLASSES OF BANKS

[Amounts in thousands of dollars]

	All member banks	All national member banks	All State member banks	Central reserve city member banks		Reserve city member banks	Country member banks
				New York	Chicago		
Loans—Total	12,028,103	7,475,377	4,552,728	2,158,700	532,453	4,312,211	4,024,760
Acceptances of other banks payable in United States.....	256,041	88,517	167,524	209,319	29,024	12,524	4,674
Bills, acceptances, etc., payable in foreign countries.....	31,404	16,188	15,216	16,624	4,537	9,007	2,236
Commercial paper bought in open market.....	232,441	163,915	98,536	6,040	26,957	107,564	91,874
Loans to banks:							
On securities.....	54,762	35,401	19,391	28,128	9,707	14,820	2,107
All other.....	100,735	70,993	59,742	35,214	857	89,753	24,581
Loans on securities exclusive of loans to banks—Total.....	4,139,633	2,361,331	1,778,302	1,636,452	225,002	1,317,857	1,000,322
To brokers and dealers in New York.....	843,368	319,441	523,927	602,154	26,240	104,544	50,430
To brokers and dealers elsewhere.....	186,705	108,816	77,889	54,005	28,659	69,789	14,252
To others.....	3,109,560	1,933,074	1,176,486	820,293	170,103	1,123,524	995,640
Real estate loans:							
On farm land.....	261,795	218,267	43,528	451	777	102,116	158,451
On other real estate.....	2,011,565	1,078,451	933,114	138,636	17,152	988,324	867,453
Reporting banks' own acceptances.....	231,824	106,577	125,247	164,159	16,017	49,233	2,415
All other loans (including overdrafts).....	4,707,903	3,335,737	1,372,166	1,024,171	202,402	1,670,983	1,810,347
Loans eligible for rediscount with Federal Reserve banks.....	2,144,381	1,439,598	704,783	642,633	93,490	680,458	727,800
Loans secured by U. S. Government obligations.....	168,065	111,786	56,209	99,005	11,650	31,789	25,632
U. S. Government direct obligations—Total	9,905,622	6,250,622	3,654,870	3,246,203	742,500	2,608,860	2,108,126
Bonds.....	4,657,385	3,342,541	1,314,844	824,354	278,912	2,021,774	1,532,348
Treasury notes.....	4,218,348	2,459,320	1,750,028	1,604,347	259,231	1,691,705	553,065
Treasury bills.....	1,029,959	448,961	580,998	757,502	164,366	95,381	12,710
Obligations guaranteed by U. S. Government as to interest and principal—Total	969,208	698,728	292,480	277,977	77,550	278,766	244,895
Reconstruction Finance Corporation.....	241,389	185,953	65,436	146,515	75,760	8,793	10,331
Federal Farm Mortgage Corporation.....	242,100	163,569	68,531	43,683	235	75,965	122,187
Home Owners' Loan Corporation.....	505,719	327,206	178,513	87,779	1,555	194,008	222,377

Other Securities—Total.....	5, 227, 275	5, 487, 405	1, 739, 870	1, 078, 124	228, 820	1, 027, 761	2, 292, 570
Obligations of:							
States, counties, municipalities, etc.....	1, 047, 635	1, 327, 187	620, 448	445, 852	120, 369	642, 526	729, 854
Public utilities.....	714, 803	508, 568	206, 235	82, 943	23, 061	108, 020	440, 779
Railroads.....	792, 983	574, 200	218, 783	155, 201	14, 913	104, 414	428, 455
Home Owners' Loan Corporation guaranteed by U. S. Government as to interest only.....	111, 148	71, 063	99, 185	26, 162	58	43, 780	41, 148
Federal land banks.....	136, 015	110, 422	25, 693	6, 962	313	46, 035	52, 713
Intermediate credit banks.....	117, 289	75, 047	42, 242	45, 140	978	58, 059	12, 106
Joint-stock land banks.....	18, 889	15, 836	3, 053	162	103	6, 883	9, 251
Territorial and insular possessions.....	17, 101	14, 284	2, 837	20	72	6, 011	10, 998
Real estate corporations.....	74, 739	39, 557	38, 182	12, 356	3, 752	34, 204	24, 427
Other domestic corporations.....	535, 085	372, 308	192, 782	72, 492	28, 934	170, 466	263, 223
Stock of:							
Federal Reserve banks.....	146, 553	89, 862	56, 691	47, 280	5, 975	45, 668	47, 630
Real estate corporations.....	55, 508	34, 643	20, 865	1, 635	4, 329	28, 977	29, 537
Banks and banking corporations.....	67, 068	26, 032	41, 036	23, 375	597	29, 114	13, 982
Other domestic corporations.....	245, 194	77, 594	170, 670	87, 580	6, 086	89, 843	64, 085
Foreign securities:							
Central governments.....	127, 769	70, 896	56, 963	49, 710	5, 570	30, 438	42, 051
Provincial, State, and municipal governments.....	42, 582	32, 252	10, 330	1, 981	681	10, 317	29, 703
Other foreign securities.....	73, 914	49, 939	23, 075	19, 277	3, 505	20, 500	30, 620
Demand deposits—Total.....	16, 774, 164	16, 393, 761	6, 389, 498	5, 599, 355	1, 255, 930	5, 523, 659	4, 395, 920
Individual deposits subject to check.....	14, 367, 403	8, 731, 733	5, 035, 670	5, 038, 492	1, 049, 450	4, 774, 449	3, 505, 042
Certificates of deposit.....	128, 739	82, 423	46, 313	32, 045	7, 790	39, 497	49, 407
State, county, and municipal deposits.....	1, 799, 435	1, 393, 747	405, 688	228, 683	181, 555	585, 054	804, 132
Banks in United States.....	22, 220	18, 907	4, 319	728	11	20, 053	2, 434
Banks in foreign countries.....	334	332	2	334			
All other.....	455, 027	166, 516	288, 411	269, 103	16, 223	104, 706	34, 906
Net demand deposits subject to reserve.....	15, 850, 646	11, 533, 563	7, 317, 083	6, 932, 976	1, 448, 044	6, 042, 047	4, 429, 979
Time deposits—Total.....	9, 907, 828	8, 996, 314	2, 911, 614	658, 698	832, 105	4, 002, 919	4, 864, 391
States, counties, and municipalities.....	294, 452	245, 358	49, 094	4, 439	74	205, 557	84, 382
Banks in United States.....	133, 552	101, 006	32, 643	793	161	116, 718	15, 970
Banks in foreign countries.....	7, 494	6, 686	828	6, 624		665	5
Other time deposits:							
Evidenced by savings pass books.....	7, 599, 028	5, 379, 874	2, 219, 154	291, 889	330, 005	3, 038, 167	3, 938, 967
Certificates of deposit.....	881, 978	654, 300	227, 678	94, 396	16, 971	210, 294	560, 317
Christmas savings, etc.....	19, 347	10, 997	5, 760	503	2, 301	5, 885	10, 558
Open accounts.....	520, 089	245, 456	271, 633	204, 069	32, 073	239, 453	44, 494
Postal savings.....	451, 988	350, 054	191, 934	55, 780	520	189, 180	209, 568

For figures for other call dates see tables 65 and 66 and the Member Bank Call Report for individual call dates.

ALL MEMBER BANKS

No. 64.—ALL MEMBER BANKS—PRINCIPAL ASSETS AND LIABILITIES ON CALL DATES, 1920-34

(In millions of dollars)

Call date	Loans and Investments 1					Re- serve with Fed- eral Re- serve banks	Cash in vault	Due from banks in United States 2	Deposits 1						Net demand deposits subject to re- serve	Net demand plus time deposits	Bills pay- able and redis- counts	Capit- al funds 4	Number of banks
	Total	Loans	Investments						Total	De- mand	Time	U. S. Gov- ern- ment	Due to banks (ex- cept F. R. banks) in United States 3	Other de- posits					
			Total	U. S. Gov- ern- ment direct obliga- tions	Other securi- ties														
1920—May 4 (Tues.).....	25,418	19,198	6,220	2,958	3,262	1,866	621	1,874	24,871	14,833	5,747	190	3,524	577	16,426	22,173	2,755	3,833	9,291
June 30 (Wed.).....	25,540	19,533	6,026	2,811	3,215	1,839	622	1,824	25,401	15,067	5,911	200	3,461	702	16,422	22,333	2,701	3,853	9,399
Nov. 15 (Mon.).....	25,739	19,852	5,917	2,655	3,262	1,827	611	1,774	25,106	14,779	6,144	220	3,202	761	15,924	22,068	3,060	4,066	9,567
Dec. 29 (Wed.).....	25,531	19,556	5,976	2,619	3,367	1,763	678	1,577	24,220	14,020	6,188	316	3,062	633	15,345	21,533	3,036	4,120	9,606
1921—Apr. 28 (Thurs.).....	24,390	18,487	5,903	2,496	3,407	1,654	564	1,325	22,830	13,074	6,343	273	2,665	475	14,389	20,732	2,913	4,156	9,668
June 30 (Thurs.).....	24,121	18,119	6,002	2,561	3,441	1,625	630	1,350	23,350	13,292	6,367	390	2,688	614	14,321	20,688	2,022	4,133	9,745
Dec. 31 (Sat.).....	23,482	17,394	6,068	2,681	3,507	1,758	478	1,484	23,247	13,176	6,451	306	2,835	480	14,449	20,900	1,364	4,063	9,779
1922—Mar. 10 (Fri.).....	23,278	17,080	6,198	2,701	3,497	1,723	469	1,614	23,660	12,950	6,662	330	3,142	577	14,468	21,160	758	4,185	9,816
June 30 (Fri.).....	24,153	17,153	7,017	3,205	3,812	1,835	465	1,647	25,847	14,252	7,175	156	3,124	840	15,539	22,714	592	4,214	9,892
Dec. 29 (Fri.).....	24,879	17,930	7,649	3,754	3,896	1,939	563	1,806	27,288	14,816	7,645	462	3,453	912	16,263	23,848	737	4,364	9,856
1923—Apr. 3 (Tues.).....	26,141	18,419	7,722	3,849	3,873	1,909	518	1,774	27,200	14,526	8,143	404	3,474	653	16,066	24,229	815	4,356	9,850
June 30 (Sat.).....	26,507	18,750	7,787	3,825	3,922	1,871	429	1,596	27,068	14,063	8,378	297	3,184	536	16,066	24,444	944	4,367	9,856
Sept. 14 (Fri.).....	26,319	18,719	7,600	3,683	3,915	1,869	623	1,640	26,942	14,566	8,486	145	3,165	600	16,919	24,365	983	4,436	9,843
Dec. 31 (Mon.).....	26,487	18,843	7,645	3,903	4,042	1,900	561	1,624	26,907	15,164	8,651	237	3,476	680	16,376	25,027	808	4,378	9,774
1924—Mar. 31 (Mon.).....	26,093	19,045	7,618	3,534	4,064	1,893	494	1,644	26,270	14,719	8,890	392	3,447	923	16,112	25,002	614	4,468	9,681
June 30 (Sat.).....	27,167	19,204	7,963	3,575	4,387	1,965	504	1,940	26,568	15,309	9,204	179	3,820	1,054	16,538	25,042	443	4,466	9,650
Oct. 10 (Fri.).....	26,311	19,713	8,509	3,866	4,733	2,121	528	2,430	30,795	15,730	9,597	302	4,453	713	17,804	27,401	325	4,594	9,535
Dec. 31 (Wed.).....	26,746	19,933	8,813	3,874	4,939	2,228	597	2,339	32,384	16,084	9,806	242	4,604	1,148	18,468	28,273	408	4,632	9,587
1925—Apr. 6 (Mon.).....	29,046	20,176	8,880	3,804	4,976	2,092	533	2,091	31,249	15,850	10,127	412	4,041	819	17,708	27,835	486	4,669	9,531
June 30 (Tues.).....	29,518	20,633	8,863	3,780	5,082	2,191	524	2,017	32,457	16,812	10,381	177	3,978	1,110	18,277	28,658	559	4,690	9,538
Sept. 28 (Mon.).....	30,176	21,265	8,890	3,761	5,129	2,147	525	2,031	32,075	16,617	10,467	278	3,828	884	18,259	28,726	712	4,688	9,539
Dec. 31 (Thurs.).....	30,894	21,996	8,888	3,728	5,160	2,238	675	2,154	32,250	17,826	10,653	304	4,169	1,299	19,260	29,913	733	4,678	9,489
1926—Apr. 12 (Mon.).....	30,819	21,785	9,034	3,805	5,229	2,136	540	1,934	32,693	16,823	10,955	379	3,602	935	18,392	29,347	620	4,826	9,412
June 30 (Wed.).....	31,184	22,060	9,123	3,745	5,378	2,235	534	1,960	33,702	17,380	11,173	228	3,935	1,046	18,604	29,977	612	4,832	9,375
Dec. 31 (Fri.).....	31,642	22,652	8,990	3,389	5,601	2,210	523	2,066	34,528	17,639	12,440	234	4,003	1,213	18,922	30,362	760	4,944	9,260

1927—Mar. 23 (Wed.)	31,949	22,327	9,622	3,635	5,787	2,321	538	1,896	33,750	16,831	11,818	407	3,388	1,307	18,542	30,860	546	5,086	9,144
June 30 (Thurs.)	32,756	26,938	9,818	3,796	6,022	2,280	538	1,968	33,393	17,785	12,310	218	3,508	1,725	19,250	31,460	841	5,147	9,009
Oct. 10 (Mon.)	33,186	23,227	9,959	3,856	6,103	2,330	539	2,077	35,476	17,374	12,459	433	3,567	1,640	19,170	31,639	826	5,295	9,067
Dec. 31 (Sat.)	34,247	23,886	10,361	3,978	6,388	2,514	538	2,210	36,607	18,170	12,766	267	3,606	1,647	20,105	32,870	663	5,341	9,084
1928—Feb. 26 (Tues.)	33,688	23,099	10,590	4,216	6,374	2,367	526	1,941	35,367	17,395	12,923	86	3,490	1,537	19,236	32,188	581	5,404	9,988
June 30 (Sat.)	35,051	24,303	10,758	4,225	6,534	2,342	449	1,897	36,030	17,607	13,439	267	3,263	1,486	19,191	32,629	1,209	5,625	9,929
Oct. 3 (Wed.)	34,920	24,325	10,904	4,385	6,218	2,348	519	1,926	36,146	17,501	13,410	159	3,462	1,518	18,995	32,405	1,154	5,842	9,899
Dec. 31 (Mon.)	35,684	26,155	10,529	4,312	6,317	2,409	694	2,124	39,067	18,904	13,453	262	3,649	1,799	19,944	33,897	1,162	5,899	9,887
1929—Mar. 27 (Wed.)	35,393	24,945	10,448	4,454	6,994	2,339	517	1,741	36,774	17,706	13,329	411	3,070	2,266	18,833	32,162	1,153	6,174	8,755
June 30 (Sat.)	36,711	25,638	10,052	4,155	6,898	2,359	433	1,885	35,896	17,816	13,326	348	3,092	1,267	18,977	32,302	1,198	6,345	8,707
Oct. 4 (Fri.)	35,914	26,165	9,749	4,022	6,727	2,322	497	2,005	35,644	17,937	13,318	315	3,183	1,921	18,952	32,269	1,180	6,675	8,616
Dec. 31 (Tues.)	36,934	26,180	9,784	3,863	6,921	2,374	558	2,168	37,961	18,632	13,283	148	3,517	2,228	19,797	33,030	879	6,709	8,522
1930—Mar. 27 (Thurs.)	35,066	25,119	9,937	4,085	6,852	2,353	497	1,902	35,784	17,079	13,519	325	3,204	1,637	18,489	32,007	847	6,780	8,406
June 30 (Mon.)	35,656	25,214	10,442	4,061	6,380	2,408	484	2,360	35,096	18,062	13,812	281	3,832	2,083	19,170	32,982	435	6,726	8,315
Sept. 24 (Wed.)	35,477	24,738	10,734	4,095	6,439	2,415	470	2,463	36,245	16,838	13,945	257	3,817	1,387	18,657	32,602	316	6,827	8,246
Dec. 31 (Wed.)	34,860	23,670	10,989	4,125	6,564	2,476	598	2,456	37,029	17,502	13,646	267	3,678	1,841	18,909	32,516	355	6,593	8,202
1931—Mar. 25 (Wed.)	34,729	22,840	11,889	5,002	6,886	2,364	461	2,791	35,902	16,339	13,653	502	4,236	1,161	18,481	32,144	281	6,598	7,928
June 30 (Tues.)	33,923	21,816	12,106	5,343	6,763	2,396	519	2,517	36,128	16,522	13,615	395	4,004	1,599	18,357	31,872	217	6,450	7,782
Sept. 29 (Tues.)	33,073	20,874	12,199	5,564	6,635	2,339	554	1,836	33,396	15,596	12,776	826	3,222	1,345	17,445	30,222	466	6,359	7,599
Dec. 31 (Thurs.)	30,575	19,261	11,814	6,319	6,996	1,976	528	1,862	30,711	14,955	11,816	412	2,832	1,196	16,067	27,383	839	5,999	7,246
1932—June 30 (Thurs.)	28,001	16,587	11,414	5,628	5,786	1,968	478	1,731	27,838	13,204	10,636	387	2,870	789	14,482	25,118	815	5,661	6,980
Sept. 30 (Fri.)	28,045	16,924	12,120	6,395	5,755	2,255	467	2,049	28,417	13,081	10,602	738	3,269	727	14,626	25,228	697	5,571	6,904
Dec. 31 (Sat.)	37,490	16,204	12,265	6,540	5,726	2,511	423	2,416	28,690	13,393	10,500	475	3,606	905	15,193	26,743	547	5,409	6,816
1933—June 30 (Fri.)	24,786	12,838	11,928	6,887	5,041	2,235	405	2,008	25,563	12,938	9,961	806	3,047	802	14,156	23,137	191	4,837	5,806
Oct. 25 (Wed.)	24,953	12,068	11,894	6,801	5,063	2,651	447	1,848	26,584	12,994	9,114	918	2,976	582	14,389	23,568	188	4,906	5,616
Dec. 30 (Sat.)	26,220	12,833	12,386	7,254	5,132	2,678	471	1,969	27,167	13,400	9,126	967	3,125	507	14,821	23,946	143	4,992	6,011
1934—Mar. 5 (Mon.)	26,548	12,706	13,842	6,667	5,175	3,148	486	2,308	29,280	13,692	9,416	1,790	3,660	721	15,582	24,699	91	5,006	6,205
June 30 (Sat.)	37,175	12,623	14,652	9,136	5,515	3,819	473	2,666	31,012	14,963	9,811	1,658	4,064	526	17,067	26,878	35	5,165	6,375
Oct. 17 (Wed.)	37,559	12,293	15,267	9,166	6,061	3,676	550	2,823	32,285	16,149	9,821	1,143	4,447	725	18,406	26,230	24	5,120	6,433
Dec. 31 (Mon.)	38,160	12,028	16,123	9,906	6,216	4,083	609	3,036	33,548	16,774	9,908	1,636	4,545	985	18,851	28,759	13	5,054	6,442

¹ For further classification of loans and investments and of deposits, see tables 65 and 66.

² Excludes items with Federal Reserve banks in process of collection, exchanges for clearing house and other checks on local banks, and balances not subject to immediate withdrawal.

³ Prior to Mar. 23, 1927, includes "Due to banks in foreign countries."

⁴ Aggregate book value of capital stock, capital notes and debentures, surplus, undivided profits, reserves for contingencies, reserves for stock dividends on common stock and retirement fund for preferred stock and/or capital notes and debentures. Also includes reserves for dividends prior to July 1932, and reserves for interest, taxes, and other expenses accrued and unpaid prior to Sept. 28, 1925.

⁵ Beginning June 1933, figures relate to licensed banks only.

Back figures.—See Annual Report for 1933 (table 75).

No. 65.—ALL MEMBER BANKS—CLASSIFICATION OF DEMAND AND TIME DEPOSITS ON SELECTED CALL DATES, 1928-34

(In millions of dollars)

Call date	Demand deposits						Time deposits								United States Government deposits	Due to Federal Reserve banks (deferred credits)	Due to other banks in United States	Due to banks in foreign countries	Certified officers, and travelers' checks and cash letters of credit	
	Total	Individual deposits subject to check	Certificates of deposit	States, counties, and municipalities			All other	Total	States, counties, and municipalities	Other time deposits										
				In United States	In foreign countries					In United States	In foreign countries	Evidenced by savings pass-books	Certificates of deposit	Open accounts						All other, including Christmas savings
Total—All member banks:																				
1928—Dec. 31...	18,904	16,907	235	1,900	()	()	872	13,433	418	134	8,810	1,995	1,071	134	262	57	3,640	635	2,207	
1929—Dec. 31...	18,862	16,830	202	1,335	()	()	859	13,233	595	95	9,592	1,741	934	122	143	54	3,517	844	1,627	
1930—Dec. 31...	17,602	16,500	192	1,362	()	()	860	13,546	509	107	238	9,591	1,685	1,027	180	287	49	3,873	945	1,245
1931—Dec. 31...	14,953	13,151	196	1,303	()	()	338	11,318	388	63	26	8,134	1,472	771	463	412	48	2,832	398	749
1932—June 30...	13,204	11,491	138	1,314	()	()	261	10,636	337	70	7	7,491	1,350	772	610	387	38	2,870	172	528
Sept. 30...	13,081	11,697	118	1,034	()	()	259	10,602	342	70	3	7,258	1,351	801	695	738	32	3,269	213	482
1933—June 30...	13,393	11,833	146	1,119	2	1	273	10,550	343	87	1	7,359	1,322	799	706	788	34	3,047	148	523
Oct. 26...	12,994	11,607	127	1,106	15	1	261	9,981	300	80	1	6,127	1,038	645	611	781	37	2,974	117	428
Dec. 30...	13,442	11,677	133	1,320	14	1	269	9,114	279	87	0	6,261	969	611	781	618	37	2,125	139	339
1934—Mar. 5...	13,442	11,677	133	1,320	14	1	269	9,125	301	83	7	6,429	900	563	778	967	39	3,660	172	509
June 30...	14,969	13,896	122	1,666	16	1	247	9,416	305	92	7	6,747	860	661	765	1,790	30	4,034	164	330
Oct. 17...	16,149	13,961	130	1,680	19	1	401	9,811	323	122	8	7,198	931	690	80	1,658	60	4,447	136	830
Dec. 31...	16,774	14,387	120	1,799	23	1	357	9,821	294	135	4	7,353	934	569	472	1,143	60	4,447	136	830
New York City:																				
1928—Dec. 31...	5,621	5,341	22	183	()	()	226	1,268	10	57		588	77	518	19	52	1,213	470	1,765	
1929—Dec. 31...	5,976	5,574	24	136	()	()	240	1,336	83	40	133	617	77	417	18	20	1,196	464	1,180	
1930—Dec. 31...	5,692	5,198	22	110	()	()	264	1,206	13	37	182	482	96	477	38	37	1,349	463	865	
1931—Dec. 31...	4,984	4,390	31	180	()	()	182	830	11	2	21	320	86	325	64	167	968	333	480	
1932—June 30...	4,408	4,119	27	117	()	()	141	801	16	3	4	369	97	310	68	118	1,163	146	359	
Sept. 30...	4,417	4,201	19	87	()	()	130	806	30	4	4	368	137	341	76	306	1,346	187	360	
Dec. 31...	4,633	4,335	44	98	()	()	161	937	7	6	1	815	146	382	80	173	1,562	216	177	
1933—June 30...	4,770	4,474	28	95	3	1	164	806	4	28	1	280	133	250	7	110	1,252	177	481	
Oct. 25...	4,585	4,328	43	71	1	1	142	802	10	1	5	282	121	272	4	106	379	1,219	100	299
Dec. 30...	4,636	4,376	36	141	1	1	152	748	14	1	6	278	97	244	1	107	422	1,200	112	167
1934—Mar. 5...	4,833	4,349	43	108	1	1	139	794	13	1	7	264	83	231	2	108	643	1,402	163	368
June 30...	5,061	4,610	32	157	1	1	242	738	12	1	7	295	106	246	69	802	1,691	136	184	
Oct. 17...	4,304	4,839	36	201	1	1	212	701	8	1	8	280	112	216	6	114	1,680	114	360	
Dec. 31...	5,069	4,088	32	229	1	1	309	659	4	11	7	292	94	204	1	68	792	1,797	129	646

Chicago:†																				
1928-Dec. 31	1,127	1,056	8	53	()	()	9	558	31	21	276	74	154	2	2	6	328	9	89	
1929-Dec. 31	1,083	1,033	3	42	()	()	4	419	58	19	7	156	64	122	8	8	310	26	82	
1930-Dec. 31	1,090	1,021	3	69	()	()	8	510	73	18	23	184	73	134	5	26	365	25	94	
1931-Dec. 31	897	852	2	41	()	()	1	389	11	10	1	185	41	123	17	16	274	82	16	
1932-June 30	734	682	1	70	()	()	1	350	9	13	2	133	49	101	42	21	235	8	12	
Sept. 30	767	727	1	38	()	()	2	325	4	13	2	136	40	102	30	18	255	8	10	
Dec. 31	810	769	1	62	()	()	2	319	2	12	1	148	42	105	11	18	279	4	12	
1933-June 30	957	830	2	87	()	()	18	365	1	1	1	205	34	82	7	6	259	2	16	
Oct. 25	1,005	907	0	86	()	()	7	383	1	1	1	274	41	81	2	5	268	2	13	
Dec. 30	1,034	893	0	122	()	()	12	359	1	1	1	280	36	27	3	6	270	2	16	
1934-Mar. 5	968	852	6	133	()	()	7	368	1	1	1	297	53	82	3	4	335	2	16	
June 30	1,118	923	6	174	()	()	16	363	1	1	1	301	21	85	3	1	291	2	15	
Oct. 17	1,252	1,065	10	165	()	()	16	358	1	1	1	318	18	19	3	1	434	2	20	
Dec. 31	1,255	1,049	8	182	()	()	17	382	1	1	1	330	17	82	2	1	445	2	23	
Reserve city banks:																				
1928-Dec. 31	6,480	47	430	()	()	78	4,832	280	37	8,707	466	802	60	153	13	1,681	54	277		
1929-Dec. 31	5,970	5,423	41	422	()	()	53	4,888	371	80	14	8,724	411	299	41	76	1,604	50	290	
1930-Dec. 31	5,594	5,054	48	422	()	()	71	5,292	395	42	32	8,907	546	321	59	152	1,773	50	243	
1931-Dec. 31	4,779	4,276	41	590	()	()	71	4,456	300	44	4	8,283	429	234	202	169	1,575	81	170	
1932-June 30	4,279	3,785	30	393	()	()	71	4,223	224	47	3	8,048	377	258	298	188	1,270	22	103	
Sept. 30	4,271	3,869	23	316	()	()	62	4,230	208	47	1	8,971	392	283	320	304	1,394	22	77	
Dec. 31	4,281	3,833	29	349	()	()	70	4,217	230	62	1	9,092	385	241	338	211	1,503	21	133	
1933-June 30	4,062	3,607	28	349	()	()	73	3,597	208	59	1	8,450	395	207	19	388	812	7	1,311	
Oct. 25	4,189	3,709	36	379	()	()	62	3,614	171	74	1	8,470	333	263	26	877	375	7	1,268	
Dec. 30	4,367	3,788	45	435	()	()	78	3,853	203	72	1	8,527	211	267	6	308	393	7	1,404	
1934-Mar. 5	4,449	3,846	34	480	()	()	78	3,792	205	80	1	8,548	210	258	14	345	666	7	1,641	
June 30	4,900	4,229	37	628	()	()	96	3,944	234	105	1	8,845	239	261	21	259	635	6	1,772	
Oct. 17	5,327	4,652	38	626	()	()	94	3,948	198	117	1	8,915	229	265	26	106	427	10	1,979	
Dec. 31	5,534	4,774	39	685	()	()	105	4,003	206	117	1	8,938	210	239	0	189	620	7	1,964	
Country banks:																				
1928-Dec. 31	6,121	5,219	157	684	()	()	66	6,794	116	10	5,240	1,278	98	54	80	44	427	2	127	
1929-Dec. 31	5,833	4,960	133	742	()	()	52	6,590	132	6	5,095	1,199	95	61	89	44	405	3	125	
1930-Dec. 31	5,220	4,290	119	762	()	()	48	6,538	128	11	5,047	1,170	95	88	63	40	387	2	112	
1931-Dec. 31	4,296	3,432	91	692	()	()	80	5,641	106	7	4,346	916	88	179	61	39	295	2	83	
1932-June 30	3,786	3,926	79	734	()	()	47	5,262	94	7	4,001	826	103	231	60	80	257	1	62	
Sept. 30	3,626	2,900	71	613	()	()	41	5,157	110	7	3,842	912	126	260	96	26	244	2	43	
Dec. 31	3,605	2,875	74	615	()	()	30	5,076	104	7	3,835	779	72	279	72	29	235	1	61	
1933-June 30	3,133	2,488	51	555	()	()	37	4,211	86	7	3,132	805	38	59	284	116	27	225	1	45
Oct. 25	3,214	2,602	42	579	()	()	28	4,345	87	12	3,226	593	45	79	293	114	81	228	1	37
Dec. 30	3,417	2,720	47	621	()	()	26	4,395	83	10	3,337	556	45	35	300	111	32	251	1	54
1934-Mar. 5	3,712	2,924	51	702	()	()	32	4,562	87	11	3,518	554	41	51	301	181	32	281	1	42
June 30	3,884	3,065	47	731	()	()	38	4,745	87	16	3,729	565	47	47	256	174	34	300	1	51
Oct. 17	4,261	3,388	46	787	()	()	38	4,814	87	17	3,830	575	49	46	210	125	30	345	1	48
Dec. 31	4,365	3,505	49	804	()	()	35	4,864	84	18	3,939	560	44	11	210	178	41	340	2	55

ALL MEMBER BANKS

† Included in due to banks in United States and due to banks in foreign countries, respectively.

‡ Beginning with June 1933 the figures relate to licensed banks only.

§ Includes deposits the payment of which has been deferred beyond the time originally contemplated, either by agreement with depositors or otherwise: June 30, 1933, \$33,000,000; Oct. 25, 1933, \$36,000,000; Dec. 30, 1933, \$27,000,000; Mar. 5, 1934, \$34,000,000; June 30, 1934, \$14,000,000.

¶ Central reserve city banks only.

Back figures.—See Annual Report for 1933 (tables 77 and 78)†

NO. 66.—CLASSIFICATION OF MEMBER BANK LOANS AND INVESTMENTS ON SELECTED CALL DATES, 1928-34

(In millions of dollars)

Call date	Total loans and investments	Loans to banks			Loans to customers (exclusive of banks)						Open-market loans				Investments				Total loans on stocks and bonds	
		Total	Secured by stocks and bonds	All other	Total	Secured by stocks and bonds		Secured by real estate		Reporting banks' own acceptances	Other-wise secured and unsecured	Purchased paper			Total	U. S. Government direct obligations	Obligations fully guaranteed by U. S. Government	Other securities		
						To brokers outside New York City ¹	To other customers	Farm land	Other real estate			Acceptances payable in United States ²	Acceptances, etc., payable abroad	Commercial paper						Loans to brokers in New York ³
Total—All member banks:																				
1928—Dec. 31.	35,694	538	(0)	(0)	21,460	978	6,373	419	2,711	(0)	10,991	3,158	109	108	390	2,556	10,599	4,511	6,217	10,172
1929—Dec. 31.	35,634	714	(0)	(0)	23,194	808	7,085	388	2,803	(0)	11,815	2,243	213	80	291	1,650	9,784	5,863	5,821	10,906
1930—Dec. 31.	34,860	631	816	816	21,007	676	7,266	387	2,847	(0)	9,831	2,233	215	55	366	1,498	10,080	4,125	6,854	9,754
1931—Dec. 31.	30,575	790	455	334	17,570	391	5,599	359	2,678	116	8,126	901	146	41	140	675	11,314	5,319	5,096	7,330
1932—June 30.	28,091	873	345	228	15,297	293	4,000	363	2,531	189	6,692	747	213	34	123	278	11,414	4,623	4,786	5,018
Sept. 30.	28,045	457	270	187	14,498	238	4,328	368	2,517	168	5,399	970	407	34	115	414	12,121	6,366	5,755	5,770
Dec. 31.	27,499	444	242	202	13,905	241	4,008	358	2,506	228	5,970	855	376	30	93	357	12,296	6,540	5,728	4,447
1933—June 30 ⁴	24,784	330	179	150	11,337	155	3,752	308	2,054	192	4,857	1,191	251	25	57	738	11,394	4,801	5,041	4,894
Oct. 25.	24,953	297	186	143	11,523	178	3,631	311	2,082	257	5,062	1,238	303	24	164	748	11,894	4,801	5,063	4,718
Dec. 30.	24,220	287	158	120	11,315	165	3,808	318	2,041	213	4,973	1,231	223	37	133	840	12,386	5,123	5,175	4,096
1934—Mar. 5.	26,548	225	107	119	11,093	164	3,490	298	2,054	250	4,817	1,287	350	36	157	858	13,842	5,667	5,616	4,651
June 30.	27,175	163	83	100	10,904	208	3,309	289	2,068	210	4,721	1,566	264	30	200	1,082	14,652	6,137	709	5,372
Oct. 17.	27,559	149	82	98	10,783	167	3,188	296	2,039	229	4,932	1,361	276	30	233	802	15,267	6,186	5,227	4,178
Dec. 31.	28,160	154	65	101	10,630	187	3,110	303	2,043	233	4,708	1,368	256	31	232	843	14,122	6,006	5,227	4,194
New York City ⁵ :																				
1928—Dec. 31.	7,951	288	(0)	(0)	4,940	80	1,688	—	132	(0)	2,100	1,791	61	61	39	1,630	1,933	1,094	830	2,491
1929—Dec. 31.	7,774	322	(0)	(0)	4,954	58	2,145	—	169	(0)	2,895	1,396	128	46	21	1,202	2,021	1,112	979	3,522
1930—Dec. 31.	8,063	293	139	151	4,336	104	2,033	—	147	(0)	2,064	1,625	188	22	34	1,261	2,435	1,239	1,197	3,650
1931—Dec. 31.	7,450	374	204	170	3,694	87	1,641	—	153	77	1,755	993	107	17	29	542	2,607	1,768	928	2,474
1932—June 30.	6,715	260	135	106	2,856	66	1,379	—	136	138	1,216	864	262	21	23	259	3,033	2,008	1,025	1,787
Sept. 30.	7,112	203	120	83	2,632	63	1,257	—	154	90	1,064	754	341	18	14	391	3,508	2,420	1,073	1,811
Dec. 31.	7,337	218	115	101	2,630	61	1,196	—	150	149	1,066	701	330	15	19	337	3,759	2,993	1,158	1,987
1933—June 30 ⁶	7,133	162	86	77	2,297	38	1,044	—	157	189	937	664	234	10	10	720	3,759	2,520	1,181	1,788
Oct. 25.	6,971	143	73	70	2,434	47	969	—	149	179	1,075	891	233	8	27	624	3,601	2,320	1,170	1,824
Dec. 30.	6,995	146	84	63	2,295	45	989	—	147	130	1,094	912	170	17	19	706	3,432	2,362	1,194	1,794
1934—Mar. 5.	7,351	112	52	60	2,331	47	935	—	156	171	1,090	986	376	8	14	637	3,932	2,663	1,213	1,840
June 30.	7,668	88	30	47	2,320	58	923	—	165	144	995	1,131	235	10	13	693	4,265	2,633	1,100	1,531
Oct. 17.	7,543	85	34	43	2,294	50	826	—	160	139	1,106	853	252	12	8	631	4,300	2,554	257	1,100
Dec. 31.	7,761	69	36	35	2,202	64	820	—	159	164	1,026	894	210	16	6	623	4,602	2,266	278	1,078

152 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 67.—ALL MEMBER BANKS—DEPOSITS SUBJECT TO RESERVE, RESERVES REQUIRED, RESERVES HELD, AND BORROWINGS AT FEDERAL RESERVE BANKS, BY MONTHS, 1934

[Averages of daily figures. In millions of dollars]

Class of bank and month	Deposits subject to reserve			Reserves required	Reserves held		Borrowings at Federal Reserve banks
	Net demand ¹	Time ²	Total		Total	Excess	
All member banks:							
January	15,021	9,227	24,248	1,875	2,740	866	84.6
February	15,341	9,333	24,674	1,908	2,799	891	84.2
March	15,351	9,437	24,788	1,970	3,345	1,375	41.2
April	16,457	9,552	26,009	2,041	3,582	1,541	20.6
May	16,720	9,643	26,363	2,071	3,695	1,624	23.9
June	16,988	9,711	26,698	2,105	3,790	1,685	22.1
July	17,276	9,796	27,073	2,159	3,928	1,769	15.1
August	17,490	9,819	27,310	2,181	4,045	1,864	16.3
September	17,806	9,809	27,615	2,192	3,947	1,754	18.0
October	18,208	9,826	28,034	2,234	3,964	1,731	10.7
November	18,524	9,840	28,364	2,286	4,100	1,816	10.2
December	18,769	9,769	28,538	2,290	4,037	1,748	9.7
New York City:³							
January	5,599	749	6,348	750	897	147	.1
February	5,624	746	6,370	754	872	118	.1
March	5,943	728	6,671	794	1,227	432	.1
April	6,286	736	7,022	835	1,290	455	.....
May	6,283	719	7,001	838	1,323	485	.....01
June	6,433	735	7,168	858	1,391	532	.....01
July	6,500	736	7,236	867	1,368	529	.....02
August	6,684	719	7,403	871	1,569	698	.....1.9
September	6,601	709	7,310	878	1,440	562	.....1.4
October	6,704	705	7,409	893	1,461	568	.....0.7
November	6,780	685	7,465	902	1,506	604	......74
December	6,866	647	7,512	912	1,468	556	.....
Chicago:³							
January	1,121	350	1,471	156	328	171	.....
February	1,170	349	1,519	163	335	173	.....
March	1,172	358	1,530	163	342	179	.....1
April	1,193	346	1,539	165	372	207	.....2
May	1,281	356	1,637	177	395	217	.....
June	1,310	349	1,659	182	419	237	.....
July	1,370	357	1,727	189	490	306	.....
August	1,407	357	1,764	194	501	308	.....
September	1,441	363	1,804	198	502	304	.....
October	1,467	361	1,828	202	457	255	.....
November	1,485	370	1,855	204	484	280	.....
December	1,495	366	1,861	205	445	239	.....
Reserve city banks:							
January	4,773	3,693	8,466	588	893	305	10.5
February	4,878	3,727	8,605	600	936	336	4.3
March	5,000	3,774	8,774	613	1,080	467	3.4
April	5,161	3,839	9,000	634	1,164	530	1.1
May	5,260	3,890	9,150	643	1,204	561	.9
June	5,326	3,936	9,262	651	1,213	563	.7
July	5,437	3,962	9,399	663	1,229	566	.5
August	5,534	3,982	9,516	673	1,217	544	.1
September	5,662	3,969	9,632	685	1,190	505	.2
October	5,802	3,957	9,759	699	1,210	511	.2
November	5,932	3,957	9,889	721	1,262	540	1.2
December	6,032	3,935	9,968	712	1,282	561	1.0
Country banks:							
January	3,528	4,435	7,963	380	622	242	74.1
February	3,638	4,512	8,150	392	656	263	49.8
March	3,736	4,578	8,314	399	696	297	37.5
April	3,817	4,632	8,449	406	756	350	23.3
May	3,896	4,679	8,575	413	773	360	23.0
June	3,909	4,691	8,601	414	767	353	21.4
July	3,969	4,741	8,710	420	810	390	17.6
August	4,016	4,761	8,777	424	817	393	15.8
September	4,111	4,767	8,878	431	814	383	16.3
October	4,235	4,802	9,038	441	837	396	9.8
November	4,326	4,829	9,154	448	849	401	9.0
December	4,376	4,821	9,197	451	843	392	8.7

¹ Subject to reserve requirements of 13 percent for central reserve city banks, 10 percent for reserve city banks, and 7 percent for banks outside central reserve and reserve cities (so-called "country" banks).

² Subject to reserve requirements of 3 percent.

³ Central reserve city banks only. Less than \$50,000.

Back figures.—See Annual Report for 1933 (table 73).

ALL MEMBER BANKS

No. 68.—ALL MEMBER BANKS—NET DEMAND AND TIME DEPOSITS, BY MONTHS, 1934

[Averages of daily figures. In millions of dollars]

Month (1934)	Boston district			New York district			Philadelphia district			Cleveland district		
	Net demand plus time deposits	Net demand deposits	Time deposits	Net demand plus time deposits	Net demand deposits	Time deposits	Net demand plus time deposits	Net demand deposits	Time deposits	Net demand plus time deposits	Net demand deposits	Time deposits
January	1,761	1,055	707	8,546	6,435	2,111	1,832	887	945	1,988	939	1,049
February	1,768	1,049	719	8,507	6,499	2,108	1,869	912	956	2,019	976	1,042
March	1,795	1,067	728	8,912	6,514	2,098	1,911	943	968	2,061	1,000	1,061
April	1,850	1,112	738	9,270	7,146	2,124	1,946	958	988	2,118	1,041	1,077
May	1,877	1,139	738	9,301	7,185	2,116	1,996	970	997	2,170	1,075	1,095
June	1,879	1,144	735	9,469	7,329	2,139	1,978	962	985	2,196	1,066	1,101
July	1,919	1,182	736	9,552	7,399	2,153	2,003	1,002	1,001	2,238	1,120	1,118
August	1,920	1,180	739	9,590	7,446	2,145	2,000	991	1,009	2,261	1,139	1,123
September	1,931	1,195	736	9,660	7,518	2,142	2,011	1,004	1,008	2,263	1,142	1,121
October	1,965	1,231	734	9,799	7,654	2,145	2,038	1,024	1,014	2,275	1,156	1,120
November	1,961	1,237	723	9,838	7,739	2,119	2,050	1,033	1,016	2,308	1,160	1,118
December	1,923	1,219	711	9,913	7,840	2,073	2,058	1,054	999	2,348	1,244	1,103
	Richmond district			Atlanta district			Chicago district			St. Louis district		
January	945	504	441	716	396	320	2,773	1,846	927	801	489	312
February	953	509	444	740	417	323	2,874	1,934	939	827	504	322
March	972	519	454	754	429	326	2,960	1,991	968	839	516	323
April	988	532	456	771	444	327	3,062	2,082	980	874	539	335
May	1,028	565	463	768	440	328	3,201	2,199	1,002	868	536	332
June	1,025	557	468	760	436	324	3,253	2,245	1,008	862	531	332
July	1,039	571	468	768	438	325	3,332	2,306	1,026	871	538	338
August	1,058	589	469	768	440	328	3,401	2,368	1,033	877	544	333
September	1,072	606	466	776	449	328	3,479	2,436	1,043	888	553	334
October	1,092	628	465	800	470	330	3,527	2,477	1,050	912	577	335
November	1,118	650	467	827	492	335	3,580	2,509	1,071	946	606	339
December	1,116	649	467	847	513	334	3,632	2,550	1,082	933	619	334
	Minneapolis district			Kansas City district			Dallas district			San Francisco district		
January	655	319	335	941	638	308	698	506	192	2,622	1,007	1,615
February	661	318	343	969	658	308	728	533	196	2,661	1,026	1,636
March	671	329	342	989	679	310	728	533	193	2,664	1,028	1,666
April	678	340	338	998	684	314	716	523	193	2,738	1,064	1,684
May	679	341	338	1,020	703	317	709	516	193	2,774	1,051	1,723
June	699	364	335	1,018	704	315	712	519	193	2,848	1,072	1,776
July	708	370	337	1,035	724	311	719	521	198	2,892	1,105	1,787
August	727	391	335	1,060	740	320	724	527	197	2,924	1,136	1,789
September	743	410	333	1,065	753	311	753	557	194	2,975	1,184	1,791
October	754	415	338	1,089	776	314	778	584	195	3,004	1,216	1,788
November	771	432	339	1,113	793	319	793	596	197	3,040	1,244	1,796
December	776	436	340	1,113	808	311	793	598	195	3,073	1,261	1,821

Back figures.—See Annual Report for 1933 (table 74).

154 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 69.—NET DEMAND AND TIME DEPOSITS OF MEMBER BANKS IN LARGER AND SMALLER CENTERS, 1933-34

[Averages of daily figures. In millions of dollars]

Month	Member banks in places with population of 15,000 and over		Member banks in places with population under 15,000		Month	Member banks in places with population of 15,000 and over		Member banks in places with population under 15,000	
	Net demand deposits	Time deposits	Net demand deposits	Time deposits		Net demand deposits	Time deposits	Net demand deposits	Time deposits
1933 ¹					1934 ¹				
January.....	13,767	8,324	1,340	2,201	January.....	13,613	7,355	1,408	1,871
February.....	13,350	8,160	1,315	2,172	February.....	13,856	7,423	1,485	1,910
March ²					March.....	14,340	7,510	1,511	1,927
April ³	11,961	6,931	1,117	1,702	April.....	14,931	7,609	1,526	1,943
May.....	12,665	6,982	1,150	1,712	May.....	15,168	7,673	1,552	1,965
June.....	13,053	7,005	1,188	1,727	June.....	15,426	7,736	1,561	1,975
July.....	12,875	7,232	1,225	1,768	July.....	15,670	7,799	1,597	1,998
August.....	12,686	7,335	1,234	1,780	August.....	15,859	7,810	1,631	2,009
September.....	12,775	7,314	1,252	1,799	September.....	16,123	7,790	1,682	2,019
October.....	12,643	7,309	1,300	1,817	October.....	16,476	7,795	1,732	2,030
November.....	13,014	7,319	1,333	1,820	November.....	16,755	7,780	1,739	2,050
December.....	13,201	7,236	1,366	1,822	December.....	16,923	7,718	1,778	2,052

¹ On basis of 1930 census of population.

² March data not available.

³ Beginning with April 1933 the figures relate to licensed banks only.

Back figures.—See Annual Report for 1933 (table 75).

ALL MEMBER BANKS

155⁴¹
No. 70.—LICENSED MEMBER BANKS IN NEW YORK CITY, CHICAGO, AND OTHER RESERVE CITIES—DEPOSITS SUBJECT TO RESERVE, RESERVES REQUIRED, RESERVES HELD, AND BORROWINGS AT FEDERAL RESERVE BANKS, BY WEEKS, 1934

(Averages of daily figures. In millions of dollars)

Week ending (Friday)	Deposits subject to Reserve			Reserves required	Reserves held		Borrowings at Federal Reserve banks
	Net demand ¹	Time ²	Total		Total	Excess	
New York City:							
1934—Jan. 5	5,574	747	6,321	747	801	144	-----
Jan. 12	5,523	746	6,269	740	878	138	0.1
Jan. 19	5,593	744	6,337	749	905	156	.1
Jan. 26	5,652	754	6,406	757	942	184	.04
Feb. 2	5,647	754	6,401	757	850	93	.1
Feb. 9	5,572	756	6,328	747	806	59	.2
Feb. 16	5,612	754	6,366	752	844	92	.1
Feb. 23	5,644	736	6,379	756	863	107	.1
Mar. 2	5,719	731	6,450	765	1,066	301	.2
Mar. 9	5,788	726	6,514	774	1,192	417	.1
Mar. 16	5,971	719	6,690	798	1,210	412	.2
Mar. 23	5,989	727	6,716	800	1,241	440	.2
Mar. 30	6,045	736	6,782	808	1,268	460	-----
Apr. 6	6,166	742	6,909	824	1,305	481	-----
Apr. 13	6,219	739	6,958	831	1,219	389	-----
Apr. 20	6,282	735	7,017	839	1,261	422	-----
Apr. 27	6,300	731	7,031	841	1,303	462	-----
May 4	6,320	729	7,050	844	1,284	441	.02
May 11	6,227	715	6,942	831	1,201	430	.08
May 18	6,255	717	6,972	835	1,317	482	-----
May 25	6,287	720	7,007	839	1,372	533	-----
June 1	6,364	719	7,083	849	1,399	550	-----
June 8	6,399	722	7,122	854	1,372	519	-----
June 15	6,510	726	7,237	868	1,396	528	.03
June 22	6,404	743	7,147	855	1,360	505	-----
June 29	6,416	750	7,166	857	1,428	572	-----
July 6	6,461	741	7,202	862	1,339	476	-----
July 13	6,443	749	7,192	860	1,342	482	-----
July 20	6,529	732	7,260	871	1,394	523	-----
July 27	6,530	729	7,259	871	1,435	534	.03
Aug. 3	6,543	728	7,271	872	1,476	604	.1
Aug. 10	6,473	726	7,199	863	1,479	616	.2
Aug. 17	6,531	722	7,253	871	1,521	661	.4
Aug. 24	6,534	713	7,247	871	1,520	650	.5
Aug. 31	6,602	709	7,311	879	1,548	669	.9
Sept. 7	6,632	707	7,339	883	1,445	561	1.5
Sept. 14	6,677	711	7,389	876	1,399	523	1.9
Sept. 21	6,632	708	7,340	874	1,437	563	1.4
Sept. 28	6,632	709	7,341	877	1,467	590	1.0
Oct. 5	6,627	712	7,339	883	1,474	591	1.4
Oct. 12	6,627	711	7,338	883	1,484	602	1.4
Oct. 19	6,718	706	7,423	894	1,449	554	.7
Oct. 26	6,759	701	7,460	900	1,439	539	-----
Nov. 2	6,806	697	7,503	900	1,467	561	.1
Nov. 9	6,756	693	7,449	899	1,430	531	.1
Nov. 16	6,725	686	7,411	895	1,478	583	-----
Nov. 23	6,784	682	7,466	902	1,563	661	-----
Nov. 30	6,840	675	7,515	909	1,565	655	-----
Dec. 7	6,850	656	7,506	910	1,469	559	-----
Dec. 14	6,922	645	7,567	919	1,457	538	-----
Dec. 21	6,872	641	7,514	913	1,421	508	-----
Dec. 28	6,822	645	7,467	906	1,482	576	-----

¹ Subject to Reserve requirements of 13 percent for central Reserve city banks and 10 percent for Reserve city banks.

² Subject to Reserve requirements of 3 percent.

³ Central Reserve city banks only.

Back figures.—See Annual Report for 1933 (table 82).

156 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 70.—LICENSED MEMBER BANKS IN NEW YORK CITY, CHICAGO, AND OTHER RESERVE CITIES—DEPOSITS SUBJECT TO RESERVE, RESERVES REQUIRED, RESERVES HELD, AND BORROWINGS AT FEDERAL RESERVE BANKS, BY WEEKS 1934—Continued

[Averages of daily figures. In millions of dollars]

Week ending (Friday)	Deposits subject to Reserve			Reserves required	Reserves held		Borrowings at Federal Reserve banks
	Net demand	Time	Total		Total	Excess	
Chicago: ¹							
1934—Jan. 5.....	1,093	353	1,446	153	340	188	.....
Jan. 12.....	1,112	349	1,461	155	321	166	.....
Jan. 19.....	1,131	349	1,480	158	326	168	.....
Jan. 26.....	1,137	350	1,487	158	333	175	.....
Feb. 2.....	1,133	346	1,479	158	323	165	.....
Feb. 9.....	1,154	340	1,493	160	343	182	.....
Feb. 16.....	1,184	340	1,524	164	357	193	.....
Feb. 23.....	1,180	352	1,532	164	352	188	.....
Mar. 2.....	1,170	372	1,542	163	320	157	.....
Mar. 9.....	1,171	373	1,544	163	329	165	.....
Mar. 16.....	1,190	365	1,555	163	338	172	.....
Mar. 23.....	1,175	352	1,528	163	353	190	.....
Mar. 30.....	1,164	339	1,503	161	341	179	0.4
Apr. 6.....	1,072	338	1,410	150	315	155	1.0
Apr. 13.....	1,175	340	1,514	163	370	207	.1
Apr. 20.....	1,233	342	1,575	171	383	222	.0
Apr. 27.....	1,250	356	1,606	173	393	219	.....
May 4.....	1,256	361	1,616	174	383	200	.....
May 11.....	1,287	361	1,628	175	383	208	.....
May 18.....	1,278	361	1,639	177	397	220	.....
May 25.....	1,288	353	1,641	179	401	223	.....
June 1.....	1,309	345	1,654	181	406	226	.....
June 8.....	1,319	343	1,662	182	404	222	.....
June 15.....	1,339	344	1,683	184	425	241	.....
June 22.....	1,310	348	1,658	181	415	234	.....
June 29.....	1,311	359	1,670	181	432	261	.....
July 6.....	1,314	362	1,675	182	447	265	.....
July 13.....	1,352	361	1,713	187	485	298	.....
July 20.....	1,374	362	1,736	190	510	320	.....
July 27.....	1,404	349	1,753	193	530	327	.....
Aug. 3.....	1,412	350	1,762	194	508	314	.....
Aug. 10.....	1,388	352	1,740	191	485	294	.....
Aug. 17.....	1,406	353	1,760	193	510	317	.....
Aug. 24.....	1,409	361	1,770	194	502	308	.....
Aug. 31.....	1,425	365	1,790	195	524	328	.....
Sept. 7.....	1,421	368	1,789	195	514	318	.....
Sept. 14.....	1,433	369	1,802	197	514	317	.....
Sept. 21.....	1,443	364	1,807	199	489	290	.....
Sept. 28.....	1,460	365	1,815	200	495	295	.....
Oct. 5.....	1,457	354	1,810	200	457	257	.....
Oct. 12.....	1,457	354	1,811	200	438	238	.....
Oct. 19.....	1,472	356	1,828	202	453	251	.....
Oct. 26.....	1,475	370	1,846	203	472	269	.....
Nov. 2.....	1,476	373	1,849	203	481	278	.....
Nov. 9.....	1,471	375	1,846	202	480	278	.....
Nov. 16.....	1,479	375	1,854	203	486	283	.....
Nov. 23.....	1,463	368	1,831	205	485	280	.....
Nov. 30.....	1,501	360	1,861	205	483	277	.....
Dec. 7.....	1,501	359	1,860	205	472	266	.....
Dec. 14.....	1,512	360	1,872	207	474	267	.....
Dec. 21.....	1,505	365	1,870	207	433	227	.....
Dec. 28.....	1,483	374	1,856	204	412	208	.....

¹ Central Reserve city banks only.

ALL MEMBER BANKS

157⁴

No. 70.—LICENSED MEMBER BANKS IN NEW YORK CITY, CHICAGO, AND OTHER RESERVE CITIES—DEPOSITS SUBJECT TO RESERVE, RESERVES REQUIRED, RESERVES HELD, AND BORROWINGS AT FEDERAL RESERVE BANKS, BY WEEKS, 1934—Continued

[Averages of daily figures. In millions of dollars]

Week ending (Friday)	Deposits subject to Reserve			Reserves required	Reserves held		Borrowings at Federal Reserve banks
	Net demand	Time	Total		Total	Excess	
Reserve city banks:							
1934—Jan. 5.....	4,709	3,651	8,360	650	859	270	10.8
Jan. 12.....	4,736	3,668	8,394	683	877	294	11.8
Jan. 19.....	4,784	3,684	8,468	689	902	313	11.1
Jan. 26.....	4,817	3,702	8,519	693	922	320	9.6
Feb. 2.....	4,816	3,714	8,529	693	909	316	6.3
Feb. 9.....	4,831	3,715	8,545	694	919	324	4.2
Feb. 16.....	4,808	3,726	8,534	693	940	338	4.5
Feb. 23.....	4,910	3,730	8,640	695	951	348	4.3
Mar. 2.....	4,919	3,743	8,662	694	933	349	4.1
Mar. 9.....	4,917	3,732	8,649	694	1,017	413	4.2
Mar. 16.....	5,067	3,764	8,831	615	1,116	501	3.6
Mar. 23.....	5,028	3,784	8,813	616	1,107	491	2.7
Mar. 30.....	5,062	3,791	8,853	620	1,105	485	2.3
Apr. 6.....	5,067	3,796	8,864	621	1,098	473	1.7
Apr. 13.....	5,151	3,802	8,953	629	1,180	551	1.2
Apr. 20.....	5,223	3,828	9,051	637	1,195	558	1.1
Apr. 27.....	5,244	3,833	9,077	640	1,184	544	.9
May 4.....	5,264	3,906	9,170	644	1,163	519	1.0
May 11.....	5,227	3,879	9,106	639	1,204	565	.9
May 18.....	5,280	3,892	9,173	645	1,212	567	.8
May 25.....	5,271	3,900	9,170	644	1,217	573	.8
June 1.....	5,270	3,899	9,178	645	1,200	555	.9
June 8.....	5,275	3,921	9,196	645	1,207	562	1.0
June 15.....	5,370	3,920	9,290	655	1,242	587	.7
June 22.....	5,335	3,946	9,281	652	1,269	557	.9
June 29.....	5,329	3,954	9,284	653	1,203	562	.6
July 6.....	5,377	3,958	9,336	655	1,198	541	2.1
July 13.....	5,411	3,955	9,366	660	1,238	579	.04
July 20.....	5,454	3,964	9,418	664	1,229	565	.004
July 27.....	5,476	3,975	9,450	667	1,250	584	.007
Aug. 3.....	5,466	3,973	9,440	666	1,205	539	.06
Aug. 10.....	5,490	3,962	9,452	668	1,200	532	.03
Aug. 17.....	5,544	3,977	9,521	674	1,232	558	.2
Aug. 24.....	5,540	3,986	9,526	674	1,227	553	.009
Aug. 31.....	5,563	3,980	9,542	675	1,216	541	.02
Sept. 7.....	5,595	3,978	9,573	679	1,188	509	.5
Sept. 14.....	5,675	3,972	9,647	687	1,208	521	.5
Sept. 21.....	5,689	3,970	9,659	688	1,196	508	.03
Sept. 28.....	5,693	3,969	9,669	688	1,176	487	.04
Oct. 5.....	5,704	3,961	9,665	689	1,164	474	.01
Oct. 12.....	5,745	3,953	9,698	693	1,213	520	.05
Oct. 19.....	5,839	3,952	9,791	702	1,210	507	.01
Oct. 26.....	5,856	3,960	9,816	704	1,226	522	.3
Nov. 2.....	5,849	3,955	9,814	704	1,220	517	.6
Nov. 9.....	5,876	3,962	9,838	706	1,256	549	1.1
Nov. 16.....	5,951	3,959	9,910	714	1,272	559	1.1
Nov. 23.....	5,930	3,957	9,908	714	1,263	549	.9
Nov. 30.....	5,973	3,947	9,920	718	1,253	537	1.0
Dec. 7.....	6,038	3,915	9,953	721	1,281	560	1.7
Dec. 14.....	6,062	3,913	9,975	724	1,304	581	1.1
Dec. 21.....	6,030	3,928	9,959	721	1,273	552	1.2
Dec. 28.....	5,995	3,942	9,937	718	1,265	547	.6

REPORTING MEMBER BANKS

No. 71.—REPORTING MEMBER BANKS (91 CITIES)¹—PRINCIPAL

[In millions of dollars]

Date or month	Total loans and investments	Loans on securities				Acceptances and commercial paper bought	Loans on real estate	Other loans	U. S. Government direct obligations
		Total	To brokers and dealers		To others				
			In New York	Outside New York					
1934									
Jan. 3.....	16,595	3,620	753	149	2,718	4,795		5,205	
Jan. 10.....	16,388	3,497	653	143	2,701	4,712		5,210	
Jan. 17.....	16,447	3,486	663	139	2,684	4,732		5,223	
Jan. 24.....	16,390	3,498	684	140	2,674	4,713		5,245	
Jan. 31.....	17,121	3,609	795	145	2,668	4,740		5,786	
Average	16,589	3,542	710	143	2,689	4,732		5,334	
Feb. 7.....	17,082	3,587	803	147	2,637	4,713		5,847	
Feb. 14.....	17,082	3,531	760	145	2,626	4,755		5,867	
Feb. 21.....	17,494	3,630	856	151	2,623	4,718		6,199	
Feb. 28.....	17,400	3,520	760	151	2,610	4,695		6,249	
Average	17,267	3,567	794	149	2,624	4,713		6,040	
Mar. 7.....	17,425	3,495	751	151	2,593	4,673		6,278	
Mar. 14.....	17,513	3,593	841	164	2,588	4,688		6,229	
Mar. 21.....	17,526	3,553	812	176	2,595	4,643		6,272	
Mar. 28.....	17,472	3,314	801	159	2,554	4,647		6,227	
Average	17,484	3,339	801	163	2,575	4,663		6,251	
Apr. 4.....	17,508	3,509	868	161	2,540	4,668		6,175	
Apr. 11.....	17,611	3,612	924	174	2,514	4,698		6,234	
Apr. 18.....	17,613	3,580	915	168	2,497	4,623		6,226	
Apr. 25.....	17,471	3,516	873	173	2,470	4,604		6,282	
Average	17,526	3,370	895	169	2,506	4,648		6,229	
May 2.....	17,462	3,577	896	174	2,507	4,559		6,265	
May 9.....	17,329	3,554	873	171	2,510	4,568		6,249	
May 16.....	17,288	3,505	867	168	2,470	4,563		6,264	
May 23.....	17,257	3,468	828	162	2,478	4,537		6,262	
May 30.....	17,306	3,476	838	160	2,478	4,550		6,262	
Average	17,328	3,516	860	167	2,489	4,555		6,256	
June 6.....	17,397	3,557	911	174	2,472	4,540		6,276	
June 13.....	17,370	3,556	933	171	2,452	4,533		6,243	
June 20.....	17,663	3,571	955	183	2,433	4,484		6,582	
June 27.....	17,737	3,529	935	180	2,414	4,485		6,665	
Average	17,542	3,553	933	177	2,443	4,511		6,442	
July 4.....	17,761	3,556	982	185	2,389	4,482		6,672	
July 11.....	17,751	3,553	980	179	2,394	4,483		6,676	
July 18.....	17,767	3,522	902	175	2,385	4,439		6,687	
July 25.....	17,728	3,493	938	170	2,385	4,445		6,671	
Average	17,749	3,531	966	177	2,388	4,455		6,676	
Aug. 1.....	17,762	3,358	812	163	2,383	4,515		6,678	
Aug. 8.....	17,677	3,304	758	162	2,384	4,523		6,636	
Aug. 16.....	17,732	3,294	750	165	2,379	4,531		6,660	
Aug. 22.....	17,725	3,271	741	164	2,365	4,543		6,631	
Aug. 29.....	17,708	3,247	722	170	2,355	4,553		6,627	
Average	17,721	3,295	757	165	2,373	4,533		6,650	
Sept. 5.....	17,755	3,210	757	176	2,277	443	988	3,248	
Sept. 12.....	17,778	3,162	741	158	2,268	446	987	3,260	
Sept. 19.....	17,756	3,095	695	149	2,251	457	985	3,262	
Sept. 26.....	17,789	3,080	686	148	2,246	457	986	3,270	
Average	17,770	3,137	720	157	2,260	451	986	3,260	
Oct. 3.....	17,811	3,047	669	148	2,230	494	984	3,299	
Oct. 10.....	17,824	3,055	672	151	2,232	464	985	3,310	
Oct. 17.....	17,854	3,082	706	149	2,227	465	985	3,315	
Oct. 24.....	17,850	3,074	708	151	2,215	465	984	3,311	
Oct. 31.....	17,837	3,051	693	153	2,205	436	986	3,314	
Average	17,835	3,062	690	150	2,222	463	985	3,309	
Nov. 7.....	17,837	3,010	664	148	2,198	463	984	3,284	
Nov. 14.....	17,759	3,008	663	151	2,204	461	982	3,265	
Nov. 21.....	17,688	2,998	664	151	2,193	466	981	3,246	
Nov. 28.....	17,704	3,017	660	155	2,202	452	979	3,257	
Average	17,762	3,008	658	151	2,190	461	982	3,262	
Dec. 5.....	17,879	3,068	724	158	2,216	445	981	3,250	
Dec. 12.....	17,912	3,069	728	162	2,209	444	979	3,217	
Dec. 19.....	18,339	3,115	753	162	2,200	444	979	3,207	
Dec. 26.....	18,276	3,072	718	165	2,189	435	977	3,169	
Average	18,192	3,096	731	162	2,203	442	979	3,211	

¹ For list of the cities see Annual Report for 1933 (table 87).

IN LEADING CITIES

ASSETS AND LIABILITIES, BY WEEKS AND MONTHS

[In millions of dollars]

Obligations fully guaranteed by U. S. Government	Other securities	Reserve with Federal Reserve bank	Cash in vault	Net demand deposits	Time deposits	U. S. Government deposits	Due from banks	Due to banks	Borrowings at Federal Reserve banks	Date or month
										1934
3,005		1,923	246	10,952	4,351	712	1,256	2,828	25	Jan. 3.
2,969		1,983	248	10,961	4,343	571	1,210	2,804	21	Jan. 10.
3,006		1,974	229	11,094	4,352	463	1,274	2,906	21	Jan. 17.
2,940		2,047	252	11,138	4,372	370	1,308	3,001	20	Jan. 24.
2,986		1,871	217	11,118	4,367	975	1,304	2,968	13	Jan. 31.
2,981		1,960	234	11,051	4,357	618	1,370	2,902	30	Average.
2,935		1,905	227	11,125	4,372	988	1,853	3,128	12	Feb. 7.
2,939		2,010	235	11,332	4,344	991	1,413	3,204	10	Feb. 14.
2,947		1,996	230	11,246	4,372	1,418	1,380	3,147	11	Feb. 21.
2,966		2,271	224	11,308	4,370	1,467	1,412	3,187	12	Feb. 28.
2,947		2,045	239	11,275	4,365	1,216	1,387	3,157	11	Average.
2,979		2,467	231	11,514	4,377	1,504	1,441	3,331	10	Mar. 7.
3,003		2,569	236	11,748	4,393	1,503	1,548	3,465	10	Mar. 14.
3,038		2,576	228	11,723	4,420	1,502	1,555	3,491	9	Mar. 21.
3,084		2,572	242	11,794	4,419	1,413	1,519	3,447	9	Mar. 28.
3,031		2,546	234	11,695	4,402	1,480	1,515	3,434	10	Average.
3,090		2,531	239	11,921	4,408	1,358	1,578	3,578	8	Apr. 4.
3,067		2,588	245	12,136	4,424	1,305	1,588	3,616	7	Apr. 11.
3,084		2,698	240	12,200	4,443	1,237	1,585	3,645	6	Apr. 18.
3,069		2,779	242	12,272	4,477	1,177	1,570	3,595	7	Apr. 25.
3,079		2,649	242	12,133	4,493	1,269	1,580	3,609	7	Average.
3,071		2,588	231	12,221	4,454	1,055	1,536	3,593	6	May 2.
2,958		2,693	244	12,208	4,470	1,029	1,664	3,675	6	May 9.
2,966		2,732	235	12,279	4,477	999	1,695	3,682	5	May 16.
2,990		2,818	249	12,327	4,464	988	1,564	3,654	6	May 30.
3,018		2,811	240	12,426	4,455	955	1,526	3,600	8	May 23.
3,001		2,729	239	12,292	4,464	1,005	1,557	3,641	6	Average.
3,024		2,808	243	12,499	4,439	955	1,580	3,733	5	June 6.
3,038		2,881	248	12,661	4,450	906	1,621	3,770	5	June 13.
3,026		2,824	236	12,375	4,492	1,354	1,674	3,623	6	June 20.
3,058		2,901	247	12,504	4,501	1,357	1,569	3,628	5	June 27.
3,036		2,853	244	12,510	4,470	1,143	1,586	3,689	5	Average.
3,051		2,783	234	12,551	4,495	1,354	1,636	3,784	10	July 4.
3,069		2,915	246	12,641	4,512	1,353	1,666	3,870	5	July 11.
3,109		2,981	235	12,697	4,510	1,353	1,685	3,883	5	July 18.
3,119		3,039	235	12,755	4,501	1,296	1,644	3,845	5	July 25.
3,087		2,930	237	12,661	4,505	1,339	1,638	3,845	6	Average.
3,211		2,953	221	12,745	4,488	1,296	1,562	3,770	5	Aug. 1.
3,214		3,048	236	12,721	4,491	1,296	1,538	3,766	5	Aug. 8.
3,247		3,046	231	12,827	4,505	1,255	1,583	3,821	5	Aug. 15.
3,260		3,064	234	12,818	4,513	1,230	1,550	3,741	5	Aug. 22.
3,279		3,132	243	12,926	4,510	1,203	1,560	3,732	5	Aug. 29.
3,243		3,049	233	12,807	4,501	1,257	1,559	3,766	5	Average.
3,346		2,924	236	12,943	4,500	1,089	1,497	3,780	6	Sept. 5.
3,350		2,939	254	13,041	4,496	1,091	1,514	3,784	6	Sept. 12.
3,326		2,891	255	12,943	4,478	1,091	1,514	3,779	7	Sept. 19.
3,365		2,989	265	13,112	4,473	1,092	1,505	3,743	6	Sept. 26.
3,347		2,936	252	13,011	4,488	1,091	1,507	3,771	6	Average.
434	2,947	2,981	256	13,083	4,471	1,094	1,515	3,830	1	Oct. 3.
433	2,919	2,977	273	13,204	4,468	1,095	1,541	3,864	-----	Oct. 10.
446	2,911	2,976	261	13,386	4,463	933	1,580	3,957	2	Oct. 17.
463	2,899	2,996	267	13,402	4,478	853	1,558	3,905	1	Oct. 24.
529	2,862	3,017	265	13,476	4,474	851	1,583	3,912	2	Oct. 31.
461	2,908	2,972	264	13,310	4,471	965	1,557	3,893	1	Average.
550	2,863	2,990	286	13,447	4,462	853	1,580	3,960	2	Nov. 7.
544	2,786	3,073	285	13,504	4,448	816	1,631	4,024	1	Nov. 14.
549	2,774	3,198	271	13,563	4,421	781	1,622	3,993	2	Nov. 21.
555	2,789	3,108	281	13,633	4,395	749	1,585	3,921	3	Nov. 28.
550	2,803	3,092	281	13,537	4,431	800	1,605	3,975	2	Average.
562	2,795	3,043	275	13,662	4,342	772	1,647	4,048	2	Dec. 5.
564	2,800	3,060	297	13,789	4,341	771	1,702	4,117	-----	Dec. 12.
566	2,852	2,953	305	13,576	4,300	1,343	1,713	4,045	1	Dec. 19.
566	2,866	2,955	322	13,551	4,366	1,344	1,680	3,986	1	Dec. 26.
565	2,828	3,002	300	13,645	4,352	1,057	1,686	4,049	1	Average.

160 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 72.—REPORTING MEMBER BANKS IN NEW YORK CITY—

[In millions of dollars]

Date or month	Total loans and investments	Loans on securities					Acceptances and commercial paper bought	Loans on real estate	Other loans	U. S. Government direct obligations
		Total	To brokers and dealers		To others					
			In New York	Outside New York						
1934										
Jan. 3	6,707	1,744	665	44	1,035		1,070		2,187	
Jan. 10	6,536	1,624	591	44	1,019		1,044		2,170	
Jan. 17	6,579	1,620	564	44	1,012		1,059		2,185	
Jan. 24	6,569	1,640	587	43	1,010		1,066		2,201	
Jan. 31	6,995	1,748	688	45	1,017		1,718		2,421	
Average	6,676	1,676	613	43	1,020		1,473		2,323	
Feb. 7	6,954	1,729	696	45	988		1,691		2,485	
Feb. 14	6,922	1,677	651	45	981		1,784		2,448	
Feb. 21	7,096	1,769	744	40	979		1,707		2,553	
Feb. 28	7,006	1,969	661	47	971		1,662		2,585	
Average	6,977	1,713	696	46	980		1,699		2,514	
Mar. 7	7,969	1,640	641	48	960		1,661		2,668	
Mar. 14	7,213	1,733	727	48	958		1,673		2,704	
Mar. 21	7,199	1,687	698	48	941		1,637		2,717	
Mar. 28	7,193	1,663	668	47	928		1,629		2,720	
Average	7,188	1,658	688	48	947		1,596		2,702	
Apr. 4	7,390	1,730	761	47	922		1,655		2,717	
Apr. 11	7,405	1,750	704	48	914		1,675		2,804	
Apr. 18	7,238	1,723	779	48	890		1,601		2,742	
Apr. 25	7,138	1,674	740	46	888		1,594		2,716	
Average	7,269	1,718	766	47	905		1,531		2,745	
May 2	7,142	1,729	756	46	927		1,561		2,699	
May 9	7,053	1,718	731	46	941		1,566		2,727	
May 16	7,022	1,663	725	46	892		1,599		2,738	
May 23	7,001	1,644	689	46	906		1,548		2,752	
May 30	7,034	1,646	698	45	903		1,556		2,760	
Average	7,050	1,680	720	46	914		1,569		2,784	
June 6	7,141	1,727	771	54	902		1,580		2,791	
June 13	7,144	1,728	787	53	888		1,552		2,802	
June 20	7,211	1,741	815	55	871		1,521		2,873	
June 27	7,265	1,711	793	54	864		1,525		2,926	
Average	7,196	1,727	792	54	861		1,487		2,948	
July 4	7,303	1,749	841	55	853		1,527		2,928	
July 11	7,288	1,752	833	55	854		1,490		2,954	
July 18	7,273	1,718	804	57	857		1,483		2,938	
July 25	7,227	1,690	783	55	852		1,494		2,918	
Average	7,278	1,727	815	56	856		1,501		2,934	
Aug. 1	7,191	1,671	667	53	851		1,529		2,903	
Aug. 8	7,108	1,620	613	53	854		1,521		2,878	
Aug. 15	7,132	1,630	615	53	852		1,514		2,866	
Aug. 22	7,105	1,603	602	55	846		1,516		2,883	
Aug. 29	7,098	1,485	581	60	844		1,531		2,896	
Average	7,130	1,620	615	55	850		1,522		2,882	
Sept. 5	7,156	1,605	621	54	830	241	1,577	1,224	2,827	
Sept. 12	7,150	1,479	605	47	827	241	1,338	1,225	2,816	
Sept. 19	7,085	1,419	558	47	814	248	1,268	1,223	2,826	
Sept. 26	7,077	1,416	555	48	813	241	1,137	1,228	2,813	
Average	7,077	1,458	586	48	821	248	1,197	1,230	2,830	
Oct. 3	7,077	1,401	541	49	811	241	1,186	1,247	2,794	
Oct. 10	7,062	1,402	644	49	809	243	1,165	1,265	2,812	
Oct. 17	7,118	1,434	576	50	808	243	1,104	1,268	2,800	
Oct. 24	7,114	1,435	587	49	799	242	1,134	1,276	2,798	
Oct. 31	7,123	1,417	564	50	805	242	1,134	1,276	2,804	
Average	7,108	1,418	568	49	806	242	1,133	1,247	2,801	
Nov. 7	7,123	1,381	526	50	805	246	1,133	1,290	2,830	
Nov. 14	7,024	1,378	517	51	810	238	1,133	1,263	2,825	
Nov. 21	6,960	1,377	521	51	815	235	1,133	1,257	2,813	
Nov. 28	7,064	1,380	525	51	814	228	1,133	1,253	2,841	
Average	7,036	1,381	523	51	808	237	1,133	1,262	2,857	
Dec. 5	7,186	1,463	587	52	824	223	1,134	1,262	2,901	
Dec. 12	7,213	1,456	581	52	823	226	1,133	1,243	2,941	
Dec. 19	7,288	1,475	605	58	817	226	1,133	1,239	3,060	
Dec. 26	7,335	1,441	573	53	815	222	1,132	1,210	3,066	
Average	7,251	1,459	588	53	828	225	1,133	1,238	2,966	

Back figures.—See Annual Report for 1933 (table 89).

REPORTING MEMBER BANKS

1611

PRINCIPAL ASSETS AND LIABILITIES, BY WEEKS AND MONTHS

[In millions of dollars]

Obligations fully guaranteed by U. S. Government	Other securities	Reserves with Federal Reserve bank	Cash in vault	Net demand deposits	Time deposits	U. S. Government deposits	Due from banks	Due to banks	Borrowings at Federal Reserve banks	Date or month
										1934
1,106		821	42	5,319	700	335	83	1,178		Jan. 5.
1,068		870	41	5,260	697	272	71	1,174		Jan. 10.
1,115		846	37	5,336	696	224	74	1,221		Jan. 17.
1,056		902	36	5,354	708	184	74	1,276		Jan. 24.
1,099		749	37	5,342	707	487	76	1,290		Jan. 31.
1,894		839	39	5,352	709	369	78	1,323		Average.
1,059		748	38	5,331	710	501	75	1,312		Feb. 7.
1,063		810	41	5,361	704	501	75	1,322		Feb. 10.
1,067		850	42	5,368	686	717	76	1,320		Feb. 21.
1,090	1,091	1,091	39	5,491	682	781	83	1,334		Feb. 28.
1,479		875	40	5,398	686	699	77	1,329		Average.
1,091	1,181	38	5,580	679	797	797	82	1,414		Mar. 7.
1,103	1,170	41	5,709	675	797	797	86	1,405		Mar. 14.
1,158	1,218	37	5,737	690	797	85	82	1,412		Mar. 21.
1,151	1,242	40	5,791	699	762	82	82	1,478		Mar. 28.
1,182	1,303	39	5,794	686	788	84	84	1,476		Average.
1,204	1,206	38	5,919	699	799	90	80	1,555		Apr. 4.
1,120	1,142	39	5,989	696	713	82	82	1,581		Apr. 11.
1,172	1,236	37	5,971	690	679	84	84	1,578		Apr. 18.
1,154	1,351	38	6,042	689	649	73	1,554		Apr. 25.	
1,115	1,384	38	5,830	694	695	82	1,467		Average.	
1,163	1,194	37	5,975	688	868	88	1,522		May 2.	
1,044	1,257	39	5,885	670	575	78	1,603		May 9.	
1,062	1,264	37	5,969	675	561	78	1,594		May 16.	
1,057	1,335	38	6,028	674	551	76	1,600		May 23.	
1,070	1,358	40	6,097	679	539	70	1,577		May 30.	
1,075	1,381	38	6,011	678	563	77	1,577		Average.	
1,073	1,304	39	6,150	670	539	87	1,642		June 6.	
1,062	1,354	40	6,225	682	511	85	1,603		June 13.	
1,076	1,327	37	6,049	696	733	87	1,582		June 20.	
1,103	1,376	41	6,161	692	733	82	1,581		June 27.	
1,078	1,340	39	6,146	688	629	86	1,617		Average.	
1,090	1,234	38	6,115	691	733	96	1,603		July 4.	
1,103	1,295	39	6,144	697	733	88	1,656		July 11.	
1,124	1,331	37	6,178	682	733	86	1,654		July 18.	
1,125	1,366	38	6,209	678	704	82	1,645		July 25.	
1,115	1,306	38	6,181	687	728	88	1,640		Average.	
1,188	1,307	38	6,215	677	704	95	1,612		Aug. 1.	
1,189	1,415	38	6,182	675	704	90	1,590		Aug. 8.	
1,212	1,419	40	6,205	669	684	85	1,601		Aug. 15.	
1,203	1,451	37	6,217	664	675	64	1,584		Aug. 22.	
1,216	1,493	38	6,280	660	659	67	1,556		Aug. 29.	
1,202	1,429	38	6,216	669	685	68	1,583		Average.	
1,242	1,332	38	6,284	661	598	69	1,571		Sept. 5.	
1,241	1,331	40	6,241	650	697	60	1,577		Sept. 12.	
1,212	1,348	37	6,168	659	699	59	1,576		Sept. 19.	
1,242	1,448	40	6,291	660	599	67	1,556		Sept. 26.	
1,238	1,365	39	6,246	660	588	59	1,570		Average.	
221	1,037	1,309	39	6,273	664	600	64	1,600		Oct. 3.
220	1,016	1,323	45	6,322	633	600	60	1,630		Oct. 10.
229	1,010	1,381	38	6,384	633	516	64	1,681		Oct. 17.
225	994	1,388	40	6,421	633	473	69	1,632		Oct. 24.
254	994	1,425	44	6,483	647	473	69	1,623		Oct. 31.
232	1,019	1,403	41	6,378	656	532	62	1,633		Average.
265	999	1,399	52	6,406	643	473	64	1,635		Nov. 7.
264	923	1,402	48	6,369	638	454	63	1,642		Nov. 14.
264	911	1,520	45	6,471	629	437	61	1,678		Nov. 21.
272	937	1,463	52	6,497	626	420	58	1,650		Nov. 28.
268	943	1,433	49	6,434	634	446	62	1,681		Average.
273	940	1,385	47	6,490	603	425	70	1,713		Dec. 5.
272	942	1,372	49	6,530	599	425	74	1,762		Dec. 12.
270	853	1,359	54	6,441	596	735	75	1,727		Dec. 19.
267	977	1,416	59	6,457	602	735	77	1,670		Dec. 26.
271	980	1,375	62	6,486	600	580	78	1,730		Average.

No. 73.—REPORTING MEMBER BANKS OUTSIDE NEW YORK CITY—

(In millions of dollars)

Date or month	Total loans and investments	Loans on securities				Acceptances and commercial paper bought	Loans on real estate	Other loans	U. S. Government direct obligations
		Total	To brokers and dealers		To others				
			In New York	Outside New York					
1934									
Jan. 3	9,898	1,876	88	105	1,683	3,095		3,018	
Jan. 10	9,852	1,873	92	99	1,682	3,068		3,040	
Jan. 17	9,868	1,856	99	95	1,672	3,073		3,068	
Jan. 24	9,827	1,859	97	97	1,655	3,047		3,044	
Jan. 31	10,135	1,861	107	103	1,651	3,022		3,365	
Average	9,914	1,866	97	100	1,669	3,060		3,101	
Feb. 7	10,118	1,858	107	102	1,649	3,022		3,362	
Feb. 14	10,170	1,854	109	100	1,645	3,021		3,419	
Feb. 21	10,398	1,861	112	105	1,644	3,011		3,040	
Feb. 28	10,394	1,851	108	104	1,639	3,003		3,064	
Average	10,370	1,856	109	103	1,644	3,014		3,323	
Mar. 7	10,356	1,846	110	103	1,632	3,012		3,610	
Mar. 14	10,300	1,860	114	116	1,630	3,015		3,525	
Mar. 21	10,327	1,866	114	128	1,624	3,006		3,555	
Mar. 28	10,279	1,851	113	112	1,626	3,018		3,507	
Average	10,316	1,856	113	115	1,628	3,013		3,649	
Apr. 4	10,212	1,849	117	114	1,618	3,013		3,458	
Apr. 11	10,206	1,850	120	126	1,600	3,023		3,430	
Apr. 18	10,275	1,857	120	120	1,601	3,022		3,484	
Apr. 25	10,393	1,842	133	127	1,582	3,010		3,666	
Average	10,257	1,852	129	122	1,601	3,017		3,484	
May 2	10,320	1,848	140	128	1,580	2,998		3,556	
May 9	10,274	1,836	142	125	1,569	3,022		3,522	
May 16	10,266	1,842	142	122	1,578	2,994		3,516	
May 23	10,256	1,824	130	116	1,569	2,989		3,510	
May 30	10,272	1,830	140	115	1,575	2,992		3,502	
Average	10,276	1,836	140	121	1,575	2,995		3,521	
June 6	10,266	1,830	140	120	1,570	2,990		3,485	
June 13	10,225	1,828	146	118	1,564	2,981		3,441	
June 20	10,452	1,830	140	128	1,662	2,993		3,709	
June 27	10,472	1,818	142	126	1,550	2,990		3,739	
Average	10,352	1,836	141	123	1,562	2,974		3,594	
July 4	10,458	1,807	141	130	1,536	2,955		3,744	
July 11	10,463	1,801	147	124	1,530	2,954		3,742	
July 18	10,484	1,804	158	118	1,528	2,956		3,749	
July 25	10,501	1,803	155	115	1,533	2,951		3,753	
Average	10,476	1,804	151	121	1,532	2,954		3,746	
Aug. 1	10,571	1,787	145	110	1,522	2,985		3,747	
Aug. 8	10,569	1,784	145	109	1,530	3,002		3,758	
Aug. 15	10,600	1,774	135	112	1,527	3,017		3,774	
Aug. 22	10,622	1,768	139	109	1,520	3,027		3,768	
Aug. 29	10,610	1,762	141	110	1,511	3,024		3,761	
Average	10,594	1,775	142	119	1,523	3,011		3,767	
Sept. 5	10,569	1,705	136	122	1,447	2,025	2,014	3,603	
Sept. 12	10,628	1,683	136	106	1,441	2,025	2,025	3,757	
Sept. 19	10,561	1,676	137	102	1,437	2,009	2,030	3,805	
Sept. 26	10,712	1,664	131	100	1,433	2,016	2,042	3,818	
Average	10,650	1,682	135	108	1,439	2,008	2,030	3,769	
Oct. 3	10,734	1,646	128	99	1,419	2,235	2,052	3,842	
Oct. 10	10,732	1,653	128	102	1,422	2,221	2,045	3,846	
Oct. 17	10,736	1,648	130	99	1,419	2,222	2,047	3,850	
Oct. 24	10,736	1,639	121	102	1,418	2,223	2,035	3,856	
Oct. 31	10,714	1,634	129	103	1,402	2,144	2,036	3,835	
Average	10,730	1,644	127	101	1,415	2,221	2,043	3,846	
Nov. 7	10,714	1,629	138	98	1,335	2,177	2,015	3,853	
Nov. 14	10,735	1,630	136	100	1,394	2,223	2,002	3,888	
Nov. 21	10,698	1,621	133	100	1,388	2,211	1,989	3,861	
Nov. 28	10,700	1,627	135	104	1,385	2,224	1,994	3,874	
Average	10,712	1,627	136	100	1,391	2,224	1,990	3,869	
Dec. 5	10,693	1,635	137	106	1,392	2,122	1,968	3,857	
Dec. 12	10,699	1,643	147	110	1,386	2,118	1,974	3,868	
Dec. 19	10,951	1,640	148	109	1,383	2,116	1,968	4,116	
Dec. 26	10,941	1,631	145	112	1,374	2,113	1,960	4,105	
Average	10,821	1,637	145	109	1,383	2,117	1,973	3,906	

REPORTING MEMBER BANKS

165

PRINCIPAL ASSETS AND LIABILITIES, BY WEEKS AND MONTHS

[In millions of dollars]

Obligations fully guaranteed by U. S. Government	Other securities	Reserves with Federal Reserve banks	Cash in vault	Net demand deposits	Time deposits	U. S. Government deposits	Due from banks	Due to banks	Borrowings at Federal Reserve banks	Date or month
										1894
1,899	1,102	204	5,633	3,651	377	1,173	1,650	25	Jan. 3.	
1,871	1,104	207	5,691	3,646	299	1,139	1,630	21	Jan. 10.	
1,861	1,128	199	5,759	3,656	239	1,200	1,637	21	Jan. 17.	
1,884	1,145	194	5,754	3,684	186	1,234	1,725	20	Jan. 24.	
1,887	1,122	180	5,776	3,660	488	1,223	1,708	13	Jan. 31.	
1,887	1,121	195	5,733	3,655	318	1,194	1,680	20	Average.	
1,876	1,157	189	5,794	3,662	487	1,278	1,816	12	Feb. 7.	
1,876	1,200	194	5,971	3,640	490	1,338	1,882	10	Feb. 14.	
1,880	1,146	188	5,878	3,638	701	1,293	1,827	11	Feb. 21.	
1,876	1,180	185	5,927	3,688	706	1,329	1,853	12	Feb. 25.	
1,877	1,170	199	5,887	3,670	806	1,316	1,843	11	Average.	
1,888	1,286	193	5,934	3,698	707	1,359	1,917	10	Mar. 7.	
1,900	1,399	195	6,039	3,718	708	1,462	1,970	10	Mar. 14.	
1,900	1,358	191	5,983	3,730	705	1,470	1,979	9	Mar. 21.	
1,903	1,330	202	6,003	3,720	651	1,437	1,969	9	Mar. 28.	
1,898	1,343	195	5,991	3,716	532	1,431	1,950	10	Average.	
1,892	1,325	201	6,002	3,709	619	1,488	2,023	8	Apr. 4.	
1,897	1,448	207	6,147	3,728	592	1,506	2,035	7	Apr. 11.	
1,912	1,402	203	6,229	3,733	553	1,501	2,067	6	Apr. 18.	
1,915	1,428	204	6,250	3,738	528	1,497	2,041	7	Apr. 25.	
1,904	1,415	204	6,152	3,744	574	1,485	2,042	7	Average.	
1,918	1,394	194	6,246	3,736	467	1,455	2,071	6	May 2.	
1,914	1,436	205	6,223	3,800	454	1,486	2,032	6	May 9.	
1,914	1,438	198	6,319	3,802	438	1,517	2,038	5	May 15.	
1,933	1,483	202	6,299	3,799	437	1,483	2,054	6	May 23.	
1,948	1,466	206	6,328	3,779	416	1,455	2,023	6	May 30.	
1,926	1,448	201	6,281	3,791	442	1,490	2,064	6	Average.	
1,951	1,604	204	6,349	3,780	416	1,493	2,091	6	June 6.	
1,976	1,527	208	6,436	3,763	395	1,536	2,107	5	June 13.	
1,950	1,497	199	6,326	3,796	621	1,487	2,041	6	June 20.	
1,955	1,525	203	6,343	3,809	624	1,487	2,047	5	June 27.	
1,946	1,513	205	6,344	3,782	514	1,501	2,072	5	Average.	
1,952	1,549	196	6,436	3,804	621	1,540	2,181	10	July 4.	
1,966	1,620	207	6,497	3,815	620	1,578	2,214	5	July 11.	
1,975	1,650	198	6,519	3,828	620	1,609	2,229	5	July 18.	
1,994	1,673	197	6,546	3,823	592	1,662	2,200	5	July 25.	
1,972	1,624	199	6,509	3,818	613	1,570	2,206	6	Average.	
2,051	1,686	183	6,530	3,811	592	1,467	2,158	5	Aug. 1.	
2,025	1,633	198	6,559	3,818	562	1,478	2,178	5	Aug. 8.	
2,035	1,627	191	6,622	3,836	571	1,518	2,220	5	Aug. 15.	
2,057	1,613	187	6,601	3,849	561	1,486	2,187	5	Aug. 22.	
2,063	1,659	205	6,640	3,851	544	1,498	2,176	5	Aug. 29.	
2,041	1,620	195	6,591	3,832	572	1,496	2,183	5	Average.	
2,104	1,592	198	6,664	3,839	491	1,438	2,209	6	Sept. 5.	
2,109	1,608	214	6,800	3,837	494	1,454	2,207	6	Sept. 12.	
2,114	1,543	216	6,775	3,810	492	1,456	2,204	7	Sept. 19.	
2,123	1,541	223	6,821	3,818	493	1,448	2,187	6	Sept. 26.	
2,112	1,571	213	6,765	3,828	493	1,449	2,201	6	Average.	
213	1,910	217	6,810	3,807	494	1,451	2,230	1	Oct. 3.	
213	1,904	228	6,832	3,808	495	1,481	2,234	1	Oct. 10.	
217	1,901	223	7,002	3,810	417	1,522	2,306	2	Oct. 17.	
228	1,905	227	6,981	3,825	380	1,496	2,273	1	Oct. 24.	
275	1,868	221	6,968	3,827	373	1,524	2,260	2	Oct. 31.	
239	1,898	233	6,932	3,815	433	1,495	2,260	1	Average.	
235	1,864	234	7,041	3,819	380	1,516	2,320	2	Nov. 7.	
280	1,863	237	7,142	3,810	362	1,568	2,382	1	Nov. 14.	
285	1,863	226	7,092	3,792	344	1,561	2,315	2	Nov. 21.	
283	1,852	226	7,136	3,770	329	1,527	2,271	3	Nov. 28.	
294	1,860	233	7,103	3,797	354	1,543	2,324	2	Average.	
260	1,865	228	7,172	3,739	347	1,577	2,335	2	Dec. 5.	
292	1,888	248	7,239	3,742	346	1,628	2,365	1	Dec. 12.	
296	1,869	251	7,135	3,764	908	1,638	2,318	1	Dec. 19.	
309	1,889	265	7,034	3,764	609	1,607	2,307	1	Dec. 26.	
294	1,868	248	7,190	3,732	477	1,613	2,329	1	Average.	

164 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

BROKERS' LOANS

No. 74.—LOANS TO BROKERS AND DEALERS, SECURED BY STOCKS AND BONDS, MADE BY REPORTING MEMBER BANKS IN NEW YORK CITY, BY WEEKS

[In millions of dollars]

1934	Demand and time loans				Demand loans				Time loans			
	Total	For own account	For out-of-town banks ¹	For others	Total	For own account	For out-of-town banks ¹	For others	Total	For own account	For out-of-town banks ¹	For others
Jan. 3.....	637	709	119	0	677	449	118	9	260	260	1	0
Jan. 10.....	746	605	139	0	481	241	131	9	205	264	1	0
Jan. 17.....	758	608	144	6	500	350	143	6	208	208	1	0
Jan. 24.....	779	630	142	7	508	360	141	7	271	270	1	0
Jan. 31.....	888	731	146	11	607	450	145	11	281	281	1	0
Feb. 7.....	896	741	146	9	616	462	145	9	280	279	1	0
Feb. 14.....	853	696	149	8	670	419	148	8	277	277	1	0
Feb. 21.....	950	790	152	8	674	515	151	8	276	275	1	0
Feb. 28.....	858	698	150	10	683	424	149	10	275	274	1	0
Mar. 7.....	844	689	150	5	567	414	148	5	277	275	2	0
Mar. 14.....	928	775	147	1	654	608	145	1	269	267	2	0
Mar. 21.....	894	745	147	1	628	480	146	1	269	266	2	0
Mar. 28.....	886	785	149	2	620	472	146	2	266	253	3	0
Apr. 4.....	955	798	151	6	600	536	148	6	265	262	3	0
Apr. 11.....	1,002	842	155	5	746	689	152	5	266	253	3	0
Apr. 18.....	993	827	152	4	732	609	159	4	261	258	3	0
Apr. 25.....	948	786	154	8	683	524	151	8	265	262	3	0
May 2.....	974	802	163	9	706	537	160	9	298	295	3	0
May 9.....	947	828	162	8	677	610	159	8	270	267	3	0
May 16.....	942	771	163	8	671	602	160	8	271	269	2	0
May 23.....	905	735	163	7	618	451	160	7	287	284	3	0
May 30.....	915	743	164	8	629	461	161	8	286	282	3	0
June 6.....	997	825	164	8	678	509	161	8	319	316	3	0
June 13.....	1,011	840	164	7	680	512	161	7	331	328	3	0
June 20.....	1,040	870	166	6	708	538	163	4	335	332	3	0
June 27.....	1,017	847	166	4	681	514	163	4	336	333	3	0
July 4.....	1,060	896	167	6	734	563	165	6	335	333	2	0
July 11.....	1,059	888	167	4	725	556	165	4	334	332	2	0
July 18.....	1,031	861	169	1	698	530	167	1	333	331	2	0
July 25.....	1,008	838	169	1	680	512	167	1	328	326	2	0
Aug. 1.....	885	720	164	1	558	392	160	1	352	328	4	0
Aug. 8.....	827	666	160	1	506	349	156	1	321	317	4	0
Aug. 15.....	821	668	152	1	504	355	148	1	317	313	4	0
Aug. 22.....	810	657	152	1	496	247	148	1	314	310	4	0
Aug. 29.....	798	641	151	1	481	333	145	1	312	308	3	0
Sept. 5.....	824	675	148	1	513	367	145	1	311	308	3	0
Sept. 12.....	796	652	143	1	491	350	140	1	306	302	3	0
Sept. 19.....	745	604	140	1	450	312	137	1	295	292	3	0
Sept. 26.....	740	603	136	1	450	315	134	1	290	288	2	0
Oct. 3.....	725	590	134	1	444	312	131	1	281	276	3	0
Oct. 10.....	726	593	131	1	451	322	128	1	274	271	3	0
Oct. 17.....	759	626	132	1	489	338	130	1	270	268	2	0
Oct. 24.....	771	626	134	1	503	371	131	1	268	265	3	0
Oct. 31.....	749	614	134	1	481	249	121	1	268	265	3	0
Nov. 7.....	714	576	137	1	448	313	125	1	266	263	2	0
Nov. 14.....	707	568	138	1	442	306	125	1	265	262	3	0
Nov. 21.....	711	572	138	1	446	309	135	1	265	263	2	0
Nov. 28.....	718	576	141	1	456	313	138	1	263	260	3	0
Dec. 5.....	782	639	142	1	521	381	129	1	261	258	3	0
Dec. 12.....	778	633	144	1	519	376	142	1	259	257	2	0
Dec. 19.....	805	658	145	2	546	402	142	2	259	256	3	0
Dec. 26.....	772	626	144	2	515	372	141	2	256	254	3	0
Averages:												
January.....	602	657	137	8	535	290	136	8	267	266	1	0
February.....	889	731	140	0	612	455	148	9	277	276	1	0
March.....	888	736	148	2	616	468	146	2	270	268	2	0
April.....	975	813	156	6	713	555	152	6	262	259	3	0
May.....	906	765	163	8	650	492	160	8	276	273	3	0
June.....	1,016	845	165	6	688	518	162	6	330	327	3	0
July.....	1,042	871	168	3	709	540	166	3	333	331	2	0
August.....	827	670	156	1	508	355	152	1	319	315	4	0
September.....	778	633	142	1	476	336	139	1	300	297	3	0
October.....	746	612	133	1	474	343	130	1	272	269	3	0
November.....	713	573	139	1	447	310	136	1	266	263	3	0
December.....	784	639	144	1	525	383	141	1	259	256	3	0

¹ Member and nonmember banks outside New York City (domestic banks only); includes unknown amount for customers of these banks.

Back figures.—See Annual Report for 1933 (table 92).

BROKERS' LOANS

165
42

No. 75.—BROKERS' BORROWINGS, 1933-34

[Net borrowings on collateral in New York City as reported by members of the New York Stock Exchange]
[In millions of dollars]

Date	On demand and on time			On demand			On time		
	Total	From New York banks and trust companies	From private banks, brokers, and foreign banking agencies, etc.	Total	From New York banks and trust companies	From private banks, brokers, and foreign banking agencies, etc.	Total	From New York banks, trust companies, etc.	From private banks, foreign banking agencies, etc.
1933									
Jan. 31	359	270	90	255	106	80	104	103	1
Feb. 28	360	298	62	223	162	61	137	126	1
Mar. 31	311	247	64	208	145	63	103	102	1
Apr. 29	322	268	54	207	157	50	115	111	4
May 31	529	461	68	308	332	67	130	129	1
June 30	790	694	86	583	498	85	197	196	1
July 31	916	822	94	670	590	80	237	232	5
Aug. 31	917	841	76	634	563	71	283	278	5
Sept. 30	897	806	91	624	535	90	272	271	1
Oct. 31	776	706	70	515	445	70	261	261	—
Nov. 30	799	712	77	544	458	86	245	244	—
Dec. 30	845	776	69	598	529	69	247	247	—
1934									
Jan. 31	903	839	64	627	563	64	276	276	—
Feb. 28	938	862	76	657	582	75	281	280	1
Mar. 31	981	873	108	714	605	108	267	267	—
Apr. 30	1,086	973	113	812	697	115	276	276	—
May 31	1,016	912	104	722	610	112	294	288	1
June 30	1,082	980	102	740	639	101	342	341	1
July 31	923	849	74	588	518	70	335	331	4
Aug. 31	874	803	71	545	481	64	329	322	7
Sept. 29	832	769	62	532	472	60	300	297	3
Oct. 31	827	761	65	546	484	63	281	277	3
Nov. 30	831	765	66	558	495	63	273	273	3
Dec. 31	880	813	67	616	553	63	294	280	4

Back figures.—See Annual Report for 1933 (table 93).

BANKERS' ACCEPTANCES AND COMMERCIAL PAPER OUTSTANDING

No. 76.—DOLLAR BANKERS' ACCEPTANCES AND COMMERCIAL PAPER OUTSTANDING, 1928-34

[In millions of dollars]

End of month	Dollar bankers' acceptances outstanding ¹							Commercial paper outstanding ²						
	1928	1929	1930	1931	1932	1933	1934	1928	1929	1930	1931	1932	1933	1934
January	1,058	1,270	1,693	1,620	961	707	771	677	407	404	327	108	85	108
February	1,056	1,228	1,624	1,620	919	704	750	567	411	457	316	103	84	117
March	1,085	1,205	1,539	1,467	911	671	685	570	387	520	311	106	72	133
April	1,071	1,111	1,414	1,422	879	697	613	571	351	563	307	108	64	139
May	1,041	1,107	1,382	1,413	787	669	569	541	304	541	305	111	60	142
June	1,026	1,113	1,305	1,368	747	687	534	503	274	527	292	103	73	151
July	978	1,127	1,350	1,228	705	733	515	483	266	528	289	100	97	168
August	962	1,201	1,339	1,090	681	694	520	458	267	526	271	108	107	188
September	1,004	1,272	1,367	996	683	715	539	430	265	513	248	110	123	192
October	1,123	1,541	1,528	1,040	699	737	562	427	286	485	210	113	130	188
November	1,200	1,858	1,871	1,002	729	738	561	421	316	448	174	110	133	178
December	1,284	1,732	1,556	974	710	764	543	383	334	358	118	81	109	100

¹ Dollar acceptances; figures collected and compiled by American Acceptance Council.

² Paper maturing within 7 months; includes some finance company paper sold in the open market. Fig. uses reported by dealers to the Federal Reserve Bank of New York.

Back figures.—See Annual Report for 1930 (table 60).

166 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 77.—DOLLAR BANKERS' ACCEPTANCES HELD BY GROUP OF ACCEPTING BANKS, 1927-34

[In thousands of dollars]

End of month	1927	1928	1929	1930	1931	1932	1933	1934
January	54,087	70,068	70,246	220,467	571,404	832,211	628,274	556,068
February	100,485	90,090	80,080	182,330	640,548	842,807	323,007	580,906
March	104,484	90,058	117,480	166,683	472,246	377,200	261,036	576,192
April	86,976	56,397	95,129	137,527	410,249	456,464	404,262	635,854 ¹
May	94,551	55,183	87,896	135,511	454,153	510,423	504,992	607,504
June	88,947	71,289	84,284	205,110	553,819	817,547	487,255	479,787
July	86,412	52,642	90,033	278,942	668,034	852,955	852,148	472,245
August	132,890	50,381	82,378	307,237	606,469	873,737	499,444	482,550
September	108,822	63,187	70,767	514,678	408,885	873,360	517,267	468,132
October	118,167	42,711	129,413	284,173	239,407	603,069	692,165	515,882
November	116,913	50,345	244,483	493,002	265,181	654,528	595,077	516,829
December	104,999	74,843	191,061	371,453	262,092	603,358	442,457	465,730

NOTE.—Banks included are those which report to the American Acceptance Council; figures include both own acceptances held and purchased acceptances held.

Bank figures.—See Annual Report for 1932 (table 89).

BANK DEBITS

No. 78.—DEBITS TO INDIVIDUAL ACCOUNTS, BY BANKS IN 141 PRINCIPAL CITIES, BY MONTHS, 1925-34

[In millions of dollars]

Month	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
TOTAL, 141 CITIES										
January	49,983	54,145	54,714	62,885	82,314	60,423	46,233	33,599	24,460	27,221
February	41,517	44,916	48,229	54,483	70,777	82,626	38,031	27,261	22,457	25,915
March	44,558	51,837	55,582	67,003	74,750	61,728	47,511	29,899	21,752	23,885
April	44,558	51,837	55,582	67,003	74,750	61,728	47,511	29,899	21,752	23,885
May	46,896	48,029	54,143	71,616	76,636	61,811	43,930	26,411	25,498	28,787
June	49,631	50,953	56,820	72,486	69,698	62,212	45,299	27,103	29,711	30,142
July	47,037	50,959	53,882	63,981	77,631	62,744	39,451	23,289	31,293	27,752
August	43,124	47,011	53,702	68,604	77,344	45,993	34,027	28,215	25,451	25,705
September	45,294	46,954	54,720	63,176	77,817	48,636	28,700	26,991	24,555	24,909
October	52,935	53,535	59,201	72,894	65,527	54,460	38,802	28,298	26,307	26,750
November	48,367	47,384	57,085	71,346	83,000	62,170	39,389	29,750	24,131	24,752
December	54,899	57,070	65,441	82,386	66,753	62,197	36,345	26,787	26,301	26,915
Total	570,064	607,956	673,961	808,406	926,027	661,967	481,857	322,306	282,700	331,067
140 CITIES (EXCLUDING NEW YORK CITY)										
January	22,301	23,907	23,456	25,001	28,065	25,691	21,097	15,893	12,053	12,108
February	18,593	20,102	20,781	21,753	24,489	21,608	17,084	12,979	10,491	11,784
March	21,240	22,458	24,028	25,847	29,069	24,988	19,421	13,729	11,077	14,077
April	20,618	22,837	23,578	25,225	26,770	24,315	19,820	14,366	10,616	14,278
May	20,417	21,449	22,873	26,346	28,492	24,388	18,358	12,496	11,500	14,105
June	21,702	22,486	23,812	27,023	28,404	24,621	19,408	12,394	12,968	14,754
July	21,880	22,300	22,932	23,897	28,416	22,145	15,444	12,511	13,878	12,919
August	19,889	20,778	22,048	23,401	26,310	20,941	15,620	11,750	12,375	12,421
September	20,885	21,836	23,381	24,469	27,274	21,253	16,827	11,787	12,218	12,888
October	24,029	23,780	25,111	27,023	32,305	23,125	15,254	13,027	14,468	14,568
November	21,357	21,593	22,803	25,880	28,466	19,085	14,005	10,935	11,927	12,400
December	24,066	24,493	26,503	29,659	36,902	28,107	17,112	12,820	13,287	16,700
Total	256,691	268,900	282,303	308,158	331,928	277,517	217,628	154,401	124,287	168,909

¹ Not available, complete data not having been reported on account of bank holidays.

² Total for 13 months.

NOTE.—Figures represent debits or charges on the books of reporting member and nonmember banks to deposit accounts of individuals, firms, and corporations, and of the United States, State, county, and municipal governments, including debits to savings accounts, payments from trust accounts, and certificates of deposit paid. Figures do not include debits to the accounts of other banks or in settlement of clearing-house balances, payment of cashiers' checks, charges to expense and miscellaneous accounts, corrections, and similar charges. Monthly figures are derived from weekly reports; the figures for weeks which do not fall entirely within a single calendar month being prorated.

Bank figures.—See Annual Report for 1926 (table 100); series begins with 1919. Corresponding figures for each Federal Reserve district and for each reporting center are available in mimeographed form beginning with 1919 and may be had upon request.

BANK SUSPENSIONS

No. 79.—BANKS SUSPENDED AND REOPENED, BY YEARS, 1921-32¹

[Banks closed on account of financial difficulties by order of supervisory authorities or by the directors of the bank. Figures of suspensions include banks subsequently reopened. Deposits are as of date of suspension or nearest call date]

[Amounts in thousands of dollars]

Class of bank and year	Banks suspended			Banks reopened	
	Number	Capital	Deposits	Number	Deposits
All banks:					
1921.....	505	23, 732	172, 188	97	24, 437
1922.....	367	14, 560	93, 043	118	45, 452
1923.....	646	21, 367	149, 601	69	17, 348
1924.....	775	28, 432	210, 151	111	31, 523
1925.....	618	24, 754	187, 655	81	22, 831
1926.....	976	33, 482	200, 378	162	59, 962
1927.....	669	25, 371	199, 329	129	43, 144
1928.....	499	19, 309	142, 889	53	22, 555
1929.....	659	33, 432	230, 643	69	28, 686
1930.....	1, 352	111, 791	858, 363	159	63, 013
1931.....	2, 294	207, 965	1, 690, 669	278	167, 159
1932.....	1, 456	108, 450	715, 628	290	376, 194
Total.....	10, 816	653, 245	4, 888, 126	1, 614	792, 304
Member banks:					
1921.....	71	5, 222	38, 140	10	2, 969
1922.....	62	4, 356	27, 310	27	11, 230
1923.....	122	6, 933	46, 803	14	4, 803
1924.....	160	10, 330	78, 535	19	7, 116
1925.....	146	9, 940	65, 457	10	3, 768
1926.....	158	8, 194	67, 464	14	7, 616
1927.....	123	7, 889	63, 489	10	6, 859
1928.....	73	5, 125	46, 730	5	5, 674
1929.....	81	7, 075	68, 072	6	1, 910
1930.....	188	50, 510	372, 845	6	3, 033
1931.....	516	83, 761	733, 128	31	52, 470
1932.....	351	44, 705	269, 308	52	71, 666
Total.....	2, 030	244, 041	1, 867, 277	263	170, 122
Nonmember banks:					
1921.....	434	18, 509	134, 048	87	21, 768
1922.....	305	10, 204	65, 733	91	34, 222
1923.....	524	14, 434	102, 798	55	12, 645
1924.....	615	18, 102	131, 616	92	24, 407
1925.....	472	14, 914	102, 098	71	19, 170
1926.....	618	25, 288	192, 914	148	52, 446
1927.....	547	17, 482	135, 840	119	38, 185
1928.....	420	14, 784	95, 850	48	16, 581
1929.....	678	28, 337	172, 570	64	26, 978
1930.....	1, 164	61, 231	480, 518	153	59, 960
1931.....	1, 778	124, 204	957, 541	245	104, 680
1932.....	1, 125	65, 745	446, 323	238	204, 528
Total.....	8, 786	409, 204	3, 017, 849	1, 411	613, 182

¹ Corresponding data by classes of banks, by years and by States, appear in the Annual Report for 1933 (tables 102-104) and by classes of banks and months in the Annual Report for 1932 (table 94).

No. 80.—BANK SUSPENSIONS, 1921-32: NUMBER, CLASSIFIED ACCORDING TO CAPITAL STOCK AND SIZE OF COMMUNITY¹

Banks having capital stock of—	Number of sus- pensions	Banks in places with population of—	
			Number of sus- pensions
Less than \$25,000.....	3, 652	Less than 500.....	3, 777
\$25,000.....	2, 486	500 to 1,000.....	2, 062
\$25,100 to \$49,000.....	999	1,000 to 2,500.....	2, 095
\$50,000 to \$99,000.....	1, 960	2,500 to 5,000.....	832
\$100,000 to \$199,000.....	968	5,000 to 10,000.....	533
\$200,000 to \$999,000.....	565	10,000 to 25,000.....	479
\$1,000,000 and over.....	63	25,000 and over.....	908
Not available.....	123		
Total.....	10, 816	Total.....	10, 816

¹ Corresponding data by years and classes of banks appear in the Annual Report for 1938 (tables 105-106).

168 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 81.—BANKS SUSPENDED, BY DISTRICTS AND BY STATES, JAN. 1 TO MAR. 15, 1933

[Banks closed on account of financial difficulties by order of supervisory authorities or by directors of the bank. Figures of suspensions include banks subsequently reopened]

Federal Reserve district and State ¹	Number of banks			Deposits ² (in thousands of dollars)				
	Total	National	State member	Non-member	Total	National banks	State member banks	Non-member banks
DISTRICT								
Boston	14	4	1	9	9,698	3,531	600	5,567
New York	4	3		1	14,738	13,286		1,450
Philadelphia	12	1		11	3,580	835		2,745
Cleveland	22	4		18	20,389	11,898		8,491
Atlanta	24	5		19	14,348	10,995		3,353
Chicago	111	13	5	93	42,734	5,058	4,092	32,588
St. Louis	93	10	14	69	36,728	7,228	18,044	14,458
Minneapolis	39	6	1	32	11,401	3,397	109	7,925
Kansas City	83	13		70	16,512	2,991		13,521
Dallas	3	2		1	2,997	1,137		1,860
San Francisco	39	6	4	29	42,218	12,161	1,837	28,220
Total	449	66	23	360	215,341	73,183	21,742	120,416
STATE								
Middle Atlantic:								
New York	12	3	1	8	7,506	2,610	660	4,227
New Jersey	5	4		1	15,478	14,198		1,280
Pennsylvania	3	1		2	2,762	835		1,917
East North Central:								
Ohio	8			8	1,172			1,172
Indiana	23	2	1	20	8,957	285	3,000	5,692
Illinois	47	9	1	37	27,421	6,486	408	20,527
Michigan	19	4	1	14	7,382	1,183	684	5,715
Wisconsin	18	3		15	7,397	5,022		2,365
West North Central:								
Minnesota	19	3		16	4,942	772		4,170
Iowa	28	3		25	4,355	302		3,973
Missouri	66	3	13	40	28,465	2,366	14,418	8,681
North Dakota	1			1	213			213
South Dakota	5	1		4	642	193		449
Nebraska	34	7		27	6,140	1,520		4,311
Kansas	30	3		27	6,315	283		5,032
South Atlantic:								
Maryland	3	1		2	4,290	798		3,467
District of Columbia	1	1			10,117	10,117		
Virginia	2			2	185			185
West Virginia	2			2	1,145			1,145
North Carolina	11	1		10	3,822	400		3,422
South Carolina	4	1		3	1,895	858		1,307
Georgia	2			2	305			305
East South Central:								
Kentucky	4			4	539			539
Tennessee	19	4		15	13,493	10,662		2,801
Alabama	5			5	604			604
Mississippi	8	1	1	6	1,990	303	626	1,061
West South Central:								
Arkansas	9			9	1,134			1,134
Louisiana	4			4	2,323			2,323
Oklahoma	4			4	345			345
Texas	6	2		4	1,745	1,137		608
Mountain:								
Montana	8		1	7	2,614		109	2,505
Idaho	6		1	5	865		357	508
Wyoming	1			1	52			52
Colorado	9	3		6	1,367	579		788
Arizona	1			1	156			156
Pacific:								
Washington	7		2	5	2,370		1,385	1,985
Oregon	6	3	1	2	680	477	96	408
California	19	3		16	36,847	11,684		25,163

¹ State listed only in cases where suspensions occurred.

² Deposits of member banks suspended are as of dates of suspension, and deposits of nonmember banks are based on the latest data available at the time of the report of closing of the banks.

BANK SUSPENSIONS

169

NO. 82.—LICENSED BANKS SUSPENDED, BY DISTRICTS AND BY STATES, IN 1933 AND 1934¹

Federal Reserve district and State ²	Mar. 16 to Dec. 31, 1933					Year 1934		
	Number of banks			Deposits ⁴ (in thousands of dollars)			Number of banks ³	Deposits ⁴ in (thousands of dollars)
	Total	Member ¹	Non-member	Total	Member banks ¹	Non-member banks		
DISTRICT								
Boston.....	6		6	20,293		20,293		
New York.....	8	1	7	26,390	879	26,511	8	
Philadelphia.....	8		7	4,532	1,860	3,672	3	
Cleveland.....	8	1	7	16,782		16,782	4	
Richmond.....	29		29	14,142		14,142	2	
Atlanta.....	17		17	20,439	8,379	12,060	17	
Chicago.....	20	2	19	6,100	799	7,301	11	
St. Louis.....	20	1	19	2,387		2,387	4	
Minneapolis.....	11		11	11,074	4,445	6,629	5	
Kansas City.....	22	3	19	17,899	2,820	15,079	5	
Dallas.....	25	2	23	2,672	1,667	1,005		
San Francisco.....	7		7					
Total	179	15	164	145,710	20,649	124,861	67	
STATE								
New England:								
Maine.....	6		6	20,293		20,293		
Connecticut.....	3		3	6,946		6,946		
Middle Atlantic:								
New York.....	2	1	1	10,310	879	9,431	2	
New Jersey.....	3		3	6,134		6,134	3	
Pennsylvania.....	3		3				2	
East North Central:								
Ohio.....	5	1	4	3,738	1,860	1,878	3	
Indiana.....	22	1	21	15,369	468	12,901	14	
Illinois.....	8		8	1,383		1,383	3	
Michigan.....	3	1	2	6,386	7,911	475	1	
Wisconsin.....	4		4	1,463		1,463	5	
West North Central:								
Minnesota.....	1		1	314		314	1	
Iowa.....	1		1	292		292		
Missouri.....	7		7	3,289		3,289	7	
North Dakota.....	1		1	373		373		
South Dakota.....	3		3	345		345		
Nebraska.....	5		5	403		403	3	
Kansas.....	6		6	1,676		1,676	1	
South Atlantic:								
Maryland.....	1		1	631		631		
Virginia.....	7		7	4,047		4,047	2	
West Virginia.....	10		10	12,352		12,352		
North Carolina.....	1		1	57		57		
South Carolina.....	2		2	176		176	1	
Georgia.....							2	
East South Central:								
Kentucky.....	2		2	1,313		1,313	1	
Tennessee.....	3		3	620		620		
Alabama.....	2		2	200		200		
Mississippi.....	1		1	153		153		
West South Central:								
Arkansas.....	3	1	2	989	799	190		
Louisiana.....	22		22	22,307		22,307		
Oklahoma.....	6	1	5	2,107		186	1	
Texas.....	12	2	10	8,936	2,820	6,116		
Mountain:								
Montana.....	3		3	304		304		
Colorado.....	2	1	1	897	428	469	1	
New Mexico.....	5	1	4	6,176	3,821	2,355		
Utah.....	2		2	1,005		1,005		
Pacific:								
Washington.....	3		3	1,319		1,319		
Oregon.....	2		2	348		348		

¹ Licensing of banks to resume operations on an unrestricted basis after the banking holiday began on Mar. 13-15, 1933. "Licensed banks suspended" includes licensed banks placed on a restricted basis.
² States listed only in cases where suspensions occurred.
³ Represents National banks except as follows: 1 State member bank in Ohio with deposits of \$1,860,000, 3 in Washington with deposits of \$1,319,000 and 2 in Oregon with deposits of \$348,000.
⁴ Deposits of licensed member banks suspended are as of dates of suspension and deposits of nonmember banks are based on the latest data available at the time of the report of closing of the banks.

170 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 83.—NONLICENSED BANKS PLACED IN LIQUIDATION OR RECEIVERSHIP, BY DISTRICTS AND BY STATES, MAR. 16 TO DEC. 31, 1933¹

Federal Reserve district and State	Number of banks				Deposits ² (in thousands of dollars)			
	Total	National	State member	Non-member	Total	National banks	State member banks	Non-member banks
DISTRICT								
Boston.....	39	29	4	6	105,735	53,203	32,562	19,970
New York.....	49	38	1	10	75,537	67,430	4,222	3,876
Philadelphia.....	32	22	1	9	27,856	16,615	455	10,786
Cleveland.....	115	61	2	51	436,930	54,460	346,503	35,967
Richmond.....	78	38	4	36	161,160	49,568	48,122	63,470
Atlanta.....	69	18	3	48	145,544	17,892	111,451	16,201
Chicago.....	326	139	8	189	731,742	617,749	40,915	73,078
St. Louis.....	87	20	7	60	61,082	13,669	25,111	12,302
Minneapolis.....	121	29	3	89	22,716	11,123	976	10,617
Kansas City.....	117	33	1	83	45,330	29,038	112	16,180
Dallas.....	40	21	4	15	6,288	3,781	325	2,181
San Francisco.....	48	16	6	26	38,896	32,101	3,360	3,435
Total	1,121	464	45	612	1,867,836	966,676	624,155	277,005
STATE								
New England:								
Maine.....	14	11		3	49,208	23,749		15,459
New Hampshire.....	4	4			4,071	4,071		
Vermont.....	9	7		2	7,831	5,492		2,339
Massachusetts.....	11	7	3	1	43,438	9,991	31,975	2,472
Connecticut.....	1		1		4,187		4,187	
Middle Atlantic:								
New York.....	38	27	1	10	65,611	54,513	4,222	6,876
New Jersey.....	30	30			15,298	15,298		
Pennsylvania.....	60	39	1	20	71,936	45,705	455	25,776
East North Central:								
Ohio.....	65	29	3	33	385,484	20,636	346,503	18,345
Indiana.....	61	24		37	30,432	43,022		6,810
Illinois.....	120	42	1	67	78,093	34,222	118	44,323
Michigan.....	48	24	7	17	567,020	522,251	40,797	3,972
Wisconsin.....	70	12		58	21,103	9,082		11,421
West North Central:								
Minnesota.....	61	13	1	47	8,866	3,394	118	5,354
Iowa.....	38	39		49	26,554	12,133		14,421
Missouri.....	35	6	3	27	57,442	26,690	16,576	14,176
South Dakota.....	17	6		11	4,264	4,638		4,638
North Dakota.....	17	6		13	2,611	3,937		1,674
Nebraska.....	49	6	1	42	6,389	1,102	112	5,775
Kansas.....	21	8		13	3,162	1,703		1,459
South Atlantic:								
Delaware.....	1			1	175			175
Maryland.....	19	12	1	6	61,677	10,045	30,642	20,990
District of Columbia.....	9	2		7	24,674	15,418		9,256
Virginia.....	14	7	1	6	22,935	6,328	16,021	1,706
West Virginia.....	4	2	1	4	11,305	8,051	118	3,136
North Carolina.....	13	5	1	7	31,430	5,232	2,381	22,817
South Carolina.....	11	3		8	10,671	4,532		6,039
Georgia.....	7	2		5	2,788	196		2,602
Florida.....	7	1	1	5	1,471	127	579	765
East South Central:								
Kentucky.....	16	8		8	4,786		3,431	1,355
Tennessee.....	14	5		9	12,417	11,522		895
Alabama.....	4	3		6	4,206	3,106		1,100
Mississippi.....	9	2		7	9,939	3,295		6,644
West South Central:								
Arkansas.....	14	3	4	7	20,113	296	18,535	1,312
Louisiana.....	18	3	2	13	116,364	295	110,872	8,097
Oklahoma.....	26	8		18	5,595	3,960		1,575
Texas.....	35	19	4	12	5,270	3,546	328	1,399
Mountain:								
Montana.....	5	4	2	2	2,089	1,231	828	
Idaho.....	7	1		6	1,459	967		522
Wyoming.....	2			2	241			241
Colorado.....	13	9		4	3,611	3,285		326
New Mexico.....	1	1		4	571	571		
Arizona.....	3	1		2	778	311		467
Utah.....	3		1	2	860		271	589
Pacific:								
Washington.....	12	5		7	3,596	2,384		712
Oregon.....	14	3	2	8	8,064	4,964	1,831	1,269
California.....	10	2	2	2	24,551	22,975	1,258	315

¹ Includes nonlicensed banks absorbed or succeeded by other banks.
² Deposits of nonlicensed national banks placed in liquidation or receivership are as of dates of conservatorship; deposits of nonlicensed State member banks placed in liquidation or receivership are as of nearest call dates prior to liquidation or receivership; and deposits of nonmember banks are based on the latest data available at the time of the report of closing of the banks.
³ Includes 7 banks with deposits of \$63,154,000 which did not receive licenses following the banking holiday and withdrew from the Federal Reserve System before being placed in liquidation.

BANK SUSPENSIONS

17142

No. 84.—NONLICENSED BANKS PLACED IN LIQUIDATION OR RECEIVERSHIP, BY DISTRICTS AND BY STATES, IN 1934¹

Federal Reserve district and State ²	Number of banks				Deposits ³ (in thousands of dollars)			
	Total	National	State member	Non-member	Total	National banks	State member banks	Non-member banks
DISTRICT								
Boston.....	14	12	1	1	15,068	10,088	2,491	1,134
New York.....	37	36	1	1	62,048	51,694	.....	854
Philadelphia.....	77	56	4	17	145,451	96,222	10,735	38,494
Cleveland.....	136	63	5	68	100,434	83,096	4,148	73,190
Richmond.....	48	22	.....	26	26,696	19,078	.....	10,621
Atlanta.....	40	17	.....	21	34,267	12,815	12,788	8,664
Chicago.....	269	74	9	176	98,256	60,828	8,809	28,619
St. Louis.....	114	31	1	82	36,845	20,300	182	16,363
Minneapolis.....	27	24	.....	3	18,615	13,847	.....	268
Kansas City.....	127	34	.....	93	28,061	14,861	.....	11,400
Dallas.....	17	9	.....	8	5,001	1,588	.....	1,448
San Francisco.....	31	20	1	10	11,684	6,564	859	4,661
Total	927	868	423	506	624,921	390,218	39,492	165,211
STATE								
New England:								
Maine.....	4	4	.....	.....	3,369	3,369	.....	.....
New Hampshire.....	1	1	.....	.....	1,302	1,302	.....	.....
Vermont.....	3	3	.....	.....	2,823	2,823	.....	.....
Massachusetts.....	5	4	.....	1	5,478	2,444	.....	1,134
Rhode Island.....	1	.....	1	.....	2,491	.....	2,491	.....
Middle Atlantic:								
New York.....	22	22	.....	.....	33,054	33,054	.....	.....
New Jersey.....	22	21	.....	1	22,273	22,919	.....	354
Pennsylvania.....	126	84	5	37	227,024	143,626	12,483	70,615
East North Central:								
Ohio.....	74	22	4	48	70,671	27,602	2,400	41,669
Indiana.....	43	14	2	27	19,880	10,199	5,064	4,717
Illinois.....	34	34	.....	.....	23,119	23,119	.....	.....
Michigan.....	76	10	5	52	39,630	30,665	2,067	6,598
Wisconsin.....	42	20	.....	22	16,708	12,943	.....	3,566
West North Central:								
Minnesota.....	9	9	.....	.....	3,806	3,806	.....	.....
Iowa.....	103	16	2	86	23,856	7,539	1,678	14,648
Missouri.....	81	5	.....	76	17,168	2,724	.....	14,444
North Dakota.....	2	2	.....	.....	690	690	.....	.....
South Dakota.....	2	2	.....	.....	804	804	.....	.....
Nebraska.....	69	11	.....	68	11,094	4,280	.....	6,814
Kansas.....	10	9	.....	1	4,207	3,907	.....	300
South Atlantic:								
Maryland.....	9	4	.....	5	6,652	2,840	.....	2,792
District of Columbia.....	4	1	.....	3	3,490	2,864	.....	5,506
Virginia.....	6	5	.....	1	3,383	3,348	.....	133
West Virginia.....	9	9	.....	.....	6,107	6,107	.....	.....
North Carolina.....	19	4	.....	15	6,014	3,403	.....	1,611
South Carolina.....	3	1	.....	2	2,100	1,523	.....	577
Georgia.....	4	4	.....	.....	1,301	1,301	.....	.....
Florida.....	7	3	.....	4	3,515	2,860	.....	655
East South Central:								
Kentucky.....	10	9	.....	1	5,228	4,288	.....	965
Tennessee.....	5	4	.....	1	2,311	1,574	.....	437
Alabama.....	14	2	1	11	6,153	498	507	5,148
Mississippi.....	2	.....	.....	2	1,241	.....	.....	1,241
West South Central:								
Arkansas.....	18	4	1	13	3,334	619	182	2,533
Louisiana.....	13	5	1	7	20,666	6,448	12,261	1,957
Oklahoma.....	22	6	.....	16	4,330	3,162	.....	1,168
Texas.....	13	8	.....	4	2,978	.....	.....	986
Mountain:								
Idaho.....	1	1	.....	.....	180	180	.....	.....
Colorado.....	10	7	.....	3	3,283	3,068	.....	200
Pacific:								
Washington.....	9	4	.....	5	1,982	1,353	.....	629
Oregon.....	5	5	1	2	2,224	1,438	359	397
California.....	13	10	.....	3	7,248	6,613	.....	3,635

¹ Includes nonlicensed banks absorbed or succeeded by other banks.
² States listed only in cases where closings occurred.
³ Deposits of nonlicensed national banks placed in liquidation or receivership are as of dates of conservatorship; deposits of nonlicensed State member banks placed in liquidation or receivership are as of the nearest call dates prior to liquidation or receivership; and deposits of nonmember banks are based on the latest data available at the time of the report of closing of the banks.
⁴ Includes 14 banks with deposits of \$12,432,000 which did not receive licenses following the banking holiday and withdraw from the Federal Reserve System before being placed in liquidation.

172 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 85.—NUMBER OF BANKS LICENSED AND NOT LICENSED, BY DISTRICTS AND BY STATES, ON APR. 12, 1933

Federal Reserve district and State	Licensed				Not licensed			
	Total	National banks	State member banks	Non-member banks ¹	Total	National banks	State member banks	Non-member banks ¹
DISTRICT								
Boston.....	466	283	22	160	110	55	4	51
New York.....	992	539	134	319	161	139	8	14
Philadelphia.....	820	529	57	243	136	62	7	36
Cleveland.....	1,051	416	56	577	351	146	12	173
Richmond.....	897	259	29	579	272	95	7	170
Atlanta.....	982	237	33	712	131	41	6	85
Chicago.....	1,498	375	87	1,036	1,491	242	69	1,180
St. Louis.....	1,393	273	48	1,072	450	55	17	347
Minneapolis.....	1,080	426	32	622	497	70	3	424
Kansas City.....	1,898	666	26	1,207	415	78	-----	337
Dallas.....	1,049	484	48	517	70	29	5	36
San Francisco.....	714	302	62	350	150	64	13	83
Total	12,819	4,789	635	7,394	4,194	1,108	148	2,938
STATE								
New England:								
Maine.....	50	24	1	25	30	19	1	10
New Hampshire.....	62	48	1	13	6	5	-----	1
Vermont.....	28	28	-----	-----	81	17	-----	34
Massachusetts.....	204	127	16	61	20	14	3	3
Rhode Island.....	31	10	2	8	1	-----	-----	1
Connecticut.....	132	56	2	74	3	1	-----	2
Middle Atlantic:								
New York.....	705	395	88	222	108	99	2	7
New Jersey.....	559	207	51	101	74	56	8	10
Pennsylvania.....	955	599	65	291	217	145	6	66
East North Central:								
Ohio.....	581	306	36	239	204	60	11	133
Indiana.....	422	104	4	214	217	42	3	172
Illinois.....	646	227	37	382	354	102	7	245
Michigan.....	246	48	9	158	290	51	56	183
Wisconsin.....	290	83	9	198	451	36	1	414
West North Central:								
Minnesota.....	470	198	2	270	282	28	3	251
Iowa.....	323	81	15	227	456	71	6	381
Missouri.....	630	82	35	503	133	14	-----	167
North Dakota.....	108	67	-----	-----	101	55	10	45
South Dakota.....	205	64	10	131	21	6	-----	15
Nebraska.....	375	129	6	243	103	19	-----	174
Kansas.....	761	188	0	557	42	18	-----	24
South Atlantic:								
Delaware.....	45	15	4	26	3	1	-----	2
Maryland.....	93	32	-----	-----	97	35	2	60
District of Columbia.....	20	8	-----	-----	12	3	-----	10
Virginia.....	326	119	10	197	34	19	2	13
West Virginia.....	167	59	19	98	40	24	-----	14
North Carolina.....	182	32	4	146	62	11	-----	50
South Carolina.....	108	15	4	87	30	5	-----	25
Georgia.....	294	48	21	197	13	9	1	3
Florida.....	139	44	2	93	28	5	1	22
East South Central:								
Kentucky.....	407	84	5	318	44	22	-----	21
Tennessee.....	323	66	3	253	20	10	1	9
Alabama.....	199	96	7	126	53	11	-----	22
Mississippi.....	180	21	-----	-----	159	3	-----	33
West South Central:								
Arkansas.....	180	45	5	130	76	7	7	62
Louisiana.....	140	20	2	118	42	3	-----	31
Oklahoma.....	398	214	1	183	35	15	-----	70
Texas.....	931	448	46	437	54	24	3	27
Mountain:								
Montana.....	127	47	11	69	11	5	-----	6
Idaho.....	77	22	9	46	15	5	1	9
Wyoming.....	68	25	5	38	-----	-----	-----	25
Colorado.....	138	72	4	60	58	23	-----	2
New Mexico.....	42	23	2	17	5	1	-----	-----
Arizona.....	19	8	2	9	1	1	-----	-----
Utah.....	69	14	16	39	1	1	-----	3
Nevada.....	10	6	-----	-----	4	-----	-----	-----
Pacific:								
Washington.....	168	63	21	84	66	19	5	42
Oregon.....	108	57	5	46	29	8	5	14
California.....	271	135	9	127	35	19	2	14

¹ Exclusive of mutual savings banks, private banks not under supervision of State banking departments, and any trust companies and other financial institutions which do not receive deposits.

BANK SUSPENSIONS

175

No. 86.—DEPOSITS OF BANKS LICENSED AND NOT LICENSED, BY DISTRICTS AND BY STATES, ON APR. 12, 1933¹

[In thousands of dollars]

Federal Reserve district and State	Licensed				Not licensed			
	Total	National banks	State member banks	Non-member banks ²	Total	National banks	State member banks	Non-member banks ²
DISTRICT								
Boston	2,323,827	1,459,313	444,026	420,488	252,778	99,007	35,575	118,194
New York	11,172,832	4,301,756	6,734,393	1,136,483	288,819	221,186	30,435	31,199
Philadelphia	2,339,016	1,383,395	640,255	314,366	221,543	126,154	23,492	63,897
Cleveland	2,609,900	1,169,139	853,778	487,073	668,968	162,891	359,216	146,859
Richmond	1,190,296	612,648	172,756	404,992	373,228	126,031	76,271	170,926
Atlanta	920,716	616,298	66,837	235,581	187,019	26,279	126,617	32,123
Chicago	3,073,819	1,980,332	534,751	558,736	1,435,225	623,063	129,914	489,218
St. Louis	1,135,329	649,557	293,381	292,391	106,974	48,067	48,570	70,337
Minneapolis	840,658	635,048	33,745	151,866	149,792	36,072	723	113,997
Kansas City	1,240,008	885,354	113,380	240,274	124,801	66,712	—	54,799
Dallas	863,024	676,874	40,364	145,786	11,819	5,338	—	6,025
San Francisco	3,214,156	2,204,835	561,378	547,943	99,068	70,692	6,833	22,543
Total	30,932,272	16,494,649	9,491,634	4,946,089	9,977,830	1,818,541	841,382	1,317,607
STATE								
New England:								
Maine	138,224	61,567	1,616	73,041	91,183	45,444	2,713	43,026
New Hampshire	72,332	60,977	1,000	20,355	7,094	5,398	—	1,098
Vermont	25,207	25,206	—	—	86,797	23,810	—	61,987
Massachusetts	1,488,630	1,109,944	185,449	191,236	65,923	24,357	—	6,704
Rhode Island	281,352	36,701	220,449	24,202	2,491	—	—	2,491
Connecticut	430,316	210,014	35,512	184,790	5,537	3,249	—	2,288
Middle Atlantic:								
New York	9,923,656	3,843,656	5,300,500	779,477	187,870	163,003	1,922	22,044
New Jersey	1,382,680	568,811	468,778	345,071	126,331	63,113	46,228	18,990
Pennsylvania	3,130,224	1,837,407	894,967	397,850	337,217	213,345	16,738	107,134
East North Central:								
Ohio	1,218,095	492,750	504,510	220,826	507,038	55,964	354,745	49,329
Indiana	370,095	170,513	27,078	172,504	133,832	78,172	9,216	46,444
Illinois	1,933,541	1,468,212	212,881	152,348	191,394	78,791	12,741	99,852
Michigan	357,626	198,336	149,852	92,825	899,253	650,395	104,035	144,822
Wisconsin	462,127	290,209	38,723	123,195	158,772	26,731	—	131,780
West North Central:								
Minnesota	546,247	459,015	62,902	85,930	87,926	10,792	723	70,411
Iowa	233,788	112,338	92,461	95,759	199,397	33,715	2,710	122,972
Missouri	836,516	370,871	322,302	134,943	111,498	49,558	21,144	40,706
North Dakota	52,259	41,445	—	10,805	10,739	6,208	—	4,531
South Dakota	61,192	38,639	4,327	18,226	4,057	1,800	—	2,197
Nebraska	182,487	145,259	429	36,799	29,708	6,035	—	23,101
Kansas	269,097	151,775	3,377	103,945	11,601	7,632	—	3,869
South Atlantic:								
Delaware	104,911	14,978	45,094	44,841	599	—	—	386
Maryland	281,009	180,133	48,994	83,882	195,001	84,527	58,922	104,553
Dist. Columbia	203,148	110,145	—	93,003	41,040	26,280	—	14,760
Virginia	359,542	227,288	38,698	93,558	32,950	12,206	17,594	3,180
West Virginia	190,257	90,008	30,370	69,619	28,388	17,960	384	10,294
North Carolina	158,767	31,616	62,899	64,252	45,902	11,700	—	21,812
South Carolina	48,656	15,602	4,676	27,778	32,755	24,426	—	8,329
Georgia	245,797	178,777	28,695	38,325	5,772	2,715	2,320	737
Florida	171,323	133,682	1,463	36,179	9,424	4,697	579	4,248
East South Central:								
Kentucky	291,738	138,332	31,473	121,933	21,454	17,377	—	4,077
Tennessee	242,227	137,098	27,374	59,585	5,170	4,073	200	8,798
Alabama	163,412	116,778	18,952	28,982	9,312	6,233	—	3,079
Mississippi	95,780	38,403	—	59,377	11,241	4,709	—	6,442
West South Central:								
Arkansas	73,562	45,770	5,835	21,947	28,669	1,062	19,157	8,470
Louisiana	192,882	79,347	18,751	94,484	153,334	7,207	126,718	20,409
Oklahoma	273,976	238,542	187	35,247	15,159	8,237	—	6,922
Texas	770,904	629,267	35,485	106,212	8,393	4,281	236	3,922
Mountain:								
Montana	91,600	56,064	20,316	15,120	3,745	1,724	—	2,021
Idaho	41,616	13,744	11,170	16,702	6,972	4,736	199	1,037
Wyoming	39,728	26,930	1,351	11,457	18,489	10,023	—	3,548
Colorado	211,536	170,819	16,228	24,489	—	—	—	1,909
New Mexico	24,901	20,331	611	3,759	3,242	1,243	—	—
Arizona	44,133	18,553	6,824	18,756	301	301	—	—
Utah	100,838	42,542	30,523	27,143	407	407	—	—
Nevada	11,538	8,984	—	2,554	1,048	718	—	330
Pacific:								
Washington	231,292	175,615	28,498	27,069	31,356	22,704	1,798	6,854
Oregon	160,449	140,662	1,572	18,295	12,399	6,765	2,468	3,166
California	2,747,881	1,814,877	482,791	446,913	67,665	35,001	1,308	11,156

¹ Deposits are as of Dec. 31, 1932, or the nearest available call date prior thereto.
² Exclusive of mutual savings banks, private banks not under supervision of State banking departments, and any trust companies or other financial institutions which do not accept deposits.

No. 87.—NUMBER OF BANKS LICENSED AND NOT LICENSED, BY DISTRICTS AND BY STATES, ON DEC. 31, 1934

Federal Reserve district and State	Licensed				Not licensed			
	Total	National banks	State member banks	Non-member banks ¹	Total	National banks	State member banks	Non-member banks ¹
DISTRICT								
Boston.....	544	322	49	173	3			3
New York.....	1,092	627	164	301	9	1		2
Philadelphia.....	931	595	61	275	2			8
Cleveland.....	1,260	528	99	633	10	1	1	12
Richmond.....	1,040	339	61	340	13			8
Atlanta.....	1,098	277	55	766	3			3
Chicago.....	2,562	519	163	1,880	47	1		46
St. Louis.....	1,060	320	71	1,269	32	1	2	29
Minneapolis.....	1,422	455	69	898	11			11
Kansas City.....	1,697	636	48	1,263	15			15
Dallas.....	1,057	495	60	502	2			2
San Francisco.....	707	299	80	328	11	1		10
Total.....	15,370	5,462	980	8,928	158	5	4	149
STATE								
New England:								
Maine.....	71	40	6	25	2			2
New Hampshire.....	65	52	1	12				
Vermont.....	73	43		33				
Massachusetts.....	211	132	34	45	1			1
Rhode Island.....	23	12	2	9				
Connecticut.....	127	54	6	67				
Middle Atlantic:								
New York.....	784	461	117	206				
New Jersey.....	398	230	52	110	9	1		8
Pennsylvania.....	1,118	711	73	334	2			2
East North Central:								
Ohio.....	703	253	71	379	10	1	1	8
Indiana.....	541	125	6	410	7			7
Illinois.....	884	262	64	528	2	2		5
Michigan.....	485	85	79	321	25			25
Wisconsin.....	614	106	13	495	9			9
West North Central:								
Minnesota.....	685	211	17	457				
Iowa.....	661	123	25	513	9			9
Missouri.....	669	90	51	558	24		1	23
North Dakota.....	266	69		137	5			5
South Dakota.....	212	64	23	125				
Nebraska.....	133	9	9	200	8			8
Kansas.....	743	192	14	537	1			1
South Atlantic:								
Delaware.....	47	16	4	27				
Maryland.....	187	63	7	117	1			1
District of Columbia.....	22	9	2	11				
Virginia.....	327	133	24	170				
West Virginia.....	180	79	18	83	6		1	5
North Carolina.....	215	44	10	161	2			2
South Carolina.....	137	19	4	114	4			4
Georgia.....	325	58	25	242				
Florida.....	152	50	4	98	3			3
East South Central:								
Kentucky.....	436	99	10	327				
Tennessee.....	331	73	4	254	1			1
Alabama.....	222	72	18	132				
Mississippi.....	213	25	3	185	1			1
West South Central:								
Arkansas.....	237	51	7	179	4		1	3
Louisiana.....	149	30	4	115	1			1
Oklahoma.....	412	217	1	194	3			3
Texas.....	940	456	54	430	1			1
Mountain:								
Montana.....	120	46	20	54	3			3
Idaho.....	63	25	10	28				
Wyoming.....	60	26	8	26				
Colorado.....	159	81	5	73	3			3
New Mexico.....	42	24	3	15				
Arizona.....	17	8	4	5				
Utah.....	58	13	19	26	1	1		
Nevada.....	10	6		4	4			4
Pacific:								
Washington.....	197	67	27	103	1			1
Oregon.....	104	53	6	45	4			4
California.....	265	130	16	119	1			1

¹ Exclusive of mutual savings banks and any trust companies and other financial institutions which do not receive deposits; inclusive of private banks under State supervision and private banks not under supervision of State banking departments but which, under the provisions of sec. 21 (a) of Banking Act of 1933, have agreed to examination by the Comptroller of the Currency or the Federal Reserve banks.

No. 88.—DEPOSITS OF BANKS LICENSED AND NOT LICENSED, BY DISTRICTS AND BY STATES, ON DEC. 31, 1934¹

[In thousands of dollars]

Federal Reserve district and State	Licensed				Not licensed			
	Total	National banks	State member banks	Non-member banks ²	Total	National banks	State member banks	Non-member banks
DISTRICT								
Boston.....	2,611,053	1,678,987	621,099	415,967	16,835	.....	.....	15,855
New York.....	13,453,584	4,947,068	7,162,206	1,344,310	18,461	3,063	.....	15,398
Philadelphia.....	2,899,277	1,066,091	717,128	487,080	4,171	.....	.....	4,171
Cleveland.....	3,184,607	1,581,541	1,069,597	636,569	10,764	763	1,218	8,813
Richmond.....	1,795,214	941,855	360,295	493,064	4,002	.....	292	3,710
Chicago.....	5,361,053	997,260	105,844	274,452	717	.....	.....	717
St. Louis.....	1,526,702	770,745	890,870	971,127	20,143	171	.....	19,972
Minneapolis.....	1,133,162	843,484	53,031	236,647	1,337	2,121	285	1,337
Kansas City.....	1,701,832	1,214,603	181,733	305,296	2,589	.....	.....	2,589
Dallas.....	1,168,899	959,371	50,250	159,218	1,107	.....	.....	1,107
San Francisco.....	3,953,902	2,792,952	734,569	426,351	1,736	392	.....	1,344
Total.....	30,909,817	21,837,150	12,211,255	6,061,412	88,332	6,510	1,795	80,027
STATE								
New England:								
Maine.....	171,366	102,313	27,778	41,215	14,240	.....	.....	14,240
New Hampshire.....	71,328	55,441	1,175	13,712	.....	.....	.....	.....
Vermont.....	93,012	43,739	.....	51,273	.....	.....	.....	.....
Massachusetts.....	1,636,840	1,159,532	301,456	135,852	1,595	.....	.....	1,595
Rhode Island.....	282,271	80,118	131,238	70,929	.....	.....	.....	.....
Connecticut.....	465,576	235,498	59,457	170,621	.....	.....	.....	.....
Middle Atlantic:								
New York.....	12,180,056	4,413,975	6,723,764	1,012,317	.....	.....	.....	.....
New Jersey.....	1,457,857	652,363	465,722	339,772	18,461	3,063	.....	15,898
Pennsylvania.....	3,864,973	2,221,394	1,060,455	583,124	4,171	.....	.....	4,171
East North Central:								
Ohio.....	1,627,598	767,160	601,458	258,980	10,794	708	1,218	8,813
Indiana.....	567,637	300,654	33,146	233,837	7,435	.....	.....	7,435
Illinois.....	2,041,922	2,140,725	544,318	256,879	2,292	2,292	.....	.....
Michigan.....	941,120	512,882	217,986	210,272	7,769	.....	.....	7,769
Wisconsin.....	654,575	366,671	61,379	226,525	3,780	.....	.....	3,780
West North Central:								
Minnesota.....	745,974	603,114	6,803	136,257	.....	.....	.....	.....
Iowa.....	459,298	107,183	57,558	204,557	2,292	.....	.....	2,292
Missouri.....	1,115,371	537,569	431,468	140,334	4,573	149	.....	4,424
North Dakota.....	98,016	50,436	.....	17,580	578	.....	.....	578
South Dakota.....	79,111	47,097	9,966	22,018	.....	.....	.....	.....
Nebraska.....	204,077	223,562	4,385	62,030	715	.....	.....	715
Kansas.....	353,561	207,388	14,165	131,008	70	.....	.....	70
South Atlantic:								
Delaware.....	114,580	14,984	60,599	38,967	.....	.....	.....	.....
Maryland.....	492,229	279,065	82,644	130,520	903	.....	.....	903
District of Columbia.....	258,854	150,605	58,502	47,747	.....	.....	.....	.....
Virginia.....	444,633	281,520	71,500	91,013	.....	.....	.....	.....
West Virginia.....	230,709	121,690	56,852	58,167	2,232	.....	292	1,940
North Carolina.....	307,720	77,300	111,484	118,936	153	.....	.....	153
South Carolina.....	115,898	45,745	7,349	62,804	714	.....	.....	714
Georgia.....	332,792	228,236	43,888	60,669	.....	.....	.....	.....
Florida.....	230,977	180,907	7,741	42,829	717	.....	.....	717
East South Central:								
Kentucky.....	368,955	179,428	50,453	129,074	.....	.....	.....	.....
Tennessee.....	369,491	277,333	9,856	82,307	208	.....	.....	208
Alabama.....	218,980	167,505	27,058	34,112	.....	.....	.....	.....
Mississippi.....	145,360	52,833	917	91,610	323	.....	.....	323
West South Central:								
Arkansas.....	123,745	74,296	13,296	36,151	362	.....	136	226
Louisiana.....	330,450	230,653	25,392	63,400	50	.....	.....	50
Oklahoma.....	316,212	276,005	873	39,834	1,431	.....	.....	1,431
Texas.....	1,055,713	892,204	30,864	126,495	57	.....	.....	57
Mountain:								
Montana.....	111,488	66,017	28,477	16,994	308	.....	.....	308
Idaho.....	95,343	28,613	25,171	14,559	.....	.....	.....	.....
Wyoming.....	49,788	35,318	2,999	11,446	.....	.....	.....	.....
Colorado.....	261,912	221,963	10,978	20,273	373	.....	.....	373
New Mexico.....	37,550	30,548	739	6,272	.....	.....	.....	.....
Arizona.....	53,948	21,626	20,192	12,130	.....	.....	.....	.....
Utah.....	119,850	57,067	40,881	21,902	392	.....	.....	392
Nevada.....	19,871	16,255	.....	3,618	544	.....	.....	544
Pacific:								
Washington.....	338,972	243,307	59,262	36,403	103	.....	.....	103
Oregon.....	211,062	181,977	3,164	25,961	529	.....	.....	529
California.....	3,163,277	2,254,177	892,052	317,048	168	.....	.....	168

¹ Deposits of member banks are as of Dec. 31, 1934; deposits of nonmember banks are as of Dec. 31, 1934, or nearest available call date prior thereto.

² Exclusive of mutual savings banks and any trust companies and other financial institutions which do not receive deposits; inclusive of private banks under State supervision and private banks not under supervision of State banking departments but which, under the provisions of sec. 21 (b) of Banking Act of 1933, have agreed to examination by the Comptroller of the Currency or the Federal Reserve banks.

176 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 89.—NUMBER AND DEPOSITS OF LICENSED AND NOT LICENSED MEMBER AND NONMEMBER BANKS

	Number of banks			Deposits (in thousands of dollars) ¹		
	Total	Li- censed	Not li- censed †	Total	Li- censed	Not li- censed
All member banks:						
Mar. 15, 1933.....	6,099	6,078	1,621	28,421,038	25,554,287	2,866,751
Apr. 12, 1933.....	6,081	5,425	1,256	28,846,108	26,986,183	2,859,925
June 30, 1933.....	6,701	6,690	1,993	27,520,942	25,563,927	1,956,015
Dec. 30, 1933.....	6,523	6,011	1,512	27,694,828	27,166,974	527,854
Mar. 5, 1934.....	6,514	6,206	308	29,616,026	29,324,826	290,201
June 30, 1934.....	6,486	6,275	113	31,124,361	31,012,867	111,494
Oct. 17, 1934.....	6,469	6,433	36	32,318,729	32,266,443	52,286
Dec. 31, 1934.....	6,451	6,442	9	33,856,710	33,848,405	8,306
National banks:						
Mar. 15, 1933.....	5,907	4,897	1,400	18,127,719	16,195,145	1,942,574
Apr. 12, 1933.....	5,877	4,789	1,108	18,315,060	16,494,549	1,818,511
June 30, 1933.....	5,882	4,897	988	17,799,638	16,741,289	1,028,347
Dec. 30, 1933.....	5,906	5,164	452	17,990,217	17,565,239	424,978
Mar. 5, 1934.....	5,558	5,288	270	19,048,333	18,801,352	247,181
June 30, 1934.....	5,512	5,417	95	19,993,866	19,895,897	97,969
Oct. 17, 1934.....	5,491	5,461	30	20,810,507	20,784,669	25,838
Dec. 31, 1934.....	5,407	5,402	5	21,643,660	21,637,160	6,500
State bank members:						
Mar. 15, 1933.....	792	571	221	10,288,319	9,359,142	924,177
Apr. 12, 1933.....	784	636	148	10,335,016	9,491,634	841,382
June 30, 1933.....	810	709	110	10,060,306	9,822,638	237,668
Dec. 30, 1933.....	917	857	60	9,704,611	9,511,736	192,876
Mar. 5, 1934.....	950	918	38	10,596,493	10,522,473	43,020
June 30, 1934.....	978	958	18	11,130,465	11,110,470	19,995
Oct. 17, 1934.....	978	972	6	11,805,221	11,800,874	4,347
Dec. 31, 1934.....	984	980	4	12,219,030	12,211,255	1,785
Nonmember banks other than mutual sav- ings banks: ‡						
Apr. 12, 1933.....	10,332	7,394	2,938	6,263,696	4,946,060	1,317,637
June 30, 1933.....	10,171	8,188	1,983	6,135,848	5,071,604	1,063,894
Dec. 30, 1933.....	9,590	8,333	1,257	5,559,966	5,062,908	497,058
Mar. 7, 1934.....	9,337	8,395	942	5,368,592	4,940,583	428,009
June 27, 1934.....	9,269	8,760	509	5,547,799	5,313,865	234,224
Oct. 17, 1934.....	9,187	8,901	286	5,484,147	5,358,384	127,763
Dec. 31, 1934.....	9,077	8,928	149	6,141,439	6,061,412	80,027

¹ Includes a number of national banks whose Federal Reserve bank stock had been canceled and membership in the Federal Reserve System terminated but which, on the dates given, were still included in the Comptroller of the Currency's records of unlicensed banks.

² Deposits of national banks and State bank members are as of the nearest call date; deposits of non member banks for Apr. 12 and June 30, 1933, are as of Dec. 30, 1933, or the nearest available call date prior thereto; deposits of nonmember banks for Dec. 30, 1933, Mar. 7, June 27, and Oct. 17, 1934, are as of Dec. 30, 1933, or the nearest available call date prior thereto; and deposits of nonmember banks for Dec. 31, 1934, are as of that date, or as of the nearest available call date prior thereto.

³ Exclusive of any trust companies and other financial institutions which do not receive deposits but are included in State bank abstracts. Also exclusive of mutual savings banks, for which total figures only appear in table 60, a segregation as to licensed and not licensed mutual savings banks not being available. In some States, subsequent to the banking holiday in March 1933, restrictions were placed on deposit withdrawals at all mutual savings banks in the State, but withdrawals in excess of the limitations were generally permitted if the use to be made of the funds warranted the larger withdrawals. In addition to these general limitations on deposit withdrawals, other restrictions were imposed, either by the bank's management or by supervisory authorities, in the case of a number of mutual savings banks taken individually. Nonmember bank figures are not available for some of the dates for which data are shown for member banks.

CHANGES IN MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

No. 90.—CHANGES IN MEMBERSHIP, BY CLASS OF BANK, IN 1933 AND 1934

	Year 1933			Year 1934		
	Total	National	State	Total	National	State
LICENSED MEMBER BANKS						
Number at beginning of year.....	1 6, 816	1 6, 011	1 805	6, 011	5, 154	857
Increases:						
Organizations of national banks (including successions and conversions).....	249	249	—	406	406	—
Admissions of State banks to membership.....	237	—	237	125	—	125
Reopening of suspended banks.....	5	4	1	8	5	3
Reopening (licensing) of banks not given licenses on Mar. 13-15, 1933.....	575	489	86	67	45	22
Total additions.....	1, 066	742	324	606	456	150
Decreases:						
Withdrawals of State banks from membership.....	6	—	6	5	—	5
Suspensions.....	104	75	29	1	1	—
Mergers, absorptions, consolidations, and liquidations.....	140	124	16	169	147	22
Banks not given licenses on Mar. 13-15, 1933.....	1, 621	1, 400	221	—	—	—
Total decreases.....	1, 871	1, 599	272	175	148	27
Net increase or decrease.....	-805	-857	+52	+431	+308	+123
Number of licensed member banks at end of year.....	6, 011	5, 154	857	6, 442	5, 462	980
UNLICENSED MEMBER BANKS						
Number at beginning of year.....	2 1, 621	2 1, 400	2 221	512	452	60
Increases: Licenses revoked.....	14	17	7	—	—	—
Decreases:						
Licenses granted (to existing banks).....	576	489	67	69	45	24
Liquidations and receiverships.....	511	465	45	422	402	20
Withdrawals of State banks from membership.....	36	—	36	12	—	12
Number of unlicensed member banks at end of year.....	512	452	60	9	7	4

¹ Member banks in actual operation (licensing of banks, to resume operations on an unrestricted basis after the banking holiday, began Mar. 15, 1933).

² Mar. 16, 1933.

³ In addition to licenses revoked (of 6 national banks and 6 State bank members) includes 1 unlicensed national bank and 1 unlicensed State bank member, respectively, which had suspended before the banking holiday but which were placed in conservatorship and/or permitted to operate on a restricted basis after the banking holiday.

⁴ Includes banks whose licenses were revoked (after the banking holiday) and which later were relicensed and reopened, as follows: 1 in 1933, 2 in 1934.

⁵ Includes unlicensed banks absorbed or succeeded by other banks.

⁶ Includes the following number of banks reported as "suspensions" in the first part of the table, representing banks whose licenses were revoked after the banking holiday and which later were placed in liquidation or receivership: 2 national banks in 1933 and 4 in 1934, and 2 State member banks in 1934. Also includes 1 unlicensed national bank in 1933 which had suspended before the banking holiday and which, following the banking holiday, was first placed in conservatorship and subsequently placed in liquidation or receivership.

⁷ Includes national banks whose Federal Reserve bank stock had been canceled and membership terminated but which, at the end of the year, were still included in the Comptroller of the Currency's records of unlicensed national banks, as follows: 16 at the end of 1933, 3 at the end of 1934.

Back figures.—See Annual Report for 1932 (table 90).

EARNINGS, EXPENSES, AND DIVIDENDS OF MEMBER BANKS

No. 91.—MEMBER BANKS—EARNINGS, EXPENSES, DIVIDENDS, AND OPERATING RATIOS 1925-33

(In thousands of dollars)

Year ended Dec. 31	Gross earnings			Expenses						Net earnings	Losses and depreciation					Net profits	Cash dividends declared	
	Total	Interest earned	All other	Total	Interest paid		Salaries and wages	Taxes	All other		Total	On loans	On investments	All other	Recoveries on losses			Net
					On deposits	On borrowed money												
All member banks:																		
1925.....	1,918,094	1,615,695	302,499	1,887,318	643,158	26,954	372,741	102,411	223,054	650,776	193,099	128,774	35,127	29,198	61,806	131,293	410,483	273,686
1926.....	2,027,762	1,710,492	317,260	1,441,745	672,927	31,350	396,796	105,855	234,787	586,007	207,630	124,895	35,909	48,736	53,006	164,524	431,483	284,809
1927.....	2,180,277	1,749,030	371,269	1,615,704	713,038	24,614	420,128	109,778	246,246	604,573	208,093	153,745	37,294	47,664	51,129	187,564	447,009	312,890
1928.....	2,253,998	1,905,728	378,270	1,613,811	749,662	48,443	440,000	110,776	261,947	670,187	217,194	119,260	45,293	52,611	50,875	168,319	503,888	327,422
1929.....	2,474,999	2,098,901	405,198	1,683,720	759,260	64,285	463,847	112,478	283,872	790,379	295,473	139,588	95,465	60,420	61,608	233,865	556,514	406,628
1930.....	2,228,774	1,857,514	371,260	1,604,335	748,992	22,001	451,776	113,418	268,148	624,439	365,314	194,725	109,028	61,561	47,377	317,937	306,502	371,968
1931.....	1,911,502	1,581,905	320,597	1,335,379	580,910	19,136	412,531	86,367	236,435	576,123	620,450	295,241	264,170	61,045	56,594	563,862	12,261	335,792
1932.....	1,553,618	1,328,478	228,140	1,143,384	434,324	38,814	356,557	67,077	246,612	410,234	778,230	403,372	304,961	69,997	113,109	665,121	254,887	245,074
1933.....	1,256,864	1,038,398	198,471	850,300	287,991	16,178	306,021	68,028	192,082	377,564	888,279	428,442	344,053	88,784	124,885	733,394	356,830	160,804
National member banks:																		
1925.....	1,159,695	1,015,352	144,243	872,255	382,483	17,172	223,756	66,645	132,199	337,340	136,269	92,127	23,692	20,450	43,129	93,147	244,193	171,324
1926.....	1,210,911	1,080,539	150,322	856,765	395,352	20,089	235,969	68,270	137,088	354,146	145,831	88,017	26,261	31,653	36,662	109,169	244,977	176,421
1927.....	1,289,297	1,107,242	182,055	918,816	431,763	15,429	263,634	69,219	148,771	370,481	148,225	91,214	26,665	31,246	35,027	113,198	267,283	197,555
1928.....	1,401,471	1,211,259	190,212	987,739	469,819	29,184	269,429	69,872	169,435	413,732	158,254	88,077	34,455	35,722	35,282	122,072	290,760	204,612
1929.....	1,443,308	1,247,126	196,178	987,140	450,228	37,350	271,103	64,333	194,996	456,163	200,633	93,680	63,304	43,049	36,854	164,779	291,364	247,317
1930.....	1,363,226	1,155,650	198,378	958,029	461,311	17,807	277,798	68,373	167,740	378,899	248,618	135,085	71,202	42,331	30,887	217,731	188,168	216,962
1931.....	1,194,140	1,009,829	184,311	848,254	377,281	11,618	237,074	63,110	149,176	345,886	437,016	212,875	164,290	40,161	36,244	400,782	54,896	193,898
1932.....	998,128	870,424	127,704	748,857	294,813	24,684	224,890	44,552	160,058	249,541	487,545	261,364	184,640	41,633	70,106	414,436	104,898	135,092
1933.....	790,599	686,676	118,023	603,718	300,869	9,373	193,974	40,311	119,191	235,881	601,190	304,668	244,607	52,115	79,784	521,426	288,545	71,403
State member banks:																		
1925.....	768,499	600,343	153,286	545,063	260,675	8,782	148,965	35,766	90,865	213,436	66,830	36,647	11,435	8,748	18,694	38,146	178,260	101,362
1926.....	816,841	646,923	169,938	684,980	277,375	11,261	160,827	37,615	67,702	231,861	61,099	36,869	9,648	15,183	16,344	45,365	186,506	108,388
1927.....	830,980	641,766	189,214	696,888	281,275	9,485	166,664	40,559	97,473	284,092	60,468	30,092	11,819	16,318	16,102	44,366	189,726	115,135
1928.....	882,527	694,469	188,058	626,072	280,843	19,259	170,571	43,887	102,112	256,455	68,940	31,213	10,838	16,889	15,593	43,347	213,108	122,810
1929.....	1,030,796	821,776	209,020	696,580	309,002	26,916	192,744	48,143	119,676	334,216	94,840	45,908	32,161	16,771	25,754	69,066	265,130	161,311
1930.....	864,546	691,964	172,882	616,306	287,631	9,194	173,978	45,043	105,408	248,540	116,656	69,640	37,826	19,230	16,490	100,260	148,334	156,976
1931.....	672,076	482,076	145,286	487,125	203,629	7,523	155,457	33,257	87,259	203,237	183,440	82,666	79,880	20,894	20,360	163,060	67,167	142,096
1932.....	555,094	455,064	100,436	394,797	139,511	14,130	132,077	22,325	88,554	160,693	290,653	141,908	120,315	28,462	40,003	230,682	89,989	109,982
1933.....	437,265	351,817	85,448	285,652	87,132	5,805	112,047	17,717	72,891	257,089	497,546	120,874	99,546	36,669	45,121	211,968	70,285	79,401

Year ended Dec. 31	Loans and investments ¹				Amounts of earnings, expenses, etc., per \$100 of loans and investments						Other ratios		
	Total	Loans	Investments	Capital funds ²	Gross earnings		Expenses		Losses and depreciation		Net profits	Loans and investments per \$1 of capital funds	Net profits per \$100 of capital funds
					Total	Interest earned	Total	Interest paid on deposits	Gross	Net			
	Thousands of dollars				Total	Interest earned	Total	Interest paid on deposits	Gross	Net	Net profits	Loans and investments per \$1 of capital funds	Net profits per \$100 of capital funds
All member banks:													
1925	30,873,891	20,809,107	8,884,784	4,589,294	\$6.46	\$5.44	\$4.61	\$2.17	\$0.65	\$0.44	\$1.41	\$4.47	\$9.14
1926	31,132,149	22,123,397	9,008,752	4,820,120	6.51	5.49	4.63	2.16	.67	.50	1.39	4.46	8.95
1927	32,755,971	23,000,039	9,740,832	5,162,702	6.47	5.24	4.63	2.15	.64	.48	1.38	4.34	8.66
1928	34,721,879	24,183,677	10,568,202	5,622,312	6.58	5.49	4.65	2.10	.63	.48	1.45	4.18	8.96
1929	35,727,128	25,614,655	10,112,473	5,360,306	6.92	5.79	4.71	2.13	.83	.65	1.56	5.02	8.76
1930	38,895,412	25,018,222	10,377,190	6,722,782	6.30	5.24	4.53	2.12	1.03	.90	.87	5.26	4.60
1931	35,481,791	21,732,289	11,699,032	6,398,866	5.72	4.73	3.99	1.74	1.86	1.69	1.04	5.23	.19
1932	26,622,520	15,743,940	11,778,880	5,880,145	5.45	4.94	4.01	1.63	2.73	2.39	-.89	5.04	-4.50
1933 ⁴	24,980,279	12,914,730	12,069,549	4,902,319	4.95	4.16	3.44	1.15	3.43	2.93	-1.42	5.10	-7.26
National member banks:													
1925	18,430,879	12,729,675	5,700,904	2,970,453	6.29	5.51	4.46	2.03	.74	.51	1.32	6.20	8.22
1926	19,135,990	13,353,101	5,782,859	3,077,183	6.33	5.54	4.48	2.07	.76	.57	1.28	6.22	7.96
1927	20,340,535	13,948,969	6,399,593	3,254,507	6.84	5.44	4.52	2.12	.75	.56	1.26	6.25	7.91
1928	21,838,260	14,789,566	7,068,884	3,543,909	6.41	5.54	4.52	2.10	.72	.56	1.33	6.17	8.21
1929	21,751,748	15,007,670	6,744,178	3,750,521	6.04	5.73	4.54	2.07	.92	.79	1.34	5.80	7.77
1930	21,638,624	14,720,937	6,811,587	3,913,450	6.33	5.41	4.59	2.14	1.16	1.01	.73	5.50	4.04
1931	20,564,446	13,117,216	7,447,230	3,746,961	5.81	4.91	4.12	1.83	2.13	1.95	-.27	5.47	-1.47
1932	17,818,632	10,475,546	7,243,088	3,317,193	5.00	4.80	4.20	1.65	2.74	2.33	-.93	5.30	-4.97
1933 ⁴	15,707,817	8,143,911	7,663,906	2,887,898	5.09	4.37	3.69	1.28	3.88	3.32	-1.82	5.44	-9.89
State member banks:													
1925	11,243,312	8,079,432	3,163,880	1,618,841	6.75	5.24	4.85	2.32	.51	.34	1.58	6.05	10.83
1926	11,990,189	8,770,296	3,223,893	1,742,946	6.81	5.41	4.88	2.31	.51	.38	1.55	6.88	10.70
1927	12,406,409	9,056,070	3,350,339	1,908,195	6.70	5.17	4.81	2.27	.49	.36	1.53	6.50	9.94
1928	12,863,629	9,364,111	3,499,518	2,078,703	6.86	5.40	4.87	2.25	.46	.34	1.60	6.19	10.25
1929	13,975,380	10,007,085	3,368,295	2,009,785	7.38	5.88	4.98	2.21	.68	.50	1.90	5.35	10.10
1930	13,856,888	10,261,285	3,565,603	2,309,332	6.24	4.99	4.45	2.08	.84	.72	1.07	4.93	5.28
1931	12,867,248	8,615,073	4,252,272	2,548,905	5.68	4.45	3.79	1.68	1.43	1.27	.52	4.86	2.54
1932	10,703,838	6,298,394	4,435,404	2,342,892	5.19	4.26	3.69	1.34	2.32	2.05	-.24	4.37	-3.84
1933 ⁴	9,278,462	4,772,810	4,505,943	2,014,421	4.71	3.79	3.19	.94	2.77	2.28	-.76	4.61	-3.49

¹ For 1933, these figures are averages of amounts from reports of condition for 8 call dates (June 30, Oct. 25, and Dec. 30, 1933); for prior years they are averages of amounts for all call dates during the year and the last call date in the previous year.

² Aggregate book value of capital stock, capital notes and debentures, surplus, undivided profits, reserves for contingencies, reserves for stock dividends on common stock, and retirement fund for preferred stock and/or capital notes and debentures. Also includes reserves for dividends prior to July 1932, and reserves for interest, taxes, and other expenses accrued and unpaid prior to Sept. 28, 1928.

³ Net loss.

⁴ Figures for 1934 not yet available.

Notes.—For explanation of ratios shown above, see Federal Reserve Bulletin for December 1928, pp. 826-828. Back figures.—Available only from 1923—see Annual Report for 1932 (tables 100-102).

BUSINESS CONDITIONS

BUSINESS CONDITIONS

No. 92.—CAPITAL ISSUES

[Exclusive of refunding issues. In millions of dollars]

Year and quarter	Total domestic and foreign	Domestic issues ¹					Foreign issues ¹	
		Total ²	State and municipal	Corporate bonds and notes				Stocks
				Total	Long-term	Short-term		
YEAR								
1919.....	3,626	3,234	678	810	498	312	1,436	392
1920.....	3,732	3,235	672	1,561	1,039	522	1,002	497
1921.....	3,644	3,021	1,199	1,435	1,274	161	265	823
1922.....	4,361	3,627	1,071	1,644	1,540	104	570	764
1923.....	4,437	4,016	1,043	1,976	1,833	143	659	421
1924.....	5,557	4,588	1,380	2,200	1,924	276	829	969
1925.....	6,201	5,125	1,352	2,452	2,231	221	1,163	1,076
1926.....	6,314	5,159	1,344	2,667	2,418	249	1,087	1,125
1927.....	7,556	6,219	1,475	3,183	2,962	221	1,474	1,337
1928.....	8,040	6,789	1,379	2,385	2,175	210	2,061	1,261
1929.....	10,001	9,420	1,418	2,078	1,873	205	5,924	671
1930.....	6,909	6,004	1,434	2,980	2,450	520	1,503	905
1931.....	3,088	2,860	1,235	1,240	951	289	311	220
1932.....	* 1,194	* 1,165	* 762	305	271	34	20	* 29
1933.....	* 720	* 708	* 483	40	24	17	120	12
1934.....	1,402	1,402	819	144	112	32	35	0
QUARTER								
1932—First.....	* 421	* 421	282	125	* 112	13	9	0
Second.....	* 245	* 245	* 194	26	23	* 4	0	0
Third.....	* 261	* 234	* 118	93	83	10	3	* 17
Fourth.....	* 278	* 265	* 168	62	54	8	8	* 13
1933—First.....	101	101	63	20	20	1	6	0
Second.....	* 186	179	146	20	4	16	13	7
Third.....	232	* 226	* 98	0	0	0	70	* 0
Fourth.....	* 202	* 202	* 177	0	0	0	25	0
1934—First.....	224	224	176	27	9	12	12	0
Second.....	369	369	283	46	49	1	17	0
Third.....	440	* 440	146	32	13	19	4	0
Fourth.....	370	* 370	233	42	42	0	2	0

* Revised.

¹ Source: Commercial and Financial Chronicle.² Compiled by Department of Commerce.³ Includes issues of Federal land banks and Federal intermediate credit banks not shown separately.⁴ Includes bonds of Federal Farm Mortgage Corporation and of Home Owners' Loan Corporation sold by public offering.

Back figures.—See Annual Report for 1933 (table 112).

184 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 93.—SECURITY PRICES

[Average of daily or weekly figures]

Year and month	Bonds ¹							Common stocks (1926=100)			
	U. S. Government	Corporate and municipal (high grade)	Corporate				Preferred stocks ²	Total	Industrial	Railroad	Public utility
			Total	Industrial	Railroad	Utility					
Number of issues.....	7-16	40	60	20	20	20	20	421	351	33	27
1919.....	(9)	83.3	(9)	(9)	(9)	(9)	110.9	70.7	72.6	70.1	60.9
1920.....	(9)	80.8	(9)	(9)	(9)	(9)	103.2	64.2	65.1	65.9	54.3
1921.....	(9)	81.8	(9)	(9)	(9)	(9)	103.0	55.2	51.6	61.8	57.8
1922.....	(9)	92.4	(9)	(9)	(9)	(9)	114.0	67.7	64.7	72.7	70.9
1923.....	(9)	91.8	(9)	(9)	(9)	(9)	114.4	69.0	66.6	71.9	73.8
1924.....	(9)	93.5	(9)	(9)	(9)	(9)	115.2	72.8	69.6	75.7	78.9
1925.....	(9)	95.3	(9)	(9)	(9)	(9)	118.6	89.7	88.4	89.5	94.9
1926.....	102.7	97.0	97.6	93.6	101.7	97.3	121.0	100.0	100.0	100.0	100.0
1927.....	104.8	98.9	100.7	95.9	107.0	99.2	127.1	118.3	118.4	119.1	116.6
1928.....	103.9	98.7	100.8	96.8	106.7	100.0	130.9	149.9	154.3	128.6	148.9
1929.....	103.9	95.7	98.0	93.2	103.3	97.7	127.4	100.3	109.4	147.3	234.6
1930.....	104.2	98.3	99.3	92.6	104.8	99.4	126.4	104.8	140.6	124.9	214.6
1931.....	103.1	96.1	90.9	81.8	93.9	97.2	119.1	94.2	85.9	72.1	147.9
1932.....	99.2	81.1	89.2	63.2	84.8	80.5	96.1	48.4	45.3	36.2	73.3
1933.....	103.2	84.0	73.4	69.2	70.5	80.6	104.8	63.4	66.2	38.0	78.0
1934.....	103.4	96.7	84.5	81.9	83.8	87.8	120.7	72.5	81.3	41.5	68.9
1933											
January.....	103.3	84.1	70.7	64.9	63.4	83.9	97.8	49.1	46.2	27.6	81.9
February.....	102.4	82.5	68.5	62.1	62.9	80.7	95.7	44.9	42.5	26.7	73.1
March.....	101.0	78.7	66.0	60.7	60.6	76.8	93.1	43.2	41.6	25.6	67.0
April.....	101.3	75.4	64.8	61.0	58.9	74.7	93.7	47.5	43.8	26.3	65.1
May.....	102.4	82.0	72.4	68.2	69.4	79.5	103.3	62.9	65.3	37.5	73.2
June.....	103.2	86.8	77.7	72.8	73.1	84.2	109.7	74.9	77.3	44.0	96.9
July.....	103.3	89.6	81.5	75.6	82.2	86.8	112.6	80.4	83.5	62.6	97.9
August.....	102.9	86.9	80.8	75.9	81.2	85.8	112.9	75.1	78.8	49.4	87.1
September.....	103.0	87.9	77.5	74.5	76.8	81.4	112.0	74.8	80.7	47.2	80.1
October.....	102.9	85.5	75.3	72.7	73.5	79.7	109.8	69.5	75.5	40.3	75.0
November.....	100.5	82.6	72.1	70.5	68.5	77.3	107.5	69.1	76.7	38.4	70.6
December.....	100.0	83.6	73.6	71.5	72.2	77.1	107.7	70.4	78.8	40.3	67.8
1934											
January.....	100.3	88.3	78.5	75.6	79.0	80.9	111.2	75.6	84.0	45.5	73.2
February.....	101.9	92.9	84.0	79.3	85.8	86.5	110.5	80.5	88.4	50.0	80.4
March.....	102.8	95.1	84.8	80.5	86.4	87.7	117.5	77.1	84.9	47.6	78.1
April.....	103.7	97.0	87.0	82.8	88.7	89.7	120.2	79.6	88.3	49.3	76.8
May.....	104.4	97.6	86.1	82.5	86.9	89.1	121.0	71.8	79.6	43.5	69.6
June.....	104.7	99.0	86.3	82.5	87.1	89.4	122.1	73.5	81.4	44.1	71.9
July.....	105.2	99.2	86.1	83.2	85.8	89.4	123.5	71.4	70.7	41.2	69.2
August.....	104.1	97.8	83.9	82.6	81.3	87.9	122.6	67.8	75.7	35.6	64.6
September.....	102.3	96.7	83.0	82.2	79.3	87.6	121.0	67.0	75.7	35.1	65.2
October.....	103.4	98.4	84.1	82.5	81.6	88.1	120.9	67.3	78.4	35.6	62.9
November.....	103.5	98.8	84.3	83.4	81.0	88.6	124.1	69.4	80.1	35.3	60.9
December.....	104.1	100.0	85.8	85.4	83.3	88.8	127.8	69.2	80.3	35.8	58.2

¹ Revised.

² Price indexes derived from average yields.

³ Average of prices adjusted to a 37 annual dividend basis.

⁴ Average prices of principal outstanding issues, beginning in 1926 with 5 Liberties and 2 Treasuries; new Treasury issues were included as they appeared on market; 24 Liberties were dropped in July 1927 and 26 Liberties in July 1928; average in December 1934 included 3 Liberties and 13 Treasuries.

⁵ Forty-five corporate and 15 municipal.

⁶ Averages not computed.

Sources.—For United States Government bonds, Federal Reserve Board and Federal Reserve Bank of New York; for other bonds and for stocks, Standard Statistics Co.

Back figures.—See Annual Report for 1933 (table 113), and for high-grade bonds, preferred stocks, and common stocks, see Annual Report for 1930 (table 123).

BUSINESS CONDITIONS

- 185

No. 94.—BOND YIELDS

[Average of daily or weekly figures]

Year and month	U. S. Government ¹	Municipal ² (high grade)	Corporate, by ratings ³			
			Aaa	Aa	A	Baa
Number of issues.....	2-10	15	30	30	30	30
1919.....	4.52	4.46	5.48	5.85	6.48	7.28
1920.....	5.32	4.98	6.12	6.59	7.41	8.20
1921.....	5.09	5.09	5.98	6.56	7.27	8.55
1922.....	4.39	4.28	5.12	5.59	6.08	7.08
1923.....	4.36	4.25	5.12	5.62	6.17	7.24
1924.....	4.06	4.20	5.00	5.44	5.93	6.83
1925.....	3.85	4.09	4.88	5.20	5.55	6.27
1926.....	3.68	4.08	4.73	4.97	5.24	5.87
1927.....	3.34	3.98	4.57	4.77	5.04	5.48
1928.....	3.33	4.05	4.55	4.71	5.00	5.51
1929.....	3.60	4.27	4.78	4.93	5.27	6.90
1930.....	3.28	3.97	4.55	4.77	5.13	6.90
1931.....	3.31	4.02	4.58	5.05	6.01	7.61
1932.....	3.66	4.65	5.01	5.97	7.20	9.30
1933.....	3.31	4.71	4.49	5.23	6.09	7.78
1934.....	3.10	3.95	4.00	4.44	5.08	6.32
1932						
January.....	4.32	4.93	5.20	6.07	7.08	9.14
February.....	4.11	5.03	5.23	6.13	7.06	8.87
March.....	3.91	4.79	4.98	5.85	6.80	8.88
April.....	3.65	4.73	6.17	6.10	7.48	10.46
May.....	3.71	4.77	5.36	6.38	8.40	11.93
June.....	3.73	4.81	5.41	6.60	8.50	11.62
July.....	3.55	4.78	5.26	6.51	8.19	10.79
August.....	3.42	4.50	4.91	5.83	6.84	8.22
September.....	3.38	4.39	4.70	5.54	6.45	7.61
October.....	3.39	4.37	4.64	5.51	6.44	7.87
November.....	3.39	4.38	4.63	5.57	6.53	8.24
December.....	3.31	4.37	4.69	5.60	6.61	8.42
1933						
January.....	3.19	4.23	4.44	5.30	6.16	8.01
February.....	3.29	4.28	4.48	5.35	6.30	8.38
March.....	3.44	4.88	4.68	5.61	6.64	8.91
April.....	3.43	5.05	4.78	5.81	6.85	9.12
May.....	3.21	5.27	4.63	5.40	6.29	7.74
June.....	3.22	4.71	4.46	5.09	5.88	7.07
July.....	3.20	4.60	4.56	4.83	5.68	6.65
August.....	3.21	4.54	4.30	4.77	5.51	6.77
September.....	3.20	4.59	4.35	4.96	5.70	7.27
October.....	3.22	4.60	4.34	4.97	5.76	7.49
November.....	3.46	4.89	4.54	5.35	6.22	7.98
December.....	3.63	4.89	4.50	5.27	6.21	7.75
1934						
January.....	3.50	4.67	4.35	5.00	5.72	7.01
February.....	3.32	4.48	4.20	4.70	5.24	6.27
March.....	3.21	4.24	4.13	4.65	5.12	6.28
April.....	3.19	4.11	4.07	4.43	4.97	6.01
May.....	3.01	3.93	4.01	4.37	4.96	6.05
June.....	2.94	3.73	3.93	4.30	4.95	6.06
July.....	3.05	3.75	3.89	4.28	4.83	6.15
August.....	2.99	3.81	3.93	4.34	5.09	6.49
September.....	3.20	3.84	3.96	4.42	5.17	6.57
October.....	3.08	3.69	3.90	4.35	5.00	6.40
November.....	3.05	3.57	3.85	4.27	4.93	6.37
December.....	2.97	3.53	3.81	4.27	4.86	6.25

¹ Computed by Division of Research and Statistics of U. S. Treasury Department. For description of average see Federal Reserve Bulletin for June 1934, p. 322.

² Standard Statistics Co.

³ Moody's Investors' Service.

Back figures.—See Annual Report for 1933 (table 114).

No. 95.—INDEXES OF PRODUCTION, EMPLOYMENT, AND TRADE 1

[1923-25 average=100]

Year and month	Industrial production						Construction contracts awarded (value) ¹						Factory employment ²		Factory pay rolls ³	Freight-car loadings				Department store sales (value)	
	Total		Manufactures		Minerals		Total		Residential		All other		Unadjusted	Adjusted		Total		Merchandise, l. o. l.		Unadjusted	Adjusted
	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted			Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted			Adjusted
1919	83		84		77		63		44		79		107		97		84		78		
1920	87		87		89		68		56		44		108		117		91		94		
1921	67		67		70		63		44		65		82		76		79		87		
1922	85		86		74		79		65		88		91		81		87		84		
1923	101		101		105		84		86		86		104		99		96		98		
1924	95		94		96		94		95		94		97		98		97		99		
1925	105		105		99		122		124		120		99		101		103		103		
1927	106		108		108		129		121		135		101		104		106		106		
1928	111		108		107		129		117		139		99		102		103		107		
1929	119		119		115		117		87		142		99		102		103		106		
1930	96		95		99		92		50		125		105		108		106		111		
1931	81		80		84		63		87		84		77		89		92		102		
1932	64		63		71		28		13		40		64		68		75		69		
1933	73		75		82		25		11		37		77		46		58		69		
1934	79		78		86		32		12		48		69		49		52		67		
1935													79		62		68		75		
1919																					
January	81	82	82	82	74	79	21	30	9	11	30	45	105	108	95	75	84		80	86	
February	78	79	80	80	63	70	27	32	15	18	37	44	102	103	90	72	83		69	71	
March	76	76	78	78	61	66	40	39	25	24	52	51	102	102	90	71	78		65	72	
April	77	79	80	79	65	71	53	44	39	32	64	54	103	103	89	73	80		77	72	
May	80	78	80	78	75	74	69	55	62	42	83	66	103	103	90	80	81		73	69	
June	84	83	84	84	82	76	82	70	61	58	99	80	104	104	92	83	80		76	76	
July	87	87	87	89	88	81	88	78	63	63	108	90	107	107	95	86	85		69	80	
August	89	89	90	91	83	78	82	78	59	61	101	92	110	108	100	91	88		60	80	
September	89	87	89	88	94	85	81	78	60	59	99	94	112	109	105	102	91		76	83	
October	89	85	88	88	95	87	74	78	54	55	90	97	111	109	103	99	87		89	81	
November	87	85	91	89	63	63	74	88	49	51	94	117	113	112	107	86	83		101	86	
December	81	86	83	88	70	77	68	90	37	43	90	128	114	115	114	82	90		137	86	
1920																					
January	92	95	94	95	82	86	65	91	31	38	93	134	115	117	117	84	94		82	90	
February	93	95	95	95	78	84	72	86	31	36	105	127	114	115	116	81	91		74	89	
March	94	93	95	95	80	87	80	71	40	37	113	110	116	116	116	87	95		90	93	
April	87	88	90	89	73	82	86	71	45	36	119	99	115	114	121	78	84		91	93	
May	92	90	93	91	85	85	82	82	61	41	114	91	112	112	122	88	88		101	96	
June	92	91	92	91	95	88	72	60	31	30	105	85	111	111	124	95	92		96	95	

July	88	89	87	89	84	88	88	87	26	27	68	82	109	109	119	98	91	72	72	78	98
August	89	88	88	89	98	91	88	84	24	26	88	78	109	107	122	99	94	82	83	83	97
September	88	88	87	86	94	85	86	84	25	25	80	77	108	105	120	103	91	86	89	88	95
October	86	83	83	82	100	91	49	52	24	24	69	74	104	102	116	103	90	85	81	102	92
November	78	78	74	73	97	94	40	49	21	22	58	70	97	96	107	94	91	82	80	112	90
December	66	72	65	68	87	94	34	46	19	21	46	66	90	90	98	82	90	78	80	144	90
1921																					
January	66	67	64	64	77	81	81	43	19	24	40	58	81	82	83	72	79	72	79	88	92
February	65	66	64	64	72	77	37	43	27	32	45	53	83	83	81	72	79	78	78	76	92
March	64	64	63	63	67	72	48	46	36	34	57	56	88	83	82	71	75	85	84	88	89
April	64	64	63	63	65	72	60	50	45	36	73	61	82	82	70	72	77	87	85	87	89
May	67	66	66	64	73	73	66	55	48	38	81	64	82	82	77	78	79	88	86	91	87
June	66	65	65	65	78	71	64	53	44	42	80	65	81	81	76	80	80	89	88	86	87
July	64	65	63	64	70	88	62	57	44	46	77	65	80	80	72	83	81	90	90	64	87
August	67	67	66	67	71	89	64	61	48	51	77	70	81	81	74	80	77	85	86	63	84
September	69	68	68	68	72	67	65	64	64	55	74	71	83	82	78	89	80	94	90	75	82
October	73	71	73	71	78	71	62	65	56	57	67	72	84	83	73	95	83	95	92	95	86
November	72	71	72	71	71	68	57	66	57	59	58	72	84	83	72	81	77	92	90	97	83
December	66	70	66	70	64	69	52	66	64	59	50	72	83	83	73	72	77	88	90	135	84
1922																					
January	72	73	72	73	73	77	59	67	50	61	63	72	83	84	70	74	80	84	92	78	83
February	76	76	76	74	81	85	59	68	55	61	68	75	85	85	72	79	86	68	93	69	83
March	81	80	80	78	88	92	77	75	66	62	86	84	86	86	76	84	88	95	94	77	84
April	78	77	83	81	48	53	95	78	80	65	107	89	88	86	74	77	81	101	99	90	87
May	82	81	87	86	53	64	106	89	58	63	113	90	88	88	77	72	78	95	98	89	87
June	86	85	90	90	63	69	99	85	78	75	117	94	90	90	81	85	100	98	85	86	85
July	84	85	88	90	61	67	98	88	70	74	117	99	88	89	79	87	83	97	97	84	86
August	83	83	86	87	67	62	89	86	63	69	110	100	91	91	83	88	84	93	94	66	85
September	89	88	89	89	88	81	80	80	64	67	93	90	95	93	87	98	88	95	90	85	91
October	96	93	95	94	96	90	72	76	66	69	76	81	97	96	90	100	89	92	90	102	92
November	99	97	99	97	98	94	67	76	76	71	74	63	78	99	98	100	95	94	91	108	92
December	95	100	95	100	94	100	53	79	72	76	66	81	101	101	96	88	96	88	91	162	93
1923																					
January	99	99	99	99	97	101	64	83	68	80	61	86	101	103	95	90	99	86	94	79	91
February	101	100	103	100	94	99	75	85	77	82	75	88	103	103	98	88	97	87	92	77	93
March	105	103	106	103	97	103	89	85	87	80	91	89	105	104	109	94	101	93	92	93	95
April	107	106	109	105	99	111	102	84	97	78	108	89	105	105	104	96	104	96	94	97	100
May	108	106	108	108	107	108	102	84	89	77	112	89	105	105	107	102	102	99	97	100	98
June	105	106	104	105	112	108	94	84	80	78	106	88	104	108	108	104	102	99	98	99	101
July	101	104	98	103	115	111	83	78	72	77	91	79	103	106	103	102	98	98	98	78	98
August	100	103	98	101	116	110	76	76	68	75	83	76	105	105	104	106	101	97	97	75	101
September	101	100	100	101	106	97	80	81	77	81	82	80	106	104	104	111	99	102	97	94	100

BUSINESS CONDITIONS

¹ Indexes compiled by the Federal Reserve Board, except for indexes of factory employment and pay rolls unadjusted for seasonal variation, which are compiled by the U. S. Bureau of Labor Statistics. Descriptions of these indexes have been published in the Federal Reserve Bulletin as follows: Index of industrial production, February and March 1927 (certain revisions March 1929, February 1931, September 1931, March 1932, and September 1933); indexes of factory employment and pay rolls (revised series) May and June 1934; index of construction contracts awarded, July 1931; index of freight-car loadings, August 1927 (certain revisions February 1931); index of department store sales, February 1928 (certain revisions November 1930 and April 1935).

² Based on 3-month moving average of F. W. Dodge data centered at second month.

³ Revised series, 1919-34.

No. 95.—INDEXES OF PRODUCTION, EMPLOYMENT, AND TRADE—Continued

[1923-25 average=100]

Year and month	Industrial production						Construction contracts awarded (value)						Factory employment		Factory pay rolls		Freight-car loadings				Department store sales (value)			
	Total		Manufactures		Minerals		Total		Residential		All other		Unad-justed	Ad-justed	Unad-justed	Ad-justed	Total		Merchandise, l. c. l.		Unad-justed	Ad-justed		
	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed					Unad-justed	Ad-justed	Unad-justed	Ad-justed			Unad-justed	Ad-justed
1923																								
October	102	99	100	98	113	104	81	85	83	84	80	86	105	103	107	110	98	102	99	111	101	100	100	
November	99	98	98	97	108	106	82	91	89	90	78	91	103	103	105	104	99	102	99	102	99	117	100	
December	92	97	92	97	93	99	77	92	89	94	68	90	101	102	103	88	97	94	98	164	98	164	99	
1924																								
January	99	100	99	99	100	103	76	95	86	101	67	91	100	102	99	91	99	91	99	88	99	88	99	
February	104	102	105	101	100	105	87	97	101	107	76	89	102	102	104	95	102	96	100	84	101	84	101	
March	103	100	105	100	93	99	102	98	110	102	95	94	102	101	104	94	100	101	100	88	99	88	99	
April	96	95	98	95	83	93	113	96	119	98	108	94	100	100	102	90	96	101	99	103	98	96	98	
May	90	89	89	88	93	93	111	95	107	96	113	94	97	97	98	95	94	101	99	98	97	97	100	
June	84	85	82	84	96	93	99	91	90	91	106	91	94	94	92	93	91	97	96	71	97	71	98	
July	81	84	78	83	95	93	92	88	82	87	101	88	91	92	88	94	93	96	97	71	97	71	98	
August	87	89	86	89	96	92	88	86	78	85	95	87	92	92	89	99	95	98	98	72	96	72	96	
September	95	94	93	93	103	97	93	92	85	88	99	96	94	93	93	111	99	104	99	96	101	96	101	
October	98	95	97	95	104	96	95	98	93	93	96	103	95	94	95	112	100	104	101	105	98	105	98	
November	99	97	99	97	100	97	93	99	97	95	91	103	95	94	104	99	103	100	117	100	117	100		
December	97	101	98	102	95	99	84	98	90	95	80	101	96	97	98	93	101	97	101	169	99	169	99	
1925																								
January	105	105	106	105	101	105	78	97	80	96	76	99	95	98	95	94	103	95	102	84	99	84	99	
February	107	104	109	105	95	100	90	103	90	99	90	106	98	98	101	95	102	101	104	85	103	85	103	
March	107	103	109	104	90	98	111	107	114	106	109	106	99	98	102	95	101	105	104	94	103	94	103	
April	104	102	108	103	89	100	127	111	131	112	124	110	99	99	100	96	103	105	104	105	102	105	102	
May	103	102	108	102	106	104	133	118	130	117	135	118	98	98	101	103	102	106	104	103	102	106	102	
June	100	102	100	102	104	101	131	123	134	126	137	120	98	99	99	102	100	104	104	98	102	104	100	
July	99	103	97	103	107	104	140	131	131	135	147	128	98	99	97	104	102	103	104	74	100	74	100	
August	101	103	99	102	112	107	140	137	137	145	142	130	99	99	99	110	106	105	105	76	101	76	101	
September	102	101	103	103	97	99	139	133	144	141	134	127	102	100	99	115	102	111	105	97	101	97	101	
October	107	104	108	106	98	90	128	131	140	136	118	125	102	101	105	113	102	109	106	122	111	122	111	
November	108	107	110	109	98	95	125	131	139	137	113	126	102	102	105	109	105	109	106	122	104	122	104	
December	103	109	108	112	99	98	119	136	125	134	113	133	102	102	105	97	107	101	106	176	104	176	104	
1926																								
January	105	106	106	109	90	91	113	139	113	135	113	141	101	102	101	94	104	98	106	90	106	90	106	
February	108	105	111	107	92	95	121	139	114	127	126	149	102	102	105	96	103	102	105	87	105	87	105	
March	110	106	112	106	98	106	130	127	128	121	132	132	103	102	107	99	105	107	106	97	101	97	101	

April	108	107	110	106	96	108	142	126	140	121	143	130	101	101	104	98	105	105	102	105
May	106	108	106	106	103	104	135	120	136	120	136	120	100	101	103	100	105	105	100	105
June	106	108	106	108	106	107	131	122	120	119	140	125	100	101	103	109	107	106	100	105
July	103	108	102	108	110	108	135	122	120	116	119	133	99	101	99	110	107	104	106	106
August	109	110	108	110	115	109	137	132	115	118	165	142	101	101	108	112	107	105	108	108
September	113	111	112	119	110	110	137	130	122	120	149	139	103	101	104	121	108	110	106	104
October	116	117	113	111	124	113	127	130	123	122	130	137	103	102	108	122	108	109	104	120
November	110	110	106	109	123	118	125	132	120	118	130	142	101	101	104	113	109	108	106	124
December	101	107	99	105	113	110	114	131	109	117	119	142	100	101	104	98	108	101	105	181
1927																				
January	106	107	105	106	112	115	107	182	97	117	115	144	98	100	98	96	106	98	105	91
February	111	108	110	107	113	117	114	131	105	117	121	142	100	100	104	99	107	102	104	89
March	113	110	114	108	111	120	132	128	123	116	138	138	100	100	105	102	109	106	105	95
April	110	108	112	108	96	106	144	128	133	118	153	139	100	100	108	99	106	108	104	109
May	112	109	112	110	108	109	145	128	132	116	167	139	99	99	104	105	103	103	104	105
June	107	107	106	108	108	106	140	128	117	114	158	140	99	100	102	105	104	105	105	101
July	102	106	102	107	103	101	140	128	116	114	160	140	98	99	99	104	102	104	105	76
August	105	106	104	106	111	106	131	126	108	113	149	136	99	99	102	109	104	108	105	85
September	106	104	105	104	111	104	133	128	119	118	145	136	101	68	101	116	103	110	108	103
October	105	102	104	102	112	103	126	128	120	119	131	135	100	98	102	114	101	109	104	117
November	101	101	100	101	105	102	122	120	120	121	124	136	97	97	99	101	98	106	104	126
December	96	102	95	102	97	102	111	131	111	125	111	136	95	97	100	88	98	104	104	182
1928																				
January	105	107	106	107	100	103	111	137	116	139	108	135	95	97	98	92	102	98	105	91
February	111	109	112	110	99	102	121	138	125	119	115	135	97	97	101	94	102	101	104	88
March	112	108	114	109	95	105	138	137	143	135	134	137	98	97	103	97	103	105	104	97
April	110	108	113	109	95	105	155	137	162	130	167	142	97	97	101	96	101	105	103	105
May	110	108	111	108	104	106	159	137	149	130	168	143	97	97	101	105	103	108	104	107
June	108	108	108	109	104	102	164	139	140	133	166	144	98	98	102	101	100	103	103	102
July	105	109	105	110	104	102	142	132	127	128	165	137	98	98	99	105	102	104	105	80
August	110	110	110	111	111	105	137	131	116	119	184	141	100	99	109	109	103	104	104	81
September	116	113	116	114	116	107	138	134	118	118	145	147	100	105	119	105	109	106	106	113
October	118	116	117	117	122	111	134	136	115	115	160	152	103	101	108	119	106	109	104	118
November	115	117	115	118	118	114	122	132	112	114	130	146	102	102	105	109	107	107	105	126
December	109	118	110	120	106	111	107	127	93	108	117	145	101	102	106	94	106	105	105	192
1929																				
January	117	119	120	120	114	116	98	120	81	97	111	139	101	103	102	95	108	97	104	90
February	121	118	122	118	116	119	102	118	84	94	116	137	103	104	100	99	107	101	104	91
March	124	118	126	120	101	109	121	121	106	101	133	137	104	104	112	98	105	106	105	107
April	124	121	128	122	103	114	139	123	117	100	168	142	105	105	113	102	108	107	104	103
May	126	122	128	123	118	117	143	121	113	97	168	141	105	105	113	109	107	107	104	109
June	125	126	127	127	116	114	144	126	102	95	178	162	106	106	111	110	108	108	105	108
July	120	124	120	125	118	116	136	124	94	93	179	149	106	107	107	111	107	105	106	113
August	122	121	122	122	121	116	129	122	84	86	166	152	108	107	112	116	107	106	106	84
September	123	121	123	121	127	118	113	110	73	73	144	140	109	106	113	121	106	110	106	117
October	121	118	119	118	127	116	104	107	67	67	135	139	108	106	112	118	104	109	104	122
November	108	110	107	110	114	110	94	103	66	67	116	132	104	104	104	102	102	106	104	125
December	96	108	93	101	110	116	84	102	53	61	109	135	100	101	101	89	102	103	103	191

BUSINESS CONDITIONS

No. 95.—INDEXES OF PRODUCTION, EMPLOYMENT, AND TRADE—Continued

[1923-25 average=100]

Year and month	Industrial production						Construction contracts awarded (value)						Factory employment		Factory pay rolls		Freight-car loadings				Department store sales (value)	
	Total		Manufactures		Minerals		Total		Residential		All other						Total		Merchandise, l. c. l.			
	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed	Unad-justed	Ad-justed		
1930																						
January.....	103	106	102	105	108	110	78	95	46	56	104	128	97	99	96	89	100	94	101	88	107	
February.....	106	107	110	107	104	108	89	104	44	49	126	148	97	98	99	91	99	98	101	89	108	
March.....	106	103	109	104	91	98	102	102	54	52	141	144	97	97	96	90	96	101	100	93	107	
April.....	107	104	110	104	94	104	113	101	62	53	156	140	96	96	98	93	97	101	98	110	107	
May.....	105	102	106	101	102	104	125	105	61	52	178	148	95	95	95	97	96	101	98	105	105	
June.....	99	98	98	97	103	102	116	99	54	49	166	140	93	93	92	95	93	98	98	98	103	
July.....	90	98	89	92	100	100	107	96	48	47	155	135	90	90	84	95	92	94	95	71	100	
August.....	90	90	88	88	101	99	85	81	48	49	115	106	89	88	83	96	89	88	95	95	77	102
September.....	92	90	90	89	101	94	82	81	52	52	106	105	90	87	84	99	87	97	83	112	102	
October.....	90	88	87	86	105	95	75	78	61	52	94	99	88	86	82	87	86	87	83	112	102	
November.....	84	86	82	85	96	92	68	76	48	48	86	99	85	85	77	86	84	94	92	113	98	
December.....	76	84	74	82	89	93	59	73	37	43	77	98	82	83	75	74	84	86	92	165	94	
1931																						
January.....	82	83	81	83	87	89	58	71	37	44	75	93	80	82	70	74	82	83	90	81	96	
February.....	87	86	88	86	84	87	68	79	42	47	89	104	80	81	74	74	80	87	81	81	99	
March.....	89	87	91	87	82	89	77	77	50	47	98	100	81	81	76	75	80	89	89	92	97	
April.....	90	86	91	87	83	91	82	73	52	44	107	96	81	81	74	77	80	91	88	101	107	
May.....	89	87	90	87	84	87	78	65	47	40	104	85	80	80	73	79	79	92	89	97	97	
June.....	83	83	83	82	86	87	74	63	41	37	101	84	82	77	78	77	77	89	89	92	96	
July.....	80	82	79	82	86	86	68	61	36	35	94	82	77	78	66	78	76	87	86	86	92	
August.....	78	78	77	78	82	79	63	59	32	33	87	81	77	75	66	78	72	86	85	86	89	
September.....	77	76	76	75	83	78	59	59	32	32	81	80	77	75	63	78	69	87	83	94	87	
October.....	75	73	72	71	90	83	52	55	29	30	71	78	74	73	73	61	78	69	87	83	84	
November.....	72	73	70	71	84	81	43	49	26	27	57	67	72	72	58	70	66	85	83	97	84	
December.....	68	74	65	72	79	84	30	38	20	23	39	50	71	72	56	61	69	77	83	143	82	

1932																					
January	71	72	70	71	74	77	25	81	16	19	33	41	69	70	64	53	64	75	81	64	78
February	71	69	70	68	75	78	23	27	16	17	30	35	68	70	56	59	62	75	78	64	78
March	68	67	66	64	78	85	26	26	16	15	43	36	66	68	58	57	61	75	75	69	72
April	64	63	63	61	72	80	31	31	16	14	48	38	64	66	56	57	59	75	73	73	78
May	61	59	59	59	65	67	31	26	14	12	45	37	63	64	47	53	54	74	71	72	72
June	59	58	58	58	62	64	32	27	12	11	47	39	61	62	43	52	52	71	71	66	69
July	56	55	55	57	63	65	81	27	12	11	48	40	59	60	40	51	51	68	69	45	55
August	59	60	58	59	66	65	32	30	11	12	48	45	60	60	41	53	51	68	68	49	65
September	67	66	66	66	74	71	30	30	12	12	45	44	63	62	43	43	54	72	69	71	68
October	68	67	67	66	80	74	28	29	12	12	41	43	64	63	45	45	57	72	69	75	59
November	65	65	63	63	78	75	24	27	10	10	35	41	63	63	43	38	57	70	69	73	63
December	60	60	68	64	73	77	22	28	8	9	33	43	62	62	42	52	58	64	69	100	60
1933																					
January	64	65	68	63	72	75	18	22	7	8	27	38	60	61	40	51	56	65	69	49	60
February	64	63	62	61	77	80	16	19	7	8	23	27	61	62	40	51	54	64	66	49	60
March	60	59	58	58	74	81	14	14	8	8	18	18	59	59	37	48	50	63	62	80	57
April	67	66	68	65	65	73	16	14	11	10	19	17	60	60	39	51	53	65	63	68	67
May	79	78	77	77	79	79	19	16	13	11	24	20	63	63	42	55	55	67	65	67	67
June	91	91	92	93	88	85	21	18	14	13	27	23	67	67	47	61	62	69	69	64	68
July	96	100	102	99	91	24	21	18	18	18	32	28	72	78	51	66	65	70	70	48	66
August	90	91	89	91	95	91	25	24	12	12	36	33	76	76	37	65	61	69	69	59	77
September	85	84	84	83	94	87	30	30	12	12	45	45	80	78	59	68	60	70	63	73	70
October	78	76	76	76	89	81	35	37	12	12	53	57	80	78	59	66	58	70	68	77	70
November	72	72	70	70	85	82	42	48	12	13	66	76	76	76	56	60	59	67	65	75	65
December	69	75	67	78	81	86	45	67	11	13	73	93	74	75	55	56	68	64	68	121	69
1934																					
January	77	78	75	76	86	88	40	40	10	12	64	80	73	75	54	58	64	65	70	57	69
February	83	81	82	80	89	92	38	44	10	12	60	70	78	78	61	64	64	65	67	59	71
March	87	84	86	82	91	100	33	33	12	11	50	51	81	81	65	68	66	67	66	73	77
April	88	86	85	85	81	90	36	32	14	12	54	48	82	82	67	67	62	67	65	73	77
May	89	86	89	86	86	88	32	26	13	11	47	38	83	83	67	63	63	67	65	77	77
June	84	84	84	83	87	87	31	26	13	12	46	38	81	82	65	64	64	65	65	70	74
July	73	76	71	74	84	85	30	27	12	12	44	39	79	80	61	63	61	64	65	51	72
August	73	73	71	72	83	80	28	27	10	10	43	40	80	79	62	63	59	65	65	60	79
September	73	71	70	69	87	82	30	29	11	11	45	44	78	74	58	67	59	67	64	79	76
October	75	74	73	72	87	81	29	31	12	12	43	46	78	77	61	64	67	66	63	82	74
November	74	76	73	74	84	81	28	31	11	11	41	48	77	77	60	60	59	65	64	83	73
December	78	86	76	85	85	90	25	31	10	12	36	47	78	79	63	56	64	62	65	135	77

BUSINESS CONDITIONS

192 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 96.—INDEX OF PRODUCTION OF MANUFACTURES, BY GROUPS

(Monthly series adjusted for seasonal variation. 1923-26 average=100)

Year and month	All industries	Iron and steel	Textiles	Food products	Automobiles	Leather and products	Non-ferrous metals	Petro-rous refining	Rubber tires and tubes	Tobacco products
1919	84	82	92	94	80	104	97	54	-----	82
1920	87	99	84	84	58	97	78	64	-----	87
1921	87	46	87	83	41	90	39	64	-----	55
1922	86	82	99	94	95	102	69	74	-----	77
1923	101	105	135	99	102	108	94	86	-----	86
1924	94	89	91	103	91	95	99	99	-----	99
1925	105	106	104	98	107	97	107	115	-----	116
1926	108	115	104	97	108	99	112	127	-----	116
1927	106	104	113	98	86	103	109	126	-----	118
1928	112	119	107	98	110	102	115	152	-----	144
1929	119	130	115	97	135	104	125	168	-----	135
1930	95	94	91	93	85	92	97	161	-----	131
1931	80	60	94	90	60	90	69	155	-----	86
1932	63	31	83	87	35	85	-----	440	-----	78
1933	75	53	97	92	48	97	-----	145	-----	88
1934	78	60	86	99	69	100	-----	161	-----	92
1934										
January	76	56	87	96	56	98	-----	142	-----	97
February	80	64	91	91	71	108	-----	144	-----	100
March	82	67	94	84	80	107	-----	143	-----	106
April	85	77	90	86	85	117	-----	152	-----	97
May	84	85	88	98	78	118	-----	153	-----	91
June	83	86	77	96	81	101	-----	154	-----	84
July	74	48	78	102	78	99	-----	156	-----	83
August	72	39	89	106	61	87	-----	157	-----	79
September	69	38	85	120	61	88	-----	152	-----	79
October	72	41	89	107	41	85	-----	153	-----	82
November	74	49	87	102	40	92	-----	155	-----	107
December	86	68	97	102	88	104	-----	154	-----	125

NOTE.—Paper and printing group and lumber omitted, figures being revised; nonferrous metals group not computed from 1932 to 1934, inclusive, copper figures not available.

Back figures of monthly series.—For index of manufactures (all industries) 1919-33, see table 95. Tables showing indexes, both adjusted and unadjusted, by groups and industries, 1923-34, may be obtained from the Division of Research and Statistics.

No. 97.—INDEX OF PRODUCTION OF MINERALS, BY INDUSTRIES

(Monthly series adjusted for seasonal variation. 1923-26 average=100)

Year and month	All industries	Bituminous coal	Anthracite	Petroleum, crude	Iron-ore shipments	Copper	Zinc	Lead	Silver
1919	77	89	109	62	91	81	-----	-----	-----
1920	89	109	110	61	113	85	-----	87	-----
1921	70	79	112	64	35	30	-----	66	-----
1922	74	78	65	75	82	62	-----	68	-----
1923	105	108	115	99	114	93	-----	96	-----
1924	98	93	109	97	82	100	-----	97	-----
1925	99	99	76	104	104	107	-----	107	-----
1926	108	110	104	105	113	110	-----	116	-----
1927	107	99	99	122	98	105	-----	111	-----
1928	106	95	93	122	104	115	-----	112	-----
1929	115	102	91	137	125	127	-----	114	-----
1930	99	89	86	122	90	87	-----	91	-----
1931	84	73	74	116	45	66	-----	54	-----
1932	71	59	62	107	7	-----	-----	38	-----
1933	62	64	61	123	42	-----	-----	58	-----
1934	86	69	71	123	43	-----	-----	66	-----
1934									
January	88	68	82	120	-----	-----	66	-----	64
February	92	75	89	118	-----	-----	67	-----	64
March	100	84	100	122	-----	-----	68	-----	67
April	99	71	73	125	-----	-----	65	-----	56
May	88	70	76	127	-----	-----	65	-----	65
June	87	66	69	130	-----	-----	54	-----	44
July	85	64	63	126	-----	-----	57	-----	53
August	80	61	59	124	-----	-----	60	-----	44
September	82	64	62	122	-----	-----	61	-----	65
October	81	64	63	122	-----	-----	55	-----	54
November	81	65	64	121	-----	-----	77	-----	56
December	90	72	72	124	-----	-----	74	-----	60

NOTE.—Copper figures not available from 1932 to 1934, inclusive.

Back figures of monthly series.—For index of minerals (all industries), 1919-33, see table 95. Tables showing indexes, both adjusted and unadjusted, by industries, 1923-34, may be obtained from the Division of Research and Statistics.

No. 98.—INDEX OF FACTORY PAY ROLLS, BY GROUPS

[Without seasonal adjustment. 1923-25 average=100. See note on p. 198]

Year and month	All manufacturing industries	Iron and steel and products	Machinery	Transportation equipment		Railroad repairs and automobiles	Non-ferrous metals and products	Lumber and products	Stone, clay, and glass products	Textiles and products	Leather and products	Food products	Tobacco products	Paper and printing	Chemicals and petroleum products		Rubber products
				Group	Auto-mobiles										Group	Petroleum refining	
1919	97.4	97.1	103.7		74.8			89.3	72.1	80.8	99.9	97.6	107.3	73.1			
1920	117.1	123.8	135.2		90.8			109.9	92.8	107.7	100.5	109.6	124.6	90.1			
1921	76.2	67.0	69.5		48.7			69.7	66.5	80.3	88.5	94.1	104.5	82.6			
1922	81.3	70.6	71.8		65.7			82.2	72.6	91.4	98.1	92.8	99.1	86.9			
1923	103.3	103.2	104.9	107.7	100.6	108.6	103.7	100.9	98.3	105.8	105.9	100.4	104.1	96.2	102.2	102.1	102.3
1924	96.1	96.7	95.3	90.3	90.6	95.6	95.9	98.4	100.5	93.8	95.3	99.4	99.5	96.8	96.3	96.8	94.6
1925	100.6	100.1	100.7	101.5	108.8	94.8	100.4	101.0	101.2	100.4	97.8	100.2	96.5	104.3	101.5	101.0	103.1
1926	103.8	105.0	111.2	99.5	104.8	96.1		102.5	104.2	100.2	98.9	101.8	92.1	116.8	108.8	107.6	112.7
1927	101.8	98.6	106.0	89.8	93.3	92.0	100.5	96.7	100.5	106.8	100.2	104.0	91.0	111.0	107.9	106.7	111.9
1928	102.4	100.4	111.3	101.6	113.9	87.2		94.2	96.2	101.7	95.8	107.6	86.1	112.3	108.1	108.1	108.3
1929	109.1	107.8	134.2	103.4	111.6	90.4	116.4	97.4	93.7	105.2	99.0	113.9	81.8	119.5	121.0	118.5	129.2
1930	88.7	85.7	102.2	70.2	65.7	76.1		72.6	76.9	85.6	82.3	108.9	72.7	114.6	112.2	105.6	130.4
1931	67.5	55.0	63.9	52.3	53.4	61.7	63.1	46.6	63.9	75.1	72.1	93.0	60.1	97.3	91.8	87.6	105.8
1932	46.1	29.1	36.1	40.7	42.8	42.7	39.1	25.1	29.1	53.5	58.1	74.2	47.3	74.8	70.4	65.8	85.4
1933	48.5	36.2	37.9	39.5	42.8	41.7	41.5	26.4	27.6	61.2	62.9	76.2	42.6	69.3	74.3	71.6	83.1
1934	61.9	49.0	57.2	68.6	76.1	48.1	55.0	32.7	35.5	71.2	73.9	92.4	47.1	79.6	80.4	87.9	94.3
1932—January	39.5	22.8	28.2	35.8	38.5	39.2	31.5	18.8	20.7	48.3	49.3	64.6	35.7	66.7	66.4	62.8	79.6
February	40.2	24.8	28.7	32.1	34.2	39.2	32.0	18.8	21.4	52.6	56.5	63.0	37.1	65.6	66.4	62.5	79.1
March	37.1	22.7	26.2	27.8	28.7	38.1	29.1	16.4	21.2	45.2	53.1	60.8	33.4	63.1	65.3	61.0	79.5
April	38.8	24.6	26.8	31.9	34.3	36.2	30.5	17.8	21.6	49.0	51.8	67.5	33.4	62.2	65.1	61.0	78.6
May	42.7	29.8	30.6	38.7	42.9	38.9	35.3	20.7	24.5	52.0	57.8	70.4	42.1	64.9	68.0	64.2	80.2
June	47.2	36.2	35.6	40.6	45.9	38.1	40.0	24.8	28.6	64.8	64.8	73.5	43.7	68.4	71.3	68.2	81.5
July	50.8	41.4	39.1	43.5	48.8	40.0	43.1	27.6	29.9	64.4	72.4	76.8	43.6	67.5	74.1	71.9	81.4
August	56.8	50.0	43.6	49.7	55.7	45.9	48.3	32.4	33.9	74.1	78.2	82.1	44.6	71.0	77.9	76.6	82.2
September	59.1	47.5	46.6	48.2	53.1	45.3	51.6	37.3	33.5	78.7	77.5	94.8	48.2	74.7	81.5	80.2	86.0
October	59.4	47.6	50.2	43.3	48.1	48.9	53.8	38.1	37.4	72.3	77.4	91.1	51.2	70.0	85.5	84.2	89.4
November	55.5	43.3	50.2	38.6	39.6	46.1	52.4	33.6	31.8	69.7	60.1	85.3	50.1	75.6	84.0	83.1	89.8
December	54.5	43.7	49.1	43.7	48.0	44.7	50.2	31.9	31.0	64.0	61.1	84.4	46.6	77.2	84.9	83.6	89.4
1934—January	54.0	41.1	47.6	52.7	58.3	42.1	47.1	27.4	29.9	64.8	67.5	80.7	39.8	74.3	84.5	83.0	89.5
February	60.6	45.7	51.8	71.9	82.3	45.6	52.2	30.5	33.3	77.9	81.7	81.1	45.6	76.0	87.2	86.1	90.8
March	64.8	51.3	55.8	84.4	93.1	48.5	56.8	31.9	34.7	82.6	84.4	82.2	45.8	77.7	89.1	88.8	92.0
April	67.8	55.8	60.5	92.4	107.4	53.0	58.9	33.3	38.8	79.8	82.1	83.1	46.2	70.7	92.3	92.4	92.0
May	67.1	61.3	62.2	88.3	100.4	53.8	60.6	34.6	39.5	74.1	78.9	87.2	46.3	80.6	88.3	87.0	92.7
June	64.9	62.6	61.6	78.5	85.8	53.8	67.9	33.9	38.8	66.4	72.8	91.9	47.5	78.9	88.1	86.6	92.1
July	60.5	47.6	58.5	66.0	70.7	51.1	53.5	31.6	36.1	62.5	77.2	95.6	47.8	77.3	83.7	86.6	95.7
August	62.2	45.5	58.1	70.4	78.5	48.5	63.2	33.5	34.9	68.1	78.7	105.1	49.3	78.4	90.0	87.8	97.2
September	58.0	41.1	55.6	52.3	54.3	45.6	54.0	33.9	34.7	57.5	69.2	109.3	50.3	80.3	89.9	87.9	96.3
October	61.0	42.8	57.0	49.7	46.8	46.8	57.5	35.9	35.5	74.7	64.8	103.4	49.0	82.7	94.6	91.3	95.3
November	59.5	44.2	57.2	48.4	51.3	44.4	55.8	33.0	35.6	71.1	61.0	96.1	48.8	82.7	90.9	89.1	96.8
December	63.2	47.7	60.2	67.7	76.4	44.4	61.5	33.3	34.4	75.8	69.1	92.9	49.9	86.3	91.7	89.9	97.8

BUSINESS CONDITIONS

No. 99.—INDEX OF FACTORY EMPLOYMENT, BY GROUPS

[1923-25 average=100]

194

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

Year and month	All manufacturing industries	Iron and steel and products	Machinery	Transportation equipment		Railroad repair shops	Non-ferrous metals and products	Lumber and products	Stone, clay, and glass products	Textiles and products	Leather and products	Food products	Tobacco products	Paper and printing	Chemicals and petroleum products			Rubber products	
				Group	Automobiles										Group	Group except petroleum	Petroleum refining		
1919.....	107.2	99.9	116.9	-----	85.1	-----	-----	94.1	86.4	98.8	108.1	109.8	113.4	96.0	-----	-----	-----	-----	-----
1920.....	108.2	107.8	128.9	-----	88.1	-----	-----	89.4	89.8	99.0	98.6	106.7	111.3	103.4	-----	-----	-----	-----	-----
1921.....	82.3	66.8	77.5	-----	52.9	-----	-----	76.6	72.2	92.6	86.6	93.7	108.3	88.0	-----	-----	-----	-----	-----
1922.....	90.6	84.1	81.7	-----	71.9	-----	-----	97.4	85.5	97.3	97.3	97.5	105.8	92.2	-----	-----	-----	-----	-----
1923.....	134.1	108.9	105.8	107.0	100.6	108.6	105.4	101.5	100.4	106.2	106.6	102.1	105.7	99.2	102.9	102.9	103.0	102.6	-----
1924.....	96.5	97.0	95.1	93.1	93.6	96.4	96.7	98.1	98.9	94.9	96.3	98.4	93.8	99.7	96.7	96.9	96.1	91.8	-----
1925.....	99.4	99.1	99.1	99.3	105.8	95.0	97.9	100.4	100.7	99.0	97.1	99.5	95.5	101.1	100.4	100.2	100.0	105.6	-----
1926.....	101.2	102.5	107.8	99.1	104.8	95.5	-----	100.4	103.8	99.9	96.6	99.5	90.9	104.1	106.7	105.6	110.8	105.1	-----
1927.....	98.9	97.2	102.3	87.9	91.9	89.0	96.5	94.1	99.9	104.0	97.7	101.7	93.4	104.1	104.1	102.7	109.9	105.7	-----
1928.....	98.6	96.6	105.1	96.2	108.1	83.8	-----	92.4	95.7	101.3	95.6	105.8	90.7	105.0	102.9	102.4	104.7	111.1	-----
1929.....	104.8	102.6	125.9	103.5	111.8	82.6	111.4	95.4	93.8	104.8	98.5	112.8	83.9	111.3	115.6	113.4	124.4	111.0	-----
1930.....	91.5	89.2	104.6	80.2	80.3	73.4	-----	76.1	80.2	92.9	91.2	109.4	78.3	108.0	106.5	105.8	124.9	85.9	-----
1931.....	77.4	69.7	78.3	66.3	71.0	64.1	74.0	64.1	63.7	87.2	84.3	97.4	72.1	96.3	95.1	92.5	106.2	73.9	-----
1932.....	64.1	53.8	59.3	56.0	60.8	53.4	58.1	41.1	44.6	75.7	79.0	86.4	64.0	85.0	84.0	81.1	96.1	65.4	-----
1933.....	69.0	58.6	58.9	54.2	59.8	52.0	62.9	44.2	45.0	87.9	88.3	94.4	59.7	86.2	94.7	93.5	99.8	73.9	-----
1934.....	78.8	69.0	77.7	82.9	93.2	55.5	74.3	43.7	52.8	91.2	87.8	106.5	62.6	94.8	108.6	108.0	111.1	82.9	-----
Without seasonal adjustment																			
1933—January.....	60.2	46.8	48.1	51.4	57.0	51.7	52.2	36.4	35.2	77.9	76.7	79.1	55.7	81.6	84.0	82.0	92.9	61.8	-----
February.....	61.1	49.0	48.7	50.3	56.1	50.8	53.2	36.0	36.5	80.9	80.9	78.2	58.6	81.5	85.4	83.4	93.9	62.2	-----
March.....	58.8	46.8	47.1	45.2	49.5	60.6	50.8	34.3	36.9	76.0	80.1	77.0	53.3	80.0	84.9	82.6	94.0	59.8	-----
April.....	59.9	48.1	47.7	45.3	50.1	48.1	51.9	35.0	38.4	78.3	78.3	83.0	52.0	79.8	86.4	84.4	94.2	59.6	-----
May.....	62.6	51.0	50.1	48.8	53.9	49.7	54.1	37.9	41.3	82.3	79.9	85.1	59.2	80.6	85.7	83.3	95.3	62.4	-----
June.....	66.9	55.7	54.2	51.7	58.2	48.4	68.4	42.7	45.9	86.7	83.4	89.7	61.2	82.3	87.9	85.0	96.9	69.3	-----
July.....	71.5	61.8	58.1	58.3	65.9	51.7	61.7	46.6	49.3	95.4	89.5	94.5	60.3	84.1	92.3	91.1	98.9	66.6	-----
August.....	76.4	68.4	64.5	61.6	68.7	54.2	69.2	50.4	52.8	97.8	92.9	105.4	62.2	88.7	99.1	99.1	98.9	77.4	-----
September.....	80.0	71.4	69.8	64.3	71.6	55.1	74.3	54.3	52.9	98.2	90.7	120.9	61.7	92.7	106.0	105.4	104.9	88.8	-----
October.....	79.6	69.8	73.0	69.1	64.2	55.0	75.8	55.2	51.6	97.7	88.9	115.9	64.6	94.5	109.1	109.2	108.8	88.7	-----
November.....	76.2	67.9	73.3	53.5	56.6	54.8	72.6	52.3	50.3	92.9	79.1	104.8	65.0	94.2	108.4	108.1	110.0	86.7	-----
December.....	74.4	66.6	71.8	61.1	66.1	53.5	69.8	49.8	49.0	88.0	78.7	99.2	62.1	94.6	107.6	106.7	111.2	83.9	-----

1934—January	73.3	63.5	70.0	71.2	80.3	52.8	67.3	45.6	47.3	88.2	82.9	94.1	54.5	92.4	107.9	107.3	110.8	82.0
February	77.7	66.6	72.9	84.6	97.4	53.4	70.9	47.1	49.8	96.8	90.3	93.9	62.1	93.1	110.6	110.6	110.6	84.6
March	80.8	70.0	76.8	93.4	108.4	55.5	75.1	48.5	52.1	100.0	92.7	96.2	64.4	93.7	112.8	113.4	110.2	87.1
April	82.4	72.6	80.3	90.4	114.9	57.8	76.9	49.4	55.3	90.1	92.3	97.2	64.7	95.1	113.3	114.7	107.8	90.0
May	82.5	75.2	81.3	90.7	114.4	59.6	77.8	51.0	57.7	96.1	91.4	99.6	61.3	95.9	106.1	105.3	109.5	89.1
June	81.1	76.4	80.8	95.6	106.8	59.8	75.9	50.0	57.1	90.9	87.7	105.1	62.4	94.7	104.5	102.9	111.4	85.6
July	78.7	70.3	79.0	88.4	98.4	58.3	73.1	48.8	54.2	85.9	89.4	110.1	61.1	93.4	105.3	103.8	111.7	83.9
August	79.5	68.6	78.9	83.7	82.5	55.2	73.4	49.0	58.1	88.2	91.1	122.1	65.1	93.8	106.9	105.3	113.4	80.7
September	75.8	65.0	78.0	74.2	80.9	55.7	73.2	48.3	52.9	73.1	85.7	127.1	64.7	95.3	108.6	107.6	112.9	78.4
October	78.4	66.0	77.9	64.2	68.7	53.9	75.1	49.5	51.9	92.3	88.4	119.5	65.3	96.4	109.4	108.5	112.9	77.4
November	76.8	66.2	77.9	62.2	67.1	51.6	76.0	48.6	52.2	90.9	81.6	109.0	64.0	96.8	108.6	107.9	111.9	76.6
December	78.0	66.6	78.5	78.5	88.9	52.0	76.9	47.8	50.1	92.8	84.8	103.8	61.9	97.5	108.8	108.3	110.8	79.0

Adjusted for seasonal variation

1932—January	61.4	47.8	49.0	52.1	57.6	52.4	52.9	37.7	38.8	77.9	77.4	97.0	59.8	81.1	84.0	81.4	94.7	62.8
February	61.7	48.9	49.3	49.1	64.4	51.5	52.6	36.9	38.7	79.4	79.2	97.2	59.0	81.4	84.8	82.3	95.1	62.5
March	58.9	46.2	47.8	43.4	47.4	50.9	49.8	35.1	37.6	73.9	78.2	95.0	53.6	79.8	83.9	81.2	94.9	60.5
April	59.9	47.4	48.3	42.9	47.4	47.8	51.3	35.5	38.0	77.1	79.0	99.0	52.8	80.2	83.2	80.5	94.2	59.5
May	62.9	50.4	50.5	44.7	46.0	49.4	54.4	38.2	40.2	82.3	82.2	91.1	59.5	81.3	87.1	85.1	95.4	61.3
June	67.4	55.6	54.4	49.0	55.1	48.0	59.1	42.6	44.1	91.0	86.9	91.7	61.4	83.1	91.9	90.9	96.0	67.4
July	72.5	62.8	58.6	56.7	64.0	51.4	63.2	46.7	48.8	100.2	88.9	92.0	61.0	85.1	93.5	96.9	94.8	76.2
August	76.4	68.7	64.2	61.7	68.3	54.0	70.4	49.8	51.4	101.2	89.7	97.4	62.4	89.9	103.0	104.4	97.1	87.9
September	78.0	70.9	67.9	65.5	72.7	54.8	74.8	52.9	51.0	98.1	87.3	103.2	60.0	93.0	105.5	106.2	103.0	89.4
October	77.8	69.4	70.8	63.9	69.8	54.7	74.8	53.1	49.7	96.1	86.7	104.6	61.9	94.2	106.9	106.4	109.0	89.4
November	75.9	68.1	72.3	60.5	65.3	55.0	71.7	50.9	50.0	92.1	80.9	102.3	63.1	93.0	106.6	105.5	111.1	87.0
December	75.0	67.6	72.4	65.6	71.8	53.6	69.2	49.9	50.0	87.3	82.4	101.7	61.9	93.0	106.6	105.2	112.6	84.3
1934—January	75.1	64.9	71.8	72.1	81.1	53.6	68.1	47.2	52.0	88.1	83.6	104.0	58.4	91.7	107.7	106.6	112.4	83.4
February	78.4	66.4	74.0	82.5	94.6	54.2	70.1	48.4	52.7	95.1	88.4	104.3	62.6	92.9	109.8	109.0	112.1	85.1
March	81.0	69.1	78.4	89.8	103.7	55.8	73.7	49.8	53.1	97.3	90.5	107.8	64.9	93.4	110.8	110.7	111.3	88.3
April	82.3	71.5	81.5	94.0	108.8	57.4	76.0	50.0	54.7	97.8	93.0	104.0	65.7	95.5	109.4	109.8	107.8	89.8
May	82.6	74.3	82.0	91.2	104.1	59.2	78.2	51.3	56.2	90.0	94.0	106.4	61.6	96.5	107.9	107.4	109.7	87.5
June	81.5	76.3	81.2	90.6	101.1	59.4	76.8	49.8	54.0	92.2	91.4	107.3	62.7	95.3	108.9	108.4	110.4	83.2
July	79.5	71.4	79.4	85.8	95.5	58.0	75.0	48.8	53.9	90.2	88.9	106.7	61.8	94.4	109.6	109.7	109.3	82.8
August	79.3	68.8	78.4	83.7	92.3	55.0	74.9	48.4	52.0	91.3	87.9	110.8	65.4	95.0	110.9	110.8	111.3	82.0
September	78.0	65.4	76.0	75.5	82.1	55.4	73.0	48.0	51.1	72.9	82.4	110.5	62.9	95.6	108.2	107.6	110.9	79.0
October	76.8	65.6	75.8	69.3	74.7	53.7	74.1	47.7	50.0	90.7	81.4	109.3	62.5	96.0	107.5	106.2	113.1	78.1
November	76.7	66.4	77.2	70.4	77.4	51.7	74.9	47.3	51.9	90.2	83.4	107.3	61.1	95.4	107.2	105.8	113.0	77.0
December	78.9	67.7	79.2	84.4	96.6	52.1	76.1	47.8	51.2	92.1	88.9	107.9	61.6	95.8	108.1	107.1	112.1	79.5

NOTE.—The indexes for factory employment and pay rolls unadjusted for seasonal variation are compiled by the Bureau of Labor Statistics. For description and back figures for totals see BULLETIN for May 1934, pp. 270-271; back figures for groups and for industries available at the Bureau of Labor Statistics. For description and back figures for the seasonally adjusted index of factory employment compiled by the Federal Reserve Board, see BULLETIN for June 1934, pp. 324-343.

196 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

No. 100.—INDEX NUMBERS OF WHOLESALE COMMODITY PRICES IN THE UNITED STATES, BY MONTHS AND YEARS, 1913-34¹

[Index numbers of the U. S. Bureau of Labor Statistics. 1926=100]

Year and month	All commodities	Farm products	Foods	Other commodities								
				Total	Hides and leather products	Textile products	Fuel and lighting materials	Metals and metal products	Building materials	Chemicals and drugs	House-furnishing goods	Miscellaneous
1913	69.8	71.5	64.2	70.0	68.1	57.3	61.3	90.8	56.7	80.2	55.3	93.1
1914	68.1	71.2	64.7	66.4	70.9	54.6	56.6	80.2	52.7	81.4	56.8	90.9
1915	69.5	71.5	65.4	68.0	75.5	64.1	61.8	86.3	53.5	112.0	56.0	86.9
1916	85.5	84.4	75.7	83.3	93.4	70.4	74.3	116.5	67.6	160.7	61.4	100.6
1917	117.5	129.0	104.5	114.2	123.8	88.7	105.4	150.9	88.2	165.0	74.2	122.1
1918	131.3	148.0	119.1	134.6	125.7	137.2	100.2	136.5	98.6	182.3	98.3	134.4
1919	138.6	157.6	129.5	133.8	174.1	135.3	104.3	130.9	115.6	157.0	105.9	136.1
1920	154.4	150.7	137.4	161.3	171.3	164.8	163.7	149.4	150.1	164.7	141.8	167.5
1921	97.6	88.4	90.6	104.9	109.2	94.5	96.8	117.5	97.4	115.0	113.0	109.2
1922	96.7	93.8	87.6	102.4	104.6	100.2	107.3	102.9	97.3	100.3	108.6	92.8
1923	100.6	99.4	92.7	104.3	104.2	111.3	97.5	102.3	103.7	101.1	108.9	95.7
1924	98.1	98.1	91.0	99.7	101.5	106.7	92.0	106.3	102.3	98.9	104.9	93.0
1925	103.5	109.8	100.2	102.6	105.3	98.5	103.2	101.7	101.8	101.8	103.1	109.0
1926 (base)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1927	95.4	99.4	96.7	94.0	107.7	95.8	88.3	97.3	94.7	96.8	97.5	91.0
1928	95.7	105.9	101.0	92.9	121.4	95.5	84.3	97.0	94.1	95.6	95.1	85.4
1929	95.3	104.9	99.9	91.6	109.1	90.4	83.0	100.5	98.4	94.2	94.3	82.6
1930	88.4	88.3	90.5	85.2	100.0	80.3	78.5	92.1	80.9	89.1	92.7	77.7
1931	73.0	94.8	74.8	75.0	76.1	67.5	67.5	82.3	73.2	71.4	84.9	65.8
1932	64.8	48.2	61.0	70.2	72.9	54.9	70.3	80.2	71.4	73.5	75.1	64.4
1933	65.9	51.4	60.5	71.2	80.9	64.8	66.3	79.8	77.0	72.6	75.8	62.5
1934	74.9	65.3	70.5	78.4	86.6	72.9	73.3	86.9	86.2	76.9	81.5	67.6
1932												
January	67.3	62.8	64.7	71.7	79.3	59.5	67.9	81.8	74.8	75.7	77.7	65.6
February	66.3	60.6	62.5	71.3	78.3	59.5	68.3	80.9	73.4	75.5	77.5	64.7
March	66.2	61.3	62.7	68.0	67.7	60.9	67.9	80.8	73.7	75.3	76.3	64.5
April	65.5	49.2	61.0	70.9	75.0	56.1	70.2	80.3	72.5	74.4	76.3	64.7
May	64.4	46.5	59.3	70.4	72.5	64.3	70.7	80.1	71.5	73.6	74.8	64.4
June	63.9	46.7	58.8	70.1	70.8	62.7	71.6	79.9	70.8	73.1	74.7	64.2
July	64.5	47.9	60.9	69.7	68.6	61.6	72.3	79.2	69.7	73.4	74.0	64.3
August	65.2	49.1	61.8	70.1	69.7	62.7	72.1	80.1	69.6	73.8	73.6	64.6
September	65.3	49.1	61.8	70.4	72.2	55.6	70.8	80.1	70.5	72.9	73.7	64.7
October	64.4	46.9	60.5	70.2	72.8	65.0	71.1	80.3	70.7	72.7	73.7	64.1
November	63.9	46.7	60.6	69.8	71.4	63.9	71.4	79.6	70.7	72.4	73.7	63.7
December	62.0	44.1	58.3	69.0	66.5	63.0	69.3	79.4	70.8	72.3	73.6	64.1
1933												
January	61.0	42.6	55.8	67.3	68.9	51.9	66.0	78.2	70.1	71.6	72.9	61.2
February	59.8	40.9	53.7	66.0	68.0	51.2	62.6	77.4	69.8	71.3	72.3	59.2
March	60.2	42.8	54.6	65.8	68.1	51.3	62.9	77.2	70.3	71.2	72.2	58.9
April	60.4	44.5	55.1	65.3	69.4	51.8	61.5	75.9	70.2	71.4	71.5	57.8
May	62.7	50.2	59.4	66.5	76.9	55.9	69.4	77.7	71.4	73.2	71.7	58.5
June	65.0	63.2	61.2	68.9	82.4	61.5	61.5	79.3	74.7	73.7	73.4	60.8
July	68.9	60.1	65.5	72.2	85.3	68.0	65.3	80.6	79.5	73.2	74.8	64.0
August	69.5	57.6	64.8	74.1	91.7	74.6	65.5	81.2	81.5	78.1	77.5	65.4
September	70.8	57.0	64.9	78.1	92.3	76.9	67.4	82.7	82.7	78.7	79.3	66.1
October	71.2	55.7	64.2	77.2	89.0	77.1	73.9	83.0	83.9	72.7	81.2	65.3
November	71.1	56.6	64.3	77.2	88.2	76.8	73.5	82.7	84.9	73.4	81.0	65.3
December	70.8	56.5	62.5	77.5	89.2	76.4	73.4	83.5	85.6	78.7	81.0	65.7
1934												
January	72.2	58.7	64.3	78.3	89.5	76.5	73.1	85.5	86.3	74.4	80.8	67.5
February	73.6	61.3	64.7	78.0	89.6	76.9	72.4	86.4	86.4	75.8	81.9	68.4
March	73.7	61.3	67.3	78.5	89.7	76.8	71.4	87.1	86.4	75.7	81.4	69.3
April	73.3	59.6	66.2	78.6	88.9	75.3	71.7	87.9	86.7	75.5	81.5	69.5
May	73.7	59.6	67.1	78.9	87.9	73.6	72.5	89.1	87.3	75.4	82.0	68.9
June	74.6	63.3	69.8	78.2	92.3	76.9	74.4	87.5	87.5	76.2	82.7	70.2
July	74.8	64.5	70.6	78.4	86.3	71.5	73.9	86.8	87.0	75.4	81.6	69.9
August	74.4	69.8	73.9	73.3	83.8	70.8	74.9	86.7	88.8	75.7	81.8	70.2
September	77.5	73.4	76.1	78.3	84.1	71.1	74.6	86.6	85.6	76.5	81.8	70.2
October	76.5	70.8	74.8	78.5	83.8	74.5	74.8	83.3	85.2	77.1	81.7	68.7
November	78.5	70.8	73.1	78.0	84.2	69.7	74.6	84.3	85.0	76.9	81.3	70.6
December	78.9	72.0	75.3	78.0	85.1	70.0	73.7	85.9	85.1	78.1	81.2	71.0

¹ Index based on 550 price series from 1913 to 1925 and on 784 price series from 1925 to date.

Back figures.—See Annual Report for 1933 (table 120) for monthly indexes from 1926 to 1931 inclusive; figures for earlier years available at the Bureau of Labor Statistics.

BUSINESS CONDITIONS

1941

No. 101.—INDEX NUMBERS OF WHOLESALE COMMODITY PRICES IN THE UNITED STATES, BY WEEKS, 1934

(Index numbers of the U. S. Bureau of Labor Statistics, 1926=100)

Week ending (Saturday)	All commodities	Farm products	Foods	Other commodities								
				Total	Hides and leather products	Textile products	Fuel and lighting materials	Metals and metal products	Building materials	Chemicals and drugs	House-furnishing goods	Miscellaneous
1934												
Jan. 6	71.0	57.4	62.7	77.6	90.0	76.0	74.3	83.3	85.5	73.3	81.7	65.9
Jan. 13	71.7	58.6	64.2	77.9	90.2	76.1	74.4	83.7	85.6	73.5	81.7	66.2
Jan. 20	72.3	59.0	64.6	78.6	90.3	76.4	74.2	85.1	86.5	76.0	81.7	67.5
Jan. 27	72.4	59.5	65.0	78.5	90.4	76.4	74.0	84.7	86.2	75.1	81.7	68.1
Feb. 3	72.8	60.5	65.7	78.7	90.5	76.5	73.9	85.1	86.4	76.0	81.8	68.4
Feb. 10	73.3	61.4	66.8	78.7	90.5	76.4	73.9	85.0	86.3	75.1	81.9	68.5
Feb. 17	73.7	62.1	67.4	78.7	90.4	76.6	73.8	85.0	86.7	75.4	81.9	68.6
Feb. 24	73.4	61.2	67.0	78.7	90.1	75.7	73.8	85.0	86.6	75.4	82.1	68.5
Mar. 3	73.6	62.0	67.5	78.6	89.8	76.6	73.5	85.1	86.5	75.4	82.3	68.6
Mar. 10	73.9	62.0	68.1	78.7	89.0	76.3	73.0	85.4	86.3	75.7	82.5	68.8
Mar. 17	73.7	62.0	67.7	78.6	88.8	76.0	72.6	84.5	86.2	75.8	82.4	68.3
Mar. 24	73.5	61.4	67.3	78.6	88.8	76.0	72.4	84.4	86.2	75.8	82.5	68.5
Mar. 31	73.4	61.4	66.5	78.6	89.4	75.8	72.4	84.4	86.3	75.8	82.5	68.3
Apr. 7	73.3	60.4	66.1	78.7	89.5	75.7	72.6	84.5	86.7	75.5	82.5	69.7
Apr. 14	73.3	60.5	65.8	78.9	89.8	75.5	72.9	84.9	86.5	75.4	82.8	69.6
Apr. 21	73.3	60.7	66.8	78.8	89.7	75.2	73.1	87.0	86.3	75.3	83.1	69.3
Apr. 28	73.5	60.1	66.6	79.2	89.6	76.0	73.5	83.3	87.1	75.3	83.0	69.2
May 5	73.4	60.1	66.6	79.0	89.5	74.1	72.7	86.7	87.4	75.3	83.1	69.6
May 12	73.8	60.5	67.5	79.1	89.3	73.5	73.0	85.8	87.4	75.3	83.0	70.1
May 19	73.5	60.6	67.2	79.0	88.5	72.5	73.2	85.7	87.0	75.4	83.0	69.7
May 26	73.7	60.1	67.4	79.0	88.0	73.1	73.4	88.7	87.2	75.3	83.9	69.7
June 2	73.9	60.8	67.7	79.0	87.7	72.7	73.7	88.7	87.8	75.3	83.6	69.6
June 9	73.8	60.7	67.5	78.9	87.2	72.7	73.8	87.8	87.8	75.7	83.4	70.0
June 16	74.6	63.7	70.2	78.9	87.6	72.5	73.7	88.0	87.7	76.4	83.4	70.5
June 23	75.0	63.8	71.3	78.7	88.1	72.5	73.4	87.1	87.6	75.5	83.2	70.5
June 30	74.8	64.8	70.9	78.5	88.2	71.8	73.3	87.0	87.6	75.8	83.2	70.1
July 7	74.7	64.1	71.0	78.6	87.9	71.5	74.2	86.9	87.5	75.7	83.1	69.9
July 14	74.5	64.5	70.8	78.3	87.6	71.4	73.8	86.4	86.9	75.6	83.1	69.9
July 21	75.1	66.1	71.2	78.6	87.0	71.6	74.7	86.4	87.4	75.6	83.0	70.0
July 28	74.7	64.6	70.8	78.5	86.1	71.4	74.7	86.3	86.7	75.6	83.0	70.1
Aug. 4	75.1	66.6	71.8	78.4	85.1	71.1	74.7	86.2	87.1	75.5	83.0	69.9
Aug. 11	75.4	67.3	72.2	78.4	84.6	70.8	75.3	85.9	86.5	75.5	82.9	70.1
Aug. 18	76.1	68.9	74.1	78.4	84.2	71.1	75.2	85.9	86.4	75.9	82.9	70.3
Aug. 25	75.9	71.8	75.5	78.4	84.6	71.1	75.2	85.9	86.4	76.0	82.9	70.6
Sept. 1	77.5	73.5	76.6	78.4	84.5	71.3	75.1	85.9	86.3	76.3	82.9	70.3
Sept. 8	77.8	74.3	77.2	78.5	84.6	70.6	75.4	85.9	86.3	76.3	82.9	70.6
Sept. 15	77.5	73.7	76.2	78.5	84.8	70.6	75.5	85.9	86.9	76.5	83.0	70.7
Sept. 22	77.6	73.8	76.7	78.4	84.9	70.8	75.6	85.7	85.8	76.8	83.1	70.4
Sept. 29	77.2	72.8	76.0	78.4	84.9	70.7	75.6	85.7	86.3	77.0	83.1	70.3
Oct. 6	76.6	71.0	75.2	78.2	84.3	70.2	75.5	85.7	86.4	77.3	82.8	70.1
Oct. 13	76.4	71.0	74.8	78.1	84.4	70.1	75.4	85.9	86.2	77.1	82.5	69.7
Oct. 20	76.2	70.9	74.9	77.9	84.6	70.0	74.8	85.6	85.0	77.2	82.8	69.7
Oct. 27	76.2	70.8	75.4	78.0	84.5	69.9	75.0	85.5	85.2	77.2	82.8	69.6
Nov. 3	76.0	69.9	75.4	77.8	84.4	69.5	74.9	85.6	84.0	76.9	82.8	69.6
Nov. 10	76.6	71.1	75.9	78.1	84.9	69.4	76.6	85.4	85.1	77.8	82.7	70.6
Nov. 17	76.7	71.5	75.5	78.3	84.9	69.3	76.1	85.3	85.0	77.0	82.7	70.6
Nov. 24	76.3	70.8	75.0	78.1	84.9	69.3	75.6	85.8	84.9	77.1	82.7	70.6
Dec. 1	76.5	71.1	75.0	78.2	84.9	69.3	75.7	85.3	84.9	77.4	82.7	70.8
Dec. 8	76.7	71.7	74.9	78.3	85.0	69.3	76.0	85.4	85.1	77.8	82.4	71.0
Dec. 15	76.7	71.1	75.4	78.2	85.7	69.4	75.7	85.4	85.0	78.0	82.4	71.2
Dec. 22	76.7	71.2	75.4	78.2	86.4	69.7	76.0	85.5	84.7	78.1	82.5	71.1
Dec. 29	77.1	72.6	76.3	78.1	86.6	69.7	74.7	85.5	84.9	78.3	82.5	71.1

Back figures.—See Annual Report for 1933 (table 121).

APPENDIX

DIRECTORY OF THE FEDERAL ADVISORY COUNCIL

(Dec. 31, 1934)

OFFICERS

President, WALTER W. SMITH
Vice President, HOWARD A. LOEB
Secretary, WALTER LICHTENSTEIN

EXECUTIVE COMMITTEE

WALTER W. SMITH
HOWARD A. LOEB
THOMAS M. STEELE

WALTER E. FREW
H. C. McELDOWNEY
W. T. KEMPER

MEMBERS

- District No. 1.—THOMAS M. STEELE, president, First National Bank & Trust Co. of New Haven, Conn.
District No. 2.—WALTER E. FREW, chairman, Corn Exchange Bank Trust Co., New York, N. Y.
District No. 3.—HOWARD A. LOEB, chairman, Trademans National Bank & Trust Co., Philadelphia, Pa.
District No. 4.—H. C. McELDOWNEY, president, Union Trust Co. of Pittsburgh, Pa.
District No. 5.—HOWARD BRUCE, chairman and president, Baltimore National Bank, Baltimore, Md.
District No. 6.—H. LANE YOUNG, vice president and executive manager, The Citizens and Southern National Bank, Atlanta, Ga.
District No. 7.—SOLOMON A. SMITH, president, The Northern Trust Co., Chicago, Ill.
District No. 8.—WALTER W. SMITH, President, First National Bank in St. Louis, Mo.
District No. 9.—THEODORE WOLD, president, Northwestern National Bank & Trust Co., Minneapolis, Minn.
District No. 10.—W. T. KEMPER, chairman, Commerce Trust Co., Kansas City, Mo.
District No. 11.—JOSEPH H. FROST, president, Frost National Bank, San Antonio, Tex.
District No. 12.—M. A. ARNOLD, president, First National Bank of Seattle, Wash.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD

MAY 15, 1934

In answer to definite inquiries on the part of the Federal Reserve Board the Federal Advisory Council made the following four recommendations:

RECOMMENDATION No. 1.—Report on business conditions.

The Federal Advisory Council in response to the request of the Federal Reserve Board makes the following statement regarding the conditions in the country as a whole. The members of the Council have been surprised by the great similarity of view held by the representatives on the Council of the 12 Federal Reserve districts. It might have been supposed that conditions would vary considerably in different parts of the country, but this does not seem to be the case except in those areas where Government money has been expended in large amounts.

In general it may be said that business conditions and sentiment have improved very much as compared with the earlier part of last year and the year immediately preceding. There seems, however, to have been some recession in recent weeks. As far as the members of the Council can tell, this recent setback is due largely to a lack of confidence in the activity of the Congress and some of the governmental bureaus recently established. There is considerable uncertainty as to what the ultimate effect may be of some of the recent legislative enactments and of pending legislative proposals. The members of the Council are unanimous in believing that there can be no permanent improvement until such time as the business community of the country becomes convinced that experimentation in currency and in attempts to regulate business will cease.

The large and uneconomic advance in labor costs is proving definitely untimely and in many cases positively destructive. As a result of these wage advances, selling prices for commodities to absorb such costs have been necessarily advanced to an extent which limits distribution and consumptive demand. As time passes it is found to be particularly true that the influences of increasing costs daily manifest themselves in yet higher prices and increasing restriction of distribution, which has discouraged many lines of industry.

In respect to specific industries it is to be noted that in recent weeks the textile and metal manufacturing trades have suffered. It is true that steel operations are at a higher rate than during the last 2 or 3 years, but doubt is expressed as to the next quarter. On the whole it may be said that the increase in consumption has not kept pace with the increase in production.

In some of the regions of the country largely dependent on agriculture the prevailing drought will undoubtedly create difficulties. In the Northwest the dust storms coupled with the unusual dryness has prevented the seed from germinating. Livestock will have to be moved unless abundant rains come in the near future. In these regions to which reference is made there is fear that manufacturers will face large cancellations.

RECOMMENDATION No. 2.—Bank credit.

The Federal Advisory Council believes that in those sections of the country where the money of the Government has been widely distributed there has been some increase of loans on the part of the banks. In the larger centers of the country, however, loans have tended to decrease.

RECOMMENDATION No. 3.—Federal Reserve funds.

The members of the Federal Advisory Council believe that the effect of dealings in Federal Reserve funds are not of sufficient importance to lessen the ability of the Federal Reserve System to control credit policies.

RECOMMENDATION No. 4.—Section 7 (d) of Stock exchange bill (S. 3420).

The members of the Federal Advisory Council are of the opinion that the Federal Reserve Board before issuing regulations under this bill, provided it is enacted into law, should make a careful study as regards the needs of the situation. It should be pointed out that the power conferred on the Board is to be permissive and not mandatory.

Consequently, there is no need for the Board to issue any regulations until there is evidence that there is necessity for them. In general the members of the Council feel that if the Board conscientiously can refrain from adding unnecessarily to the innumerable regulations, orders, and laws of all kinds under which banks are at present compelled to operate it will be doing a distinct service.

If and when the Federal Reserve Board deems it necessary and advisable to issue regulations under this provision of the proposed law then it is to be hoped that the Board will bear in mind the need for maintaining adequate markets not merely for securities listed on the more important exchanges of the country but also for securities which have merely a restricted local market and those which are sold over the counter and not listed. Stringent regulations may result in destroying the market for the securities of small worthy industries and thereby possibly destroy these industries themselves by making it impossible for them to obtain needed capital.

In addition the Federal Advisory Council made the following recommendation in reference to Regulation Q.

RECOMMENDATION No. 5.—Regulation Q.

The Federal Advisory Council believes that in view of the wide divergence in rates of interest now being paid on thrift and other time deposits in different sections of the country, and in view of the increasing difficulty of obtaining from suitable investments a yield sufficient to warrant the payment of the maximum rate now fixed under the provisions of Regulation Q of the Federal Reserve Board, it is recommended that the Board give consideration to the advisability of lowering the present maximum rate.

In the opinion of the Council the present maximum rate might well be lowered one-half of 1 percent.

RECOMMENDATION No. 6.

The Federal Advisory Council believes that it is timely and important to call attention to certain fundamental characteristics of the Federal Reserve System and to certain present-day tendencies not in harmony therewith.

When Congress enacted into law the Glass-Owen bill establishing the Federal Reserve System, it very wisely provided for 12 largely autonomous Reserve banks located in 12 different parts of the country each under its own board of directors and each responsive, in some measure, to the individual needs of its district.

The general oversight of these 12 banks was placed with the Federal Board, a coordinating body located in Washington. The members of this Board were appointed by the President with the advice and the consent of the Senate and it was provided that no one of them could be actively engaged in banking. There was thus constituted an independent Federal banking system functioning free of undue influence by the banks on the one hand and free from control by the Government or by political groups on the other.

Recent events have caused the Council to feel that it should sound a note of warning that the System ought itself to be careful not to permit the operation of influences tending to destroy its basic characteristics. The Council believes that it sees a tendency of late

towards highly restrictive laws, rules, and regulations with respect to minute details of bank operation which, if not checked, will inevitably destroy the independence of the Reserve banks. The result of such tendencies, through substituting uniform regulations from Washington in place of the independent judgment of the several boards of directors of the Reserve banks, will destroy the morale of those boards and will prevent that adjustment of local practices to local needs which Congress clearly contemplated.

The Council believes that if the Federal Reserve System is to continue in existence and to perform its best services to the people it must avoid both bureaucratic tendencies from within and undue governmental or bank control from without.

SEPTEMBER 18, 1934.

RECOMMENDATION No. 1.

The Federal Reserve Board has asked for suggestions from the Federal Advisory Council as to any matters which it would like to have considered by the committee which has been appointed by the Board to study banking laws and to make recommendations.

The Council feels that a careful distinction should be made between fundamental changes in the Federal Reserve System itself and those remedial changes which are necessary or desirable as a result of inconsistencies and lack of clarity inevitably resulting from the haste with which important emergency legislation was enacted in recent sessions of Congress.

In view of the careful study, the prolonged debate and the thorough consideration which were given to the subject before the Federal Reserve Act was adopted in 1914, the Federal Advisory Council is convinced of the importance of having the act carefully reviewed prior to further fundamental alterations.

The Federal Advisory Council, therefore, welcomes the step the Federal Reserve Board has taken in appointing a committee for the purpose of studying the Federal Reserve System and considering proposed legislative changes. The Council will appoint a committee of its members which will confer with the committee appointed by the Board if the Federal Reserve Board so desires. The committee of the Council will hold itself in readiness to consult with the committee of the Board whenever it may suit the convenience of the latter.

RECOMMENDATION No. 2.

The Federal Advisory Council is disturbed by the present provision in the Banking Act of 1933 which provides that the Federal Deposit Insurance Corporation shall continue to insure banks now in existence which have no capital structure and likewise banks to be chartered hereafter.

The present act provides that the Corporation must accept applications from and insure banks the assets of which banks are sufficient to pay their liabilities.

It is the judgment of the Council that banks hereafter to be admitted should have in addition to assets sufficient to pay their liabilities an adequate capital structure and in addition thereto it is the belief of the Council that the applicants should make a reasonable

RECOMMENDATION No. 3.

The members of the Federal Advisory Council have reviewed the activity of the member banks in their respective districts as to the cooperation of these banks in respect to the direct loans to industry which Federal Reserve banks are authorized to make. The Council finds that the member banks have cooperated and the Council believes that the banks will continue to assist the Federal Reserve banks in placing the loans in question.

NOVEMBER 20, 1934.

TOPIC No. 1.—Loans secured by registered securities made by banks to others than to members of registered exchanges.

Recommendation.—When regulations are issued covering loans secured by registered securities made by banks to others than to members of registered exchanges, we strongly urge that they be made as simple as possible and that the principle of a definite percentage of margin based on current market values be established.

DIRECTORY OF THE FEDERAL RESERVE BOARD

(Dec. 31, 1934)

HENRY MORGENTHAU, Jr., *Secretary of the Treasury, member ex officio.*
 J. F. T. O'CONNOR, *Comptroller of the Currency, member ex officio.*

MARRINER S. ECCLES, of Utah, *Governor.* Term expires August 9, 1938.
 J. J. THOMAS, of Nebraska, *Vice Governor.* Term expires January 24, 1943.
 CHARLES S. HAMLIN, of Massachusetts. Term expires August 9, 1936.
 ADOLPH C. MILLER, of the District of Columbia. Term expires August 9, 1946.
 GEORGE R. JAMES, of Tennessee. Term expires April 27, 1941.
 M. S. SZYMCAK, of Illinois. Term expires April 18, 1943.

LAWRENCE CLAYTON, <i>Assistant to the Governor.</i> CHESTER MORRILL, <i>Secretary.</i> J. C. NOELL, <i>Assistant Secretary.</i> LISTON P. BETHEA, <i>Assistant Secretary.</i> S. R. CARPENTER, <i>Assistant Secretary.</i> WALTER WYATT, <i>General Counsel.</i> GEORGE B. VEST, <i>Assistant Counsel.</i> LEO H. PAULGER, <i>Chief, Division of Examinations.</i> FRANK J. DRINNEN, <i>Federal Reserve Examiner.</i> E. A. GOLDENWEISER, <i>Director, Division of Research and Statistics.</i>	LAUCHLIN CURRIE, <i>Assistant Director, Division of Research and Statistics.</i> WOODLIEF THOMAS, <i>Assistant Director, Division of Research and Statistics.</i> E. L. SMEAD, <i>Chief, Division of Bank Operations.</i> J. R. VAN FOSSEN, <i>Assistant Chief, Division of Bank Operations.</i> CARL E. FARRY, <i>Chief, Division of Security Loans.</i> O. E. FOULKE, <i>Fiscal Agent.</i> JOSEPHINE E. LALLY, <i>Deputy Fiscal Agent.</i>
--	--

SALARIES OF OFFICERS AND EMPLOYEES OF THE FEDERAL RESERVE BOARD

(Dec. 31, 1934)

OFFICES OF MEMBERS OF THE BOARD

Lawrence Clayton, assistant to the Governor.....	\$10,000.00
J. M. Daiger, special assistant to the Board (temporary).....	9,000.00
1 at \$4,500.....	4,500.00
1 at \$4,200.....	4,200.00
5 at \$3,000.....	15,000.00
1 at \$2,300.....	2,300.00
1 at \$1,800.....	1,800.00
1 at \$1,620.....	1,620.00
1 at \$1,600.....	1,600.00
1 at \$1,560.....	1,560.00
Total.....	51,580.00

OFFICE OF SECRETARY

Chester Morrill, secretary.....	15,000.00
J. C. Noell, assistant secretary.....	7,500.00
Liston P. Bethea, assistant secretary.....	7,100.00
S. R. Carpenter, assistant secretary.....	4,800.00
1 at \$3,000.....	3,000.00
2 at \$2,800.....	5,600.00
5 at \$2,400.....	12,000.00
1 at \$2,200.....	2,200.00
1 at \$2,100.....	2,100.00
2 at \$2,000.....	4,000.00
1 at \$1,900.....	1,900.00

FEDERAL RESERVE BOARD SALARIES

207

OFFICE OF SECRETARY—continued

1 at \$1,740	\$1,740.00
1 at \$1,700	1,700.00
1 at \$1,620	1,620.00
2 at \$1,600	3,200.00
3 at \$1,560	4,680.00
3 at \$1,500	4,500.00
2 at \$840	1,680.00
1 at \$780	780.00
Total	85,100.00

OFFICE OF GENERAL COUNSEL

Walter Wyatt, general counsel	15,000.00
George B. Vest, assistant counsel	10,000.00
B. M. Wingfield, assistant counsel	9,000.00
H. Lee Boatwright, Jr., assistant counsel	5,500.00
G. Howland Chase, assistant counsel	5,500.00
Alfred K. Cherry, assistant counsel	5,500.00
J. Delafield DuBois, assistant counsel	5,500.00
John C. Baumann, assistant counsel	5,000.00
Joseph T. Owens, assistant counsel	5,000.00
1 at \$3,600	3,600.00
1 at \$3,000	3,000.00
2 at \$2,800	5,600.00
3 at \$2,400	7,200.00
1 at \$2,000	2,000.00
8 at \$1,800	14,400.00
1 at \$1,620	1,620.00
2 at \$1,560	3,120.00
1 at \$1,440	1,440.00
Total	107,980.00

DIVISION OF RESEARCH AND STATISTICS

E. A. Goldenweiser, director of division	15,000.00
L. B. Currie, assistant director	8,500.00
Woodlief Thomas, assistant director	8,500.00
Winfield Riefler, research assistant	7,000.00
George W. Blattner, research assistant	6,000.00
Walter E. Gardner, research assistant	6,000.00
1 at \$4,200	4,200.00
1 at \$4,000	4,000.00
1 at \$3,600	3,600.00
1 at \$3,500	3,500.00
1 at \$3,400	3,400.00
1 at \$3,160	3,160.00
4 at \$2,800	11,200.00
1 at \$2,600	2,600.00
2 at \$2,500	5,000.00
1 at \$2,300	2,300.00
3 at \$2,200	6,600.00
3 at \$2,100	6,300.00
2 at \$2,000	4,000.00
1 at \$1,900	1,900.00
6 at \$1,800	10,800.00
4 at \$1,680	6,720.00
1 at \$1,620	1,620.00
1 at \$1,600	1,600.00
2 at \$1,560	3,120.00
4 at \$1,440	5,760.00
1 at \$1,380	1,380.00
Total	143,760.00

208 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

DIVISION OF BANK OPERATIONS

Edward L. Smead, chief of division	\$15,000.00
John R. Van Fossen, assistant chief	8,000.00
J. E. Horbett, principal assistant	6,000.00
1 at \$4,800	4,800.00
2 at \$4,500	9,000.00
1 at \$3,800	3,800.00
1 at \$3,200	3,200.00
1 at \$3,100	3,100.00
2 at \$2,900	5,800.00
1 at \$2,800	2,800.00
1 at \$2,700	2,700.00
1 at \$2,600	2,600.00
2 at \$2,500	5,000.00
1 at \$2,400	2,400.00
1 at \$2,200	2,200.00
1 at \$2,100	2,100.00
2 at \$2,000	4,000.00
1 at \$1,900	1,900.00
7 at \$1,800	12,600.00
1 at \$1,700	1,700.00
1 at \$1,620	1,620.00
3 at \$1,600	4,800.00
4 at \$1,560	6,240.00
2 at \$1,500	3,000.00
2 at \$1,440	2,880.00
1 at \$1,320	1,320.00
8 part-time employees	2,302.50
Total	120,862.50

DIVISION OF EXAMINATIONS

Leo H. Paulger, chief of division	15,000.00
Frank J. Drinnen, Federal Reserve examiner	9,000.00
R. F. Leonard, Federal Reserve examiner	8,000.00
L. A. A. Siems, Federal Reserve examiner	7,500.00
C. E. Cagle, Federal Reserve examiner	7,000.00
M. R. Wilkes, Federal Reserve examiner	6,400.00
Geo. S. Sloan, Federal Reserve examiner	6,000.00
C. S. Barker, assistant Federal Reserve examiner	5,200.00
R. B. Chamberlin, Federal Reserve examiner	5,200.00
H. O. Koppang, Federal Reserve examiner	5,200.00
Roger M. Calloway, Federal Reserve examiner	5,000.00
Dwight L. Crays, Federal Reserve examiner	5,000.00
J. B. Crosby, Federal Reserve examiner	5,000.00
Edwin R. Millard, Federal Reserve examiner	5,000.00
Fred A. Nelson, Federal Reserve examiner	5,000.00
William B. Pollard, Federal Reserve examiner	5,000.00
3 at \$4,800	14,400.00
4 at \$4,500	18,000.00
1 at \$4,400	4,400.00
3 at \$4,200	12,600.00
2 at \$4,000	8,000.00
3 at \$3,900	11,700.00
6 at \$3,600	21,600.00
3 at \$3,300	9,900.00
4 at \$3,000	12,000.00
2 at \$2,700	5,400.00
2 at \$2,500	5,000.00
4 at \$2,400	9,600.00
2 at \$2,300	4,600.00
2 at \$2,200	4,400.00
1 at \$2,100	2,100.00
2 at \$2,000	4,000.00
1 at \$1,900	1,900.00

FEDERAL RESERVE BOARD SALARIES

2091

DIVISION OF EXAMINATIONS—continued

3 at \$1,800	\$5,400.00
1 at \$1,700	1,700.00
2 at \$1,680	3,360.00
4 at \$1,620	6,480.00
2 at \$1,600	3,200.00
3 at \$1,560	4,680.00
7 at \$1,500	10,500.00
4 at \$1,440	5,760.00
1 at \$1,400	1,400.00
1 at \$1,260	1,260.00
Total	297,840.00

DIVISION OF SECURITY LOANS

Carl E. Parry, chief of division	9,000.00
2 at \$1,800	3,600.00
1 at \$840	840.00
Total	13,440.00

OFFICE OF FISCAL AGENT

Oliver E. Foulk, fiscal agent	4,200.00
Josephine E. Lally, deputy fiscal agent	2,400.00
Total	6,600.00

FEDERAL RESERVE ISSUE AND REDEMPTION DIVISION

L. G. Copeland, chief of division	4,500.00
W. J. Tucker, assistant chief	2,920.00
1 at \$2,500	2,500.00
1 at \$2,000	2,000.00
1 at \$1,920	1,920.00
2 at \$1,860	3,720.00
2 at \$1,750	3,500.00
2 at \$1,680	3,360.00
2 at \$1,620	3,240.00
19 at \$1,500	28,500.00
Total	56,160.00

* MESSENGERS

1 at \$1,800	1,800.00
3 at \$1,600	4,800.00
1 at \$1,380	1,380.00
8 at \$1,320	10,560.00
1 at \$1,200	1,200.00
3 at \$1,100	3,300.00
3 at \$840	2,520.00
Total	25,560.00
Grand total	908,882.50

RECEIPTS AND DISBURSEMENTS OF THE FEDERAL RESERVE BOARD FOR THE YEAR 1934

Balance Jan. 1, 1934:		
Available for general expenses of the Board.....	\$11, 119. 90	
Available for expenses chargeable to Federal Reserve banks.....	29, 619. 50	
Total.....		\$40, 639. 40
RECEIPTS		
Available for general expenses of the Board:		
Assessments on Federal Reserve banks for estimated general expenses of the Board.....	\$1, 372, 021. 74	
Subscriptions to Federal Reserve Bulletin.....	4, 549. 84	
Miscellaneous receipts, refunds and reimbursements.....	929. 89	
Reimbursement on account of bank examinations.....	110. 18	
Total receipts available for general expenses of the Board.....		\$1, 377, 602. 65
Available for expenses chargeable to Federal Reserve banks:		
Assessments on Federal Reserve banks for:		
Cost of preparing Federal Reserve notes and Federal Reserve bank notes.....	\$337, 204. 43	
Expenses of leased wire system.....	220, 190. 73	
Expenses of private telephone lines.....	30, 628. 32	
Miscellaneous expenses.....	278. 82	
Total receipts available for expenses chargeable to Federal Reserve banks.....		588, 299. 35
Total receipts.....		1, 965, 902. 00
Total available for disbursement.....		2, 005, 541. 40
DISBURSEMENTS		
For general expenses of the Board:		
Expenses of 1933 paid in 1934.....	\$10, 066. 46	
Expenses for 1934 (per detailed statement).....	\$1, 266, 951. 37	
Less accounts unpaid Dec. 31, 1934 (estimated).....	22, 780. 21	
Expenses of 1934 paid during year.....	1, 243, 151. 16	
Refunds on account of subscriptions to Federal Reserve Bulletin.....	12. 02	
Total disbursements for general expenses of the Board.....		\$1, 262, 220. 64
For expenses chargeable to Federal Reserve banks:		
Cost of preparing Federal Reserve notes and Federal Reserve bank notes.....	\$374, 824. 43	
Expenses of leased-wire system.....	222, 568. 19	
Expenses of private telephone lines.....	82, 790. 72	
Miscellaneous expenses.....	3, 291. 93	
Total disbursements for expenses chargeable to Federal Reserve banks.....	632, 495. 27	
Transferred to building account.....	10, 000. 00	
Total disbursements.....		1, 905, 715. 91
Balance in special fund account.....		100, 825. 49
Building account:		
Transferred from special fund account.....	\$10, 000. 00	
Disbursements.....	607. 26	
Balance.....		9, 392. 76
Balance Dec. 31, 1934:		
Available for general expenses of the Board.....	\$114, 501. 91	
Available for building expenditures.....	9, 392. 76	
	125, 894. 66	
Less expenditures chargeable to the Federal Reserve banks for which reimbursement had not been received on Dec. 31, 1934.....	15, 676. 42	
Total balance.....		110, 218. 24

DETAILED STATEMENT OF EXPENSES OF THE FEDERAL RESERVE BOARD, 1934

	Total	January	February	March	April	May	June	July	August	September	October	November	December
PERSONAL SERVICES													
Board members and their staffs.....	\$114,952.18	\$9,899.98	\$9,900.00	\$9,900.02	\$9,899.98	\$9,899.98	\$9,899.98	\$9,899.98	\$9,899.98	\$9,899.98	\$9,899.98	\$9,899.98	\$9,899.98
Office of the secretary.....	81,840.78	6,461.29	6,604.99	6,605.03	6,749.34	6,771.26	6,771.26	6,771.26	6,864.23	6,971.56	6,971.56	7,034.09	7,034.09
Office of general counsel.....	100,332.84	8,099.17	7,979.98	7,718.72	8,204.89	8,078.29	8,089.89	8,733.22	8,663.78	8,216.69	8,316.59	8,316.59	8,297.25
Office of fiscal agent.....	6,600.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00
Division of examinations.....	263,998.17	21,261.51	21,649.83	23,135.82	23,530.63	23,876.04	24,843.99	27,380.48	27,107.38	26,273.35	25,644.97	24,891.03	24,704.24
Division of bank operations.....	120,780.65	9,728.15	9,911.84	10,099.09	10,149.47	10,129.22	10,244.47	10,260.14	10,139.85	10,076.82	10,030.32	10,056.07	9,958.62
Division of research and statistics.....	142,232.13	11,261.59	11,487.64	11,559.78	11,681.45	11,892.87	12,103.64	12,684.07	12,520.40	12,088.84	11,769.74	11,691.87	11,896.65
Division of issue and redemption.....	66,422.79	4,854.96	4,854.99	4,865.03	4,632.61	4,624.94	4,624.94	4,624.94	4,679.94	4,679.94	4,644.94	4,679.94	4,665.90
Division of security loans.....	1,007.67	2,059.97	2,060.00	2,059.03	2,059.94	2,059.94	2,059.94	2,059.94	2,059.94	2,129.94	2,129.94	2,129.94	2,129.94
Messengers.....	25,000.00	250.00	250.00	270.00	250.00	250.00	250.00	250.00	250.00	30.00			
Charwomen.....	1,810.00	1,000.00	1,000.00	1,000.00	433.33								
General.....	8,433.33												
Total.....	953,280.44	75,368.67	81,229.27	77,756.13	78,231.62	78,141.45	80,048.39	83,244.81	81,738.81	79,782.89	78,647.99	78,086.77	81,005.87
NONPERSONAL SERVICES													
Transportation and subsistence:													
Board members and their staffs.....	3,286.99		72.80	167.83	129.91	2.50	328.18	848.97	878.15	268.25	97.79	278.00	304.25
Office of the secretary.....	347.06								300.58	48.60			
Office of general counsel.....	74,213.14	5,992.54	4,291.80	12,838.27	5,288.13	5,810.14	6,321.63	8,911.87	5,185.26	5,286.49	6,118.20	5,217.83	5,500.08
Division of examinations.....	1,559.41	84.02		29.79		24.08	66.31	236.67	628.66	8.25	89.61	227.68	224.54
Division of research and statistics.....	839.26	27.78	59.28		117.28		120.76	178.15	165.00	64.75			110.26
Division of bank operations.....													
All other divisions, including car-fare.....	583.56	277.15		180.31		37.80				81.26		87.26	32.64
Communication service:													
Telephones.....	23,425.17	1,995.67	1,871.18	1,716.32	1,777.68	1,933.84	1,925.45	1,945.10	2,182.27	1,980.70	1,959.23	2,088.85	2,080.79
Telegraph.....	7,133.76	146.47	97.95	5,770.92	95.67	113.26	109.65	127.61	130.11	114.88	121.04	132.10	173.90
Postage.....	1,096.16	99.11	71.88	91.61	60.10	76.00	43.35	152.44	143.54	81.00	118.63	119.00	89.00
Printing, binding, etc.....	44,619.49	3,918.30	682.95	9,637.17	2,347.01	4,994.82	4,291.65	2,745.29	3,217.74	3,692.15	2,692.27	3,452.27	2,947.37
Repairs.....	487.26	76.91	24.43	48.33	24.93	30.71	74.59	13.30	48.03	16.08	60.79	35.98	18.23
Heat, light, and power.....	418.95	69.79	69.79	66.67	62.23	62.23	22.09	22.09	5.00	7.50	10.00	10.00	10.00
Miscellaneous, unclassified.....	12,059.21	634.02	192.84	371.15	132.41	214.90	532.32	5,684.31	637.14	229.22	934.88	1,896.38	949.24
Equipment rental.....	40.85	4.50	4.50	4.50	3.75	3.75	3.75	3.75	2.47	2.47	2.47	2.47	2.47
Equipment, furniture and office.....	14,542.89	919.00	874.78	1,153.34	990.47	671.30	1,549.22	278.66	1,311.65	2,744.68	601.18	1,625.75	2,022.86
Supplies, stationery, and office.....	10,321.32	331.21	590.00	1,328.67	267.71	226.22	1,730.58	468.19	981.16	1,027.94	1,282.82	801.32	1,318.60
Books and periodicals.....	4,381.10	1,332.61	16.57	711.62	144.43	115.02	77.05	26.48	16.81	47.83	70.79	1,202.95	619.94
Rent.....	65,912.46	2,841.80	3,217.47	3,331.80	3,331.80	3,331.80	3,331.80	3,331.80	6,291.11	6,665.13	6,665.13	6,665.13	6,907.69
Retirement contributions.....	1,08,302.89			6,656.80	5,803.21	5,891.53	5,963.92	5,964.82	5,955.53	5,878.20	5,852.26	6,744.86	5,592.06
Total.....	313,680.93	18,670.38	12,108.22	43,054.70	30,576.62	22,945.70	26,534.47	30,889.19	28,004.09	28,182.39	26,690.59	29,131.76	28,663.82
Grand total.....	1,266,931.37	94,039.05	93,337.49	120,810.83	98,808.14	101,087.15	106,582.86	114,134.00	109,742.90	107,965.28	105,347.58	107,218.53	107,869.69

1 Of this amount \$3,904.49 was refunded in January 1935.

GOVERNORS AND DIRECTORS OF FEDERAL RESERVE BANKS

(Dec. 31, 1934)

DISTRICT NO. 1—BOSTON

F. H. CURTIS, chairman and Federal Reserve agent. ALLEN HOLLIS, deputy chairman. R. A. YOUNG, governor

Directors	Term expires Dec. 31
Class A:	
F. S. Chamberlain, New Britain, Conn.....	1934
A. L. Ripley, Boston, Mass.....	1935
Arthur Sewall, Bath, Maine.....	1936
Class B:	
E. S. French, Boston, Mass.....	1934
P. R. Allen, East Walpole, Mass.....	1935
E. J. Frost, Boston, Mass.....	1936
Class C:	
C. H. Merriman, Providence, R. I.....	1934
F. H. Curtis, Boston, Mass.....	1935
Allen Hollis, Concord, N. H.....	1936

DISTRICT NO. 2—NEW YORK

J. H. CASE, chairman and Federal Reserve agent. O. D. Young, deputy chairman. G. L. Harrison, governor

Class A:	
G. W. Davison, New York, N. Y.....	1934
E. K. Mills, Morristown, N. J.....	1935
C. R. Barry, Waverly, N. Y.....	1936
Class B:	
T. J. Watson, New York, N. Y.....	1934
W. C. Teague, New York, N. Y.....	1935
R. T. Stevens, New York, N. Y.....	1936
Class C:	
J. H. Case, New York, N. Y.....	1934
O. D. Young, New York, N. Y.....	1935
C. M. Woolley, New York, N. Y.....	1936

BUFFALO BRANCH

R. M. O'HARA, managing director

R. M. O'Hara, Buffalo, N. Y.....	1934
G. G. Kleindinst, Buffalo, N. Y.....	1934
R. N. Ball, Rochester, N. Y.....	1934
F. B. Cooley, Buffalo, N. Y.....	1935
L. G. Harriman, Buffalo, N. Y.....	1935
E. G. Miner, Rochester, N. Y.....	1936
G. F. Rand, Buffalo, N. Y.....	1936

DISTRICT NO. 3—PHILADELPHIA

R. L. AUSTIN, chairman and Federal Reserve agent. A. B. JOHNSON, deputy chairman. G. W. NORRIS, governor

Class A:	
J. B. Henning, Tunkhannock, Pa.....	1934
Joseph Wayne, Jr., Philadelphia, Pa.....	1935
G. W. Reilly, Harrisburg, Pa.....	1936
Class B:	
C. F. C. Stout, Philadelphia, Pa.....	1934
A. W. Sewall, Philadelphia, Pa.....	1935
J. C. De La Cour, Camden, N. J.....	1936
Class C:	
H. L. Cannon, Bridgeville, Del.....	1934
R. L. Austin, Philadelphia, Pa.....	1935
A. B. Johnson, Philadelphia, Pa.....	1936

DISTRICT NO. 4—CLEVELAND

E. S. BURKE, Jr., acting chairman. W. H. FLETCHER, acting Federal Reserve agent. E. R. FANCHER, governor

Class A:	
Chas Lamberton, Franklin, Pa.....	1934
R. A. Wardrop, Pittsburgh, Pa.....	1935
B. R. Conner, Ada, Ohio.....	1936
Class B:	
R. P. Wright, Erie, Pa.....	1934
G. D. Crabbs, Cincinnati, Ohio.....	1935
J. E. Galvin, Lima, Ohio.....	1936
Class C:	
Vacancy.....	1934
E. S. Burke, Jr., Cleveland, Ohio.....	1935
W. W. Knight, Toledo, Ohio.....	1936

CINCINNATI BRANCH

C. F. McCOMBS, managing director

C. F. McCombs, Cincinnati, Ohio.....	1934
S. E. Sutphin, Cincinnati, Ohio.....	1934
W. H. Courtney, Lexington, Ky.....	1934
John Omwake, Cincinnati, Ohio.....	1935
T. J. Davis, Cincinnati, Ohio.....	1935
G. M. Verity, Middletown, Ohio.....	1936
B. H. Kroger, Cincinnati, Ohio.....	1936

PITTSBURGH BRANCH

T. C. GREGG, managing director

T. C. Gregg, Pittsburgh, Pa.....	1934
James Rae, Pittsburgh, Pa.....	1934
A. E. Brass, Pittsburgh, Pa.....	1934
A. L. Humphrey, Pittsburgh, Pa.....	1935
Richard Coulter, Greensburg, Pa.....	1935
J. S. Jones, Wheeling, W. Va.....	1936
L. W. Smith, Pittsburgh, Pa.....	1936

DISTRICT NO. 5—RICHMOND

W. W. HOXTON, chairman and Federal Reserve agent. F. A. DELANO, deputy chairman. G. J. SEAY, governor

Class A:	
J. C. Braswell, Rocky Mount, N. C.....	1934
L. E. Johnson, Alderson, W. Va.....	1935
C. E. Riegan, Baltimore, Md.....	1936
Class B:	
J. H. Hanna, Washington, D. C.....	1934
Edwin Malloy, Cherraw, S. C.....	1935
C. O. Reed, Richmond, Va.....	1936
Class C:	
Robert Lassiter, Mooresville, N. C.....	1934
W. W. Hoxton, Richmond, Va.....	1935
F. A. Delano, Washington, D. C.....	1936

BALTIMORE BRANCH

HUGH LEACH, managing director

Hugh Leach, Baltimore, Md.....	1934
W. H. Matthal, Baltimore, Md.....	1934
L. B. Phillips, Cambridge, Md.....	1934
E. P. Cahill, Hancock, Md.....	1935
L. S. Zimmerman, Baltimore, Md.....	1935
Norman James, Baltimore, Md.....	1936
M. M. Frontis, Baltimore, Md.....	1936

GOVERNORS AND DIRECTORS

DISTRICT NO. 5—RICHMOND—Continued

CHARLOTTE BRANCH

W. T. CLEMENTS, managing director

W. T. Clements, Charlotte, N. C.	1934
J. L. Morhead, Leesville, N. C.	1934
W. H. Wood, Charlotte, N. C.	1934
C. A. Cannon, Concord, N. C.	1935
C. L. Cobb, Rock Hill, S. C.	1935
R. E. Henry, Greenville, S. C.	1936
Robert Gage, Chester, S. C.	1936

DISTRICT NO. 6—ATLANTA

Oscar Newton, chairman and Federal Reserve agent. W. H. KERRIN, deputy chairman. _____, governor

Class A:	
E. C. Melvin, Selma, Ala.	1934
G. G. Ware, Leesburg, Fla.	1935
R. G. Clay, Atlanta, Ga.	1936
Class B:	
Vacancy	1934
L. C. Simon, New Orleans, La.	1935
J. A. McCrary, Decatur, Ga.	1936
Class C:	
W. H. Kettig, Birmingham, Ala.	1934
Oscar Newton, Atlanta, Ga.	1935
J. P. Allen, Atlanta, Ga.	1936

BIRMINGHAM BRANCH

J. H. FRYE, managing director

J. H. Frye, Birmingham, Ala.	1934
W. H. Kettig, Birmingham, Ala.	1934
J. G. Farley, Birmingham, Ala.	1934
Oscar Wells, Birmingham, Ala.	1935
F. M. Moody, Tuscaloosa, Ala.	1935
E. F. Allison, Bellamy, Ala.	1936
W. E. Hanley, Birmingham, Ala.	1936

JACKSONVILLE BRANCH

G. S. VARDAMAN, Jr., acting manager

Vacancy	
B. W. Hayes, Jacksonville, Fla.	1934
G. G. Ware, Leesburg, Fla.	1934
Fulton Saussy, Jacksonville, Fla.	1935
S. W. Lane, Jacksonville, Fla.	1935
E. G. Chase, Sanford, Fla.	1936
G. J. Arent, Jacksonville, Fla.	1936

NASHVILLE BRANCH

J. B. FORT, Jr., managing director

J. B. Fort, Jr., Nashville, Tenn.	1934
Vacancy	1934
F. J. Hark, Cleveland, Tenn.	1934
P. M. Davis, Nashville, Tenn.	1935
C. W. Bailey, Clarksville, Tenn.	1935
W. F. Ridley, Columbia, Tenn.	1936
C. A. Craig, Nashville, Tenn.	1936

DISTRICT NO. 6—ATLANTA—Continued

NEW ORLEANS BRANCH

MARCUS WALKER, managing director

Marcus Walker, New Orleans, La.	1934
P. H. Saunders, New Orleans, La.	1934
R. S. Hocht, New Orleans, La.	1934
L. C. Simon, New Orleans, La.	1935
F. W. Foote, Hattiesburg, Miss.	1935
A. P. Bush, Mobile, Ala.	1936
J. D. O'Keefe, New Orleans, La.	1936

DISTRICT NO. 7—CHICAGO

E. M. STEVENS, chairman and Federal Reserve agent. JAMES SIMPSON, deputy chairman. G. SCHALLER, governor

Class A:	
E. R. Estberg, Waukegan, Wis.	1934
F. D. Williams, Iowa City, Iowa.	1935
J. R. Leavell, Chicago, Ill.	1936
Class B:	
S. T. Crapo, Detroit, Mich.	1934
N. H. Noyes, Indianapolis, Ind.	1935
M. W. Babb, Milwaukee, Wis.	1936
Class C:	
F. C. Ball, Muncie, Ind.	1934
James Simpson, Chicago, Ill.	1935
E. M. Stevens, Chicago, Ill.	1936

DETROIT BRANCH

R. H. BUSS, managing director

R. H. Buss, Detroit, Mich.	1934
James Inglis, Detroit, Mich.	1934
W. W. Mills, Detroit, Mich.	1934
N. P. Hull, Lansing, Mich.	1935
John Ballantyne, Detroit, Mich.	1935
David McMorran, Fort Huron, Mich.	1935
G. B. Morley, Saginaw, Mich.	1936

DISTRICT NO. 8—ST. LOUIS

J. S. WOOD, chairman and Federal Reserve agent. PAUL DILLARD, deputy chairman. W. MC MARZIN, governor

Class A:	
F. G. Hitt, Zelgier, Ill.	1934
J. G. Lonsdale, St. Louis, Mo.	1935
M. B. Nahn, Bowling Green, Ky.	1936
Class B:	
W. B. Plunkett, Little Rock, Ark.	1934
M. F. Sturdivant, Glendora, Miss.	1935
J. W. Harris, St. Louis, Mo.	1936
Class C:	
Paul Dillard, Memphis, Tenn.	1934
J. R. Stanley, Evansville, Ind.	1935
J. S. Wood, St. Louis, Mo.	1936

LITTLE ROCK BRANCH

A. F. BAILEY, managing director

A. F. Bailey, Little Rock, Ark.	1934
Moorhead Wright, Little Rock, Ark.	1934
Jo Nichol, Fine Bluff, Ark.	1934
G. H. Campbell, Little Rock, Ark.	1935
Stuart Wilson, Texarkana, Ark.	1935
F. K. Darragh, Little Rock, Ark.	1936
W. A. Hicks, Little Rock, Ark.	1936

214 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

DISTRICT NO. 8—ST. LOUIS—Continued

LOUISVILLE BRANCH

J. T. MOORE, managing director

J. T. Moore, Louisville, Ky.	1934
W. W. Crawford, Louisville, Ky.	1934
A. H. Eckles, Hopkinsville, Ky.	1934
Vacancy	1935
W. R. Cobb, Louisville, Ky.	1935
W. F. Paxton, Paducah, Ky.	1936
W. V. Bullett, New Albany, Ind.	1936

MEMPHIS BRANCH

W. H. GLASGOW, managing director

W. H. Glasgow, Memphis, Tenn.	1934
S. E. Ragland, Memphis, Tenn.	1934
J. W. Alderson, Forrest City, Ark.	1934
Wm. Orgill, Memphis, Tenn.	1935
Willis Pope, Columbus, Miss.	1935
E. L. Anderson, Clarksdale, Miss.	1936
W. R. King, Memphis, Tenn.	1936

DISTRICT NO. 9—MINNEAPOLIS

J. N. FETTON, chairman and Federal Reserve agent. H. P. CLARK, deputy chairman. W. B. GREER, governor

Class A:	
M. O. Grangaard, Minneapolis, Minn.	1934
H. R. Kibbee, Mitchell, S. Dak.	1935
H. C. Hansen, Churches Ferry, N. Dak.	1936
Class B:	
W. O. Washburn, St. Paul, Minn.	1934
J. A. O'Connell, Helena, Mont.	1935
A. F. Funk, La Crosse, Wis.	1936
Class C:	
G. W. McCormick, Menominee, Mich.	1934
J. N. Peyton, Minneapolis, Minn.	1935
H. F. Clark, St. Paul, Minn.	1936

HELENA BRANCH

R. E. TOWLE, managing director

R. E. Towle, Helena, Mont.	1934
W. P. Sullivan, Fort Benton, Mont.	1934
A. R. McDermott, Billings, Mont.	1934
Henry Sieben, Helena, Mont.	1935
T. A. Marlow, Helena, Mont.	1935

DISTRICT NO. 10—KANSAS CITY

chairman and Federal Reserve agent. E. P. BROWN, deputy chairman. G. H. HAMILTON, governor

Class A:	
F. W. Sponable, Paola, Kans.	1934
E. E. Mullaney, Colliery, Kans.	1935
C. C. Parks, Denver, Colo.	1936
Class B:	
J. M. Bernardin, Kansas City, Mo.	1934
L. E. Phillips, Bartlesville, Okla.	1935
W. D. Horsford, Omaha, Neb.	1936
Class C:	
J. B. Doolin, Alva, Okla.	1934
Vacancy	1935
E. P. Brown, Davey, Neb.	1936

DISTRICT NO. 10—KANSAS CITY—Continued

DENVER BRANCH

J. E. OLSON, managing director

J. E. Olson, Denver, Colo.	1934
Murdo MacKenzie, Denver, Colo.	1934
H. W. Farr, Greeley, Colo.	1934
R. H. Davis, Denver, Colo.	1935
Henry Swan, Denver, Colo.	1935
M. W. Gano, Denver, Colo.	1936
Harold Kountze, Denver, Colo.	1936

OKLAHOMA CITY BRANCH

C. E. DANIEL, managing director

C. E. Daniel, Oklahoma City, Okla.	1934
Lee Clinton, Tulsa, Okla.	1934
Ned Holman, Oklahoma City, Okla.	1934
Austin Miller, Oklahoma City, Okla.	1935
H. R. Ogden, Muskogee, Okla.	1935
J. B. Doolin, Alva, Okla.	1935
F. T. Chandler, Chickasha, Okla.	1936

OMAHA BRANCH

L. H. EABHART, managing director

L. H. Eabhart, Omaha, Neb.	1934
Wm. Dising, Omaha, Neb.	1934
A. H. Marble, Cheyenne, Wyo.	1934
B. E. Campbell, Lincoln, Neb.	1935
T. L. Davis, Omaha, Neb.	1935
D. M. Hildebrand, Seward, Neb.	1935
W. D. Clark, Omaha, Neb.	1936

DISTRICT NO. 11—DALLAS

C. C. WALSH, chairman and Federal Reserve agent. S. B. PERKINS, deputy chairman. B. A. MCKINNEY, governor

Class A:	
W. H. Patrick, Clarendon, Tex.	1934
Alf Morris, Wintersboro, Tex.	1935
R. E. Harding, Fort Worth, Tex.	1936
Class B:	
A. S. Cleveland, Houston, Tex.	1934
J. D. Middleton, Greenville, Tex.	1935
J. R. Milam, Waco, Tex.	1935
Class C:	
C. C. Walsh, Dallas, Tex.	1934
E. R. Brown, Dallas, Tex.	1935
S. B. Perkins, Dallas, Tex.	1936

EL PASO BRANCH

J. I. HERMANN, managing director

J. I. Hermann, El Paso, Tex.	1934
C. M. Newman, El Paso, Tex.	1934
O. N. Bassett, El Paso, Tex.	1934
A. F. Colas, El Paso, Tex.	1934
A. F. Jones, Fortales, N. Mex.	1935
S. P. Applewhite, Douglas, Ariz.	1935
S. D. Young, El Paso, Tex.	1936

GOVERNORS AND DIRECTORS

DISTRICT NO. 11—DALLAS—Continued

HOUSTON BRANCH

W. D. GENTRY, managing director

W. D. Gentry, Houston, Tex.....	1934
R. M. Farrar, Houston, Tex.....	1934
J. A. Wilkins, Houston, Tex.....	1934
J. C. Wilson, Beaumont, Tex.....	1935
S. R. Lawder, Houston, Tex.....	1935
A. A. Horne, Galveston, Tex.....	1935
Sam Taub, Houston, Tex.....	1935

SAN ANTONIO BRANCH

M. CRUMP, managing director

M. Crump, San Antonio, Tex.....	1934
F. M. Lewis, Sr., San Antonio, Tex.....	1934
W. F. Napier, San Antonio, Tex.....	1934
Richard King, Corpus Christi, Tex.....	1935
F. C. Groos, San Antonio, Tex.....	1935
J. M. Bennett, San Antonio, Tex.....	1935
G. C. Hollis, Eagle Pass, Tex.....	1935

DISTRICT NO. 12—SAN FRANCISCO

..... chairman and Federal Reserve agent.
W. N. MOORE, deputy chairman. J. U. CALKINS,
governor

Class A:	
O. K. McIntosh, San Francisco, Calif.....	1934
T. H. Ramsay, San Francisco, Calif.....	1935
Keith Powell, Salem, Oreg.....	1935
Class B:	
E. H. Cox, Madera, Calif.....	1934
A. B. C. Dohrmann, San Francisco, Calif.....	1935
Malcolm McNaghten, Los Angeles, Calif.....	1935
Class C:	
A. P. Welch, San Francisco, Calif.....	1934
Vacancy.....	1935
W. N. Moore, San Francisco, Calif.....	1935

LOS ANGELES BRANCH

W. N. AMBROSE, managing director

W. N. Ambrose, Los Angeles, Calif.....	1934
J. B. Alexander, Los Angeles, Calif.....	1934
A. J. Cruickshank, Santa Ana, Calif.....	1934
C. B. Voorhis, Pasadena, Calif.....	1935
F. J. Belcher, Jr., San Diego, Calif.....	1935

DISTRICT NO. 12—SAN FRANCISCO—Contd.

PORTLAND BRANCH

R. B. WERT, managing director

R. B. West, Portland, Oreg.....	1934
E. C. Pease, The Dalles, Oreg.....	1934
R. S. Smith, Eugene, Oreg.....	1934
H. M. Haller, Portland, Oreg.....	1935
J. C. Almsworth, Portland, Oreg.....	1935

SALT LAKE CITY BRANCH

W. L. PARTNER, managing director

W. L. Partner, Salt Lake City, Utah.....	1934
M. W. Smith, Idaho Falls, Idaho.....	1934
E. O. Howard, Salt Lake City, Utah.....	1934
Lafayette Hanchett, Salt Lake City, Utah.....	1935
H. E. Hemingway, Ogden, Utah.....	1935

SEATTLE BRANCH

C. R. SHAW, managing director

C. R. Shaw, Seattle, Wash.....	1934
H. A. Rhodes, Tacoma, Wash.....	1934
M. F. Backus, Seattle, Wash.....	1934
C. H. Clarke, Seattle, Wash.....	1935
G. H. Greenwood, Seattle, Wash.....	1935

SPOKANE BRANCH

D. L. DAVIS, managing director

D. L. Davis, Spokane, Wash.....	1934
Peter McGregor, Hooper, Wash.....	1934
E. M. Hardy, Yakima, Wash.....	1934
S. A. Easton, Kellogg, Idaho.....	1935
D. W. Twonly, Spokane, Wash.....	1935

NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS

[Dec. 31, 1934]

Federal Reserve banks (including branches)	Annual salary of—		Other officers		Employees, except those whose salaries are reimbursed to bank		Employees whose salaries are reimbursed to bank		Total	
	Chairman and Federal Reserve agent	Governor	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston.....	\$20,000	\$30,000	11	\$105,250	813	\$935,590	49	\$70,310	673	\$1,161,150
New York.....	50,000	50,000	41	495,300	2,356	4,071,942	239	357,842	2,815	5,024,184
Philadelphia.....	20,000	30,000	11	104,700	789	1,233,304	77	119,230	877	1,495,224
Cleveland.....	30,000	30,000	21	183,600	976	1,608,205	176	274,056	1,173	2,095,861
Richmond.....	20,000	25,000	17	140,600	558	803,952	163	206,490	738	1,195,042
Atlanta.....	20,000	25,000	20	176,040	382	516,564	195	222,672	605	895,176
Chicago.....	35,000	35,000	32	287,150	1,133	1,751,383	444	629,757	1,610	2,705,698
St. Louis.....	20,000	25,000	19	135,200	590	776,142	136	155,580	715	1,111,922
Minneapolis.....	20,000	25,000	13	82,100	285	579,403	96	143,175	494	840,678
Kansas City.....	20,000	25,000	20	149,800	535	814,100	192	278,299	747	1,267,299
Dallas.....	20,000	30,000	17	123,100	337	547,020	112	154,310	466	874,430
San Francisco.....	30,000	30,000	30	208,700	843	1,387,723	118	175,457	991	1,801,880
Total.....	225,000	335,000	262	2,191,940	9,447	15,054,487	1,997	2,774,068	11,706	20,580,495

STATE BANK AND TRUST COMPANY MEMBERS

Following is a list of the 980 licensed State bank and trust company members of the Federal Reserve System on December 31, 1934, with their loans, investments, deposits, capital, and surplus.

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 1					
CONNECTICUT					
Hartford: Phoenix State Bank & Trust Co.....	15,692	9,215	33,638	1,600	1,200
New Haven: Union & New Haven Trust Co.....	7,282	2,294	12,986	1,459	550
Southington: Southington Bank & Trust Co.....	618	433	1,202	100	75
Torrington: Brooks Bank & Trust Co.....	769	473	1,541	100	100
Waterbury: Colonial Trust Co.....	4,435	4,180	7,339	1,000	2,000
Waterbury Trust Co.....	1,754	600	2,752	300	150
MAINE					
Augusta: Depositors Trust Co.....	2,438	2,072	5,450	611	306
Bangor: Merrill Trust Co.....	7,424	6,181	12,606	2,600	230
Bar Harbor: Bar Harbor Banking & Trust Co.....	2,220	758	3,246	200	300
Ellsworth: Union Trust Co.....	768	1,021	1,692	300	30
Guilford: Guilford Trust Co.....	1,085	1,291	2,628	100	150
Sanford: Sanford Trust Co.....	915	1,444	2,256	250	80
MASSACHUSETTS					
Arlington: Menotomy Trust Co.....	2,244	629	2,968	300	100
Boston:					
New England Trust Co.....	9,056	14,432	31,872	1,000	2,000
Old Colony Trust Co.....	571	9,846	1,433	5,000	6,000
Pilgrim Trust Co.....	1,702	554	3,031	200	100
State Street Trust Co.....	21,099	24,000	67,542	3,000	3,500
Union Trust Co.....	2,845	1,947	7,217	750	300
United States Trust Co.....	4,898	6,579	11,708	1,700	350

¹ Includes capital notes and debentures and per value of preferred and common stock.

STATE BANK MEMBERSHIP

2171

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 1—Continued					
MASSACHUSETTS—continued					
Bridgewater: Bridgewater Trust Co.....	187	355	602	100	100
Brookline: Boulevard Trust Co.....	1,763	2,553	4,533	350	157
Cambridge:					
County Bank & Trust Co.....	2,236	836	4,539	300	300
Harvard Trust Co.....	8,362	6,809	15,824	1,000	1,050
Canton: Canton Trust Co.....	427	513	1,304	100	20
Everett: Everett Bank & Trust Co.....	2,424	925	3,711	200	200
Fall River:					
B. M. O. Durfee Trust Co.....	3,018	3,574	7,690	1,200	200
Fall River Trust Co.....	1,608	1,183	2,853	300	65
Gloucester: Gloucester Safe Deposit & Trust Co.....	2,690	595	3,436	400	25
Greenfield: Franklin County Trust Co.....	3,917	943	4,517	400	200
Holyoke: Hadley Falls Trust Co.....	6,897	1,873	8,938	1,400	100
Hyannis: Hyannis Trust Co.....	2,300	773	2,304	230	125
Lynn: Security Trust Co.....	5,153	2,543	8,770	200	300
Milton: Blue Hill Bank & Trust Co.....	452	1,429	2,022	100	100
Needham: Needham Trust Co.....	1,451	707	2,017	200	75
Newton: Newton Trust Co.....	7,488	10,949	17,015	1,380	600
Norwood: Norwood Trust Co.....	1,886	3,228	4,792	600	100
Quincy: Quincy Trust Co.....	2,838	1,148	4,023	450	50
Salem: Nauskeag Trust Co.....	2,421	3,185	5,545	850	60
Somerville: Somerville Trust Co.....	4,252	722	5,748	450	150
Springfield:					
Springfield Safe Deposit & Trust Co.....	6,185	3,732	12,697	1,000	1,000
Union Trust Co. of Springfield.....	8,173	3,301	12,164	1,000	1,250
Stoughton: Stoughton Trust Co.....	980	759	1,721	125	50
Taunton: Bristol County Trust Co.....	1,397	2,418	4,110	300	150
Walesley: Walesley Trust Co.....	872	612	1,645	200	100
Winchester: Winchester Trust Co.....	2,421	1,384	2,011	100	100
Worcester: Worcester County Trust Co.....	10,557	13,799	30,837	3,000	1,000
NEW HAMPSHIRE					
Conway: Carroll County Trust Co.....	649	534	1,175	150	6
RHODE ISLAND					
Providence:					
Industrial Trust Co.....	51,043	46,475	109,780	4,000	7,500
Union Trust Co.....	10,300	9,756	21,453	1,000	800
DISTRICT NO. 2					
NEW JERSEY					
(See also district no. 3)					
Bayonne: Bayonne Trust Co.....	2,939	3,917	8,632	400	100
Bloomfield:					
Bloomfield Bank & Trust Co.....	6,164	5,275	13,219	1,500	300
Community Trust Co.....	850	168	817	100	30
Bogota: Bank of Bogota.....	516	429	1,082	100	25
Bonnton: Bonnton Trust Co.....	931	371	1,380	100	100
Carteret: Carteret Bank & Trust Co.....	373	457	846	100	25
Cranford: Cranford Trust Co.....	1,192	800	2,046	300	100
Dover: Dover Trust Co.....	1,972	2,333	3,809	200	250
Dunellen: Peoples Trust Co.....	200	168	464	100	30
East Orange: Savings Investment & Trust Co.....	11,128	8,361	19,441	2,375	547
Elizabeth:					
Central Home Trust Co.....	2,071	1,155	3,368	600	31
Elizabethport Banking Co.....	3,443	1,120	4,934	600	100
Fort Lee: Fort Lee Trust Co.....	609	403	1,117	100	50
Franklin: Sussex County Trust Co.....	681	1,450	2,334	150	100
Glen Ridge: Glen Ridge Trust Co.....	1,349	1,349	2,463	300	50
Hackensack: Peoples Trust Co. of Bergen County.....	6,242	4,623	11,151	750	500
Jersey City:					
Commercial Trust Co. of New Jersey.....	21,257	26,178	60,271	3,400	4,000
New Jersey Title Guarantee & Trust Co.....	22,910	6,806	23,453	2,035	1,000
Linden: Linden Trust Co.....	1,666	754	2,795	200	50
Montclair:					
Bank of Montclair.....	2,898	1,673	4,891	600	51
Montclair Trust Co.....	5,040	4,128	10,851	1,040	208
Morrisstown: Morrisstown Trust Co.....	2,734	4,647	8,088	600	200
Newark:					
Clinton Trust Co.....	1,926	437	1,970	1,477	.....
Columbus Trust Co.....	536	608	1,414	400	68
Federal Trust Co.....	16,914	8,472	30,064	1,623	600

218 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 2—Continued					
NEW JERSEY—continued					
Newark—Continued.					
Fidelity Union Trust Co.....	40,978	72,558	127,800	11,000	2,500
Franklin-Washington Trust Co.....	2,222	976	4,796	1,700	200
Marchants & Newark Trust Co.....	9,732	6,450	16,381	2,500	2,000
United States Trust Co.....	1,487	1,217	2,617	600	800
West Side Trust Co.....	8,197	4,132	7,682	1,075	200
Nutley: Bank of Nutley.....	1,132	1,273	2,339	200	40
Passaic: Peoples Bank & Trust Co.....	1,352	2,659	3,663	1,000	50
Paterson: Hamilton Trust Co.....	2,810	2,269	4,021	1,325	-----
Perth Amboy:					
Perth Amboy Trust Co.....	3,150	1,226	2,463	671	-----
Maritan Trust Co.....	624	116	387	260	-----
Plainfield:					
Mid-City Trust Co.....	476	358	875	100	100
Plainfield Trust Co.....	7,810	6,017	16,116	1,400	-----
State Trust Co.....	1,794	643	3,252	265	15
Rahway: Rahway Trust Co.....	441	512	1,085	100	30
Ridgefield Park: Ridgefield Park Trust Co.....	1,451	789	2,611	100	100
Rochelle Park: Rochelle Park Bank.....	49	220	251	50	30
Rutherford: Rutherford Trust Co.....	1,962	1,384	3,290	250	200
South Orange: South Orange Trust Co.....	767	485	1,248	225	113
Summit: Summit Trust Co.....	3,106	2,884	6,464	600	200
Westfield:					
Peoples Bank & Trust Co.....	2,644	1,231	4,533	200	200
Westfield Trust Co.....	2,406	1,134	3,802	200	200
Westwood: Westwood Trust Co.....	269	262	712	200	20
NEW YORK					
Adams: Citizens & Farmers Trust Co.....	1,481	825	2,262	260	76
Albany: First Trust Co.....	13,721	14,304	30,827	3,500	250
Amityville: The Bank of Amityville.....	614	467	1,177	100	25
Amsterdam: Montgomery County Trust Co.....	2,131	1,995	4,202	200	400
Avoca: Bank of Avoca.....	181	296	407	100	5
Batavia: Genesee Trust Co.....	888	706	1,790	320	20
Belmont: State Bank of Belmont.....	310	114	411	50	100
Bingham: Marine Midland Trust Co.....	3,948	2,260	6,357	800	250
Blasdell: Bank of Blasdell.....	157	55	201	60	6
Brooklyn: (See New York.)					
Buffalo:					
Liberty Bank of Buffalo.....	23,866	18,999	47,185	3,500	1,000
Manufacturers & Traders Trust Co.....	47,802	39,133	98,915	10,000	2,000
Marine Trust Co.....	86,256	54,826	150,981	14,000	5,000
Canandaigua: Ontario County Trust Co.....	942	1,385	2,166	300	100
Canisteo: First State Bank.....	290	104	422	80	15
Cattaraugus: Bank of Cattaraugus.....	353	721	1,018	100	100
Center Moriches: Center Moriches Bank.....	434	168	701	150	25
Chatham: State Bank of Chatham.....	862	1,512	2,320	225	25
Cohocton: Cohocton State Bank.....	108	275	388	50	15
Delmar: Bank of Bethlehem.....	386	324	773	60	25
Dunkirk: Dunkirk Trust Co.....	627	2,463	2,977	250	125
East Aurora: Bank of East Aurora.....	1,399	721	2,695	200	20
Ellenburg Depot: The State Bank of Ellenburg.....	293	187	474	50	10
Elmira: Chamung Canal Trust Co.....	4,742	5,287	10,027	800	1,300
Endicott:					
Endicott Trust Co.....	1,799	2,447	4,647	300	100
Union Trust Co.....	260	968	1,410	160	100
Evans Mills: Peoples Bank of Evans Mills.....	171	83	192	63	10
Farmingdale: Bank of Farmingdale.....	472	383	1,070	75	25
Floral Park: Floral Park Bank.....	1,077	664	1,673	160	50
Freeonia: Citizens Trust Co.....	716	812	1,580	200	25
Garden City: Garden City Bank & Trust Co.....	1,234	822	2,478	225	70
Geneva: Geneva Trust Co.....	2,205	1,614	3,774	610	25
Gloversville: Trust Co. of Fulton County.....	1,788	673	2,171	150	200
Hamburg: Peoples Bank of Hamburg.....	972	624	1,773	150	10
Hammondsport: Bank of Hammondsport.....	360	287	738	75	25
Hicksville: Bank of Hicksville.....	1,229	865	2,213	100	250
Ithaca: Ithaca Trust Co.....	2,698	2,028	6,543	1,800	300
Jamestown: Bank of Jamestown.....	8,009	2,967	10,997	1,800	200
Johnson City: Wakers Trust Co.....	2,446	2,269	6,066	400	100
Katona: Northern Westchester Bank.....	430	911	1,306	100	50
Kingston: Kingston Trust Co.....	3,748	2,722	6,250	750	250
Lackawanna: American Bank.....	365	263	566	150	25
Little Falls: Herkimer County Trust Co.....	1,359	2,698	4,380	250	250
Locke: The Citizens Bank of Locke.....	69	141	222	25	10
Lowville: Lewis County Trust Co.....	924	987	2,066	200	86
Malone: Peoples Bank & Trust Co.....	1,467	815	2,377	300	75
Massena: Massena Banking & Trust Co.....	324	308	486	150	100

STATE BANK MEMBERSHIP

2194

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 2—Continued					
NEW YORK—continued					
Mayville: State Bank of Mayville.....	316	658	977	120	15
Millbrook: Bank of Millbrook.....	492	721	1,269	100	100
Mioola: Nassau County Trust Co.....	1,455	2,314	4,534	500	150
Mount Kisco: Trust Co. of Northern Westchester.....	838	296	789	100	10
Mount Vernon:					
Fleetwood Bank.....	466	1,489	2,308	260	20
Mount Vernon Trust Co.....	8,000	2,558	5,379	8,000	500
New York:					
Amalgamated Bank.....	2,321	839	5,903	650	
Bankers Trust Co.....	198,627	477,778	856,014	25,000	80,000
Bank of the Manhattan Co.....	173,938	172,272	514,156	20,000	30,000
Bank of New York & Trust Co.....	46,053	84,991	200,470	6,000	8,000
Bank of Yorktown.....	2,580	1,938	6,024	1,000	5,000
Brooklyn Trust Co.....	46,798	45,689	99,026	8,200	4,000
Central Hanover Bank & Trust Co.....	162,484	462,801	738,022	21,000	60,000
Chemical Bank & Trust Co.....	197,085	184,809	475,457	20,000	4,000
City Bank-Farmers Trust Co.....	12,914	27,960	45,656	10,000	10,000
Clinton Trust Co.....	1,854	2,916	5,628	750	250
Colonial Trust Co.....	8,857	2,879	6,418	1,000	800
Continental Bank & Trust Co.....	21,780	18,314	50,808	4,000	3,000
Corn Exchange Bank Trust Co.....	59,611	135,160	235,809	15,000	16,000
Federation Bank & Trust Co.....	5,083	1,535	7,276	525	575
Fifth Avenue Bank.....	17,288	14,806	42,626	500	2,000
Fulton Trust Co.....	4,240	13,072	17,217	2,000	2,000
Guaranty Trust Co.....	628,659	567,778	1,189,283	90,000	170,000
Harbor State Bank.....	85	616	889	200	25
Irving Trust Co.....	156,355	224,162	482,556	50,000	65,000
J. Henry Schroder Trust Co.....	10	9,907	9,372	1,000	400
Lawyers County Trust Co.....	11,220	17,754	33,498	2,000	1,000
Manufacturers Trust Co.....	178,874	278,134	484,043	57,000	6,000
Marine Midland Trust Co.....	47,783	28,056	84,741	5,000	5,000
Merchants Bank.....	785	836	1,899	400	100
New York Trust Co.....	114,402	183,535	384,158	12,000	20,000
Pennsylvania Exchange Bank.....	694	769	1,681	800	200
Trade Bank of New York.....	2,200	1,442	4,255	456	178
United States Trust Co.....	38,848	25,081	63,260	2,000	24,000
Niagara Falls: Power City Trust Co.....	12,832	7,702	20,831	2,300	2,000
Ogdensburg: Ogdensburg Trust Co.....	8,494	1,730	5,787	800	100
Olean: Olean Trust Co.....	827	458	625	200	7
Oneida: Madison County Trust & Deposit Co.....	1,072	1,002	2,099	400	30
Ontario: State Bank of Ontario.....	801	260	1,174	70	80
Orchard Park: Bank of Orchard Park.....	569	340	835	180	5
Oriskany Falls: First Trust & Deposit Co.....	357	884	818	180	10
Ossining: Ossining Trust Co.....	1,385	795	2,100	600	78
Pear River: State Bank of Pearl River.....	146	300	446	100	10
Perry: Citizens Bank.....	802	804	789	128	15
Pleasantville: Mount Pleasant Bank & Trust Co.....	1,624	696	2,941	475	25
Fort Chester: Mutual Trust Co. of Westchester County.....	1,476	995	2,786	628	10
Rochester:					
Central Trust Co.....	9,801	4,746	15,311	2,100	
Lincoln-Alliance Bank & Trust Co.....	26,136	20,597	57,788	5,600	400
Rome: Rome Trust Co.....	2,464	1,937	4,544	800	300
Sag Harbor: The Peconic Bank.....	91	91	178	28	25
Salamanca: Salamanca Trust Co.....	1,409	1,419	3,167	200	400
Saratoga Springs: Adirondack Trust Co.....	2,144	5,118	7,668	200	200
Sayville: The Oystermen's Bank & Trust Co.....	651	1,064	2,061	325	60
Seaside: Caleb Heathcote Trust Co.....	418	1,588	1,881	200	100
Schenectady: Schenectady Trust Co.....	4,983	8,198	18,872	750	1,000
Sea Cliff: State Bank of Sea Cliff.....	821	122	324	12	12
Smithtown Branch: Bank of Smithtown.....	611	610	1,230	200	10
Southampton: The Southampton Bank.....	1,048	295	1,304	200	25
Spring Valley: Ramapo Trust Co.....	448	360	651	250	20
Stony Brook: Bank of Suffolk County.....	246	337	496	100	
Syracuse:					
First Trust & Deposit Co.....	25,694	11,478	47,717	6,620	500
Syracuse Trust Co.....	14,751	18,156	26,881	4,800	1,250
Tarrytown: Washington Irving Trust Co.....	550	816	1,794	100	100
Utica: First Citizens Bank & Trust Co.....	26,422	11,507	35,390	5,000	600
Watertown: Northern New York Trust Co.....	8,995	4,858	8,556	900	200
Watkins Glen: Watkins State Bank.....	276	146	475	50	50
Westbury: Bank of Westbury Trust Co.....	653	1,187	2,054	300	80
Westhampton Beach: Seaside Bank.....	838	412	739	100	80
West New Brighton: West New Brighton Bank.....	908	826	1,966	100	100
White Plains:					
Citizens Bank of White Plains.....	2,659	3,242	7,398	800	100
County Trust Co.....	5,027	8,421	8,917	500	1,000

220 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 3					
DELAWARE					
Wilmington:					
Equitable Trust Co.....	5,357	5,789	10,769	1,500	2,100
Industrial Trust Co.....	1,571	1,294	1,835	1,000	700
Security Trust Co.....	4,521	2,410	7,828	873	450
Wilmington Trust Co.....	22,918	14,494	40,367	4,000	9,500
NEW JERSEY					
(See also district no. 2)					
Camden: Camden Safe Deposit & Trust Co.....	14,743	4,829	20,856	1,200	600
Hightstown: Hightstown Trust Co.....	429	242	811	145	20
Princeton: Princeton Bank & Trust Co.....	2,023	1,359	3,882	450	150
Riverside: Riverside Trust Co.....	611	294	1,253	100	80
Swedesboro: Swedesboro Trust Co.....	381	277	677	175	21
PENNSYLVANIA					
(See also district no. 4)					
Bloomsburg: Bloomsburg Bank-Columbia Trust Co.....	1,267	705	2,410	375	150
Carlisle: Carlisle Trust Co.....	1,894	545	1,526	250	3
Chester: Chester-Cambridge Bank & Trust Co.....	4,575	2,472	7,348	1,050	525
Clearfield: Clearfield Trust Co.....	1,304	974	2,345	200	300
Dauville: Montour County Trust Co.....	170	283	463	128	25
Du Bois: Union Banking & Trust Co.....	1,185	824	1,702	230	350
Easton: Easton Trust Co.....	5,410	1,665	7,049	250	1,100
East Petersburg: East Petersburg State Bank.....	123	62	183	50	8
Egypt: Farmers Bank of Egypt.....	308	221	535	60	60
Harrisburg:					
Central Trust Co.....	4,725	1,061	2,877	400	800
Dauphin Deposit Trust Co.....	2,525	5,455	9,305	400	800
Hazleton:					
Marble Banking & Trust Co.....	2,941	4,169	6,882	600	1,500
Peoples Savings & Trust Co.....	1,759	2,495	4,290	250	250
Traders Bank & Trust Co.....	1,268	794	2,119	350	175
Honesdale: Wayne County Savings Bank.....	1,373	2,610	4,015	250	100
Houtzdale: Houtzdale Trust Co.....	185	573	815	125	25
Huntingdon: Grange Trust Co.....	310	427	697	125	73
Jenkintown: Jenkintown Bank & Trust Co.....	2,776	4,130	7,401	375	1,000
Kulpmont: Dime Deposit Bank & Trust Co.....	425	328	589	125	125
Lancaster: Farmers Bank & Trust Co.....	1,385	1,646	4,403	600	240
Lemoyne: Lemoyne Trust Co.....	1,952	619	976	200	200
Lewistown: Lewistown Trust Co.....	479	218	588	125	67
Lock Haven: Lock Haven Trust Co.....	1,336	1,695	3,330	375	525
Mahanoy City: Merchants Banking Trust Co.....	746	607	1,002	300	175
Middletown: Citizens Bank & Trust Co.....	701	285	511	125	85
Mount Carmel: Liberty State Bank & Trust Co.....	608	378	894	150	125
Myersstown: Myersstown Trust Co.....	485	216	635	150	94
Nanticoke: Peoples Savings & Trust Co.....	230	352	497	180	4
New Oxford: Farmers & Merchants Bank.....	244	228	452	51	10
Norristown:					
Montgomery Trust Co.....	2,215	3,747	5,175	1,000	730
Norristown-Penn Trust Co.....	5,001	2,726	7,066	1,250	1,000
Orrstown: Orrstown Bank.....	180	60	200	35	80
Paoli: Paoli Bank & Trust Co.....	195	107	294	125	30
Philadelphia:					
Fidelity-Philadelphia Trust Co.....	38,632	62,299	102,268	6,700	15,000
Gimbel Bros. Bank & Trust Co.....	9	1,676	1,843	200	25
Girard Trust Co.....	17,710	74,528	107,253	4,000	9,000
Integrity Trust Co.....	18,314	7,269	24,856	7,594	1,000
Ninth Bank & Trust Co.....	9,197	7,782	17,486	2,375	1,375
Pennsylvania Co. for Insurances on Lives & Granting Annuities.....	94,357	78,511	207,374	8,400	12,000
Provident Trust Co.....	12,339	31,345	42,573	3,200	12,280
Prospect Park: Interboro Bank & Trust Co.....	432	349	907	127	38
Quakertown: Quakertown Trust Co.....	367	897	1,212	150	150
Schnecksville: Schnecksville State Bank.....	46	119	180	25	15
Schuylkill Haven: Schuylkill Haven Trust Co.....	1,034	876	1,923	150	250
Steelton: Steelton Bank & Trust Co.....	1,785	824	1,726	350	325
Tamaqua: Peoples Trust Co.....	714	517	1,103	180	80
Temple: Temple State Bank.....	184	265	490	60	-----
Wilkes-Barre: Wilkes-Barre Deposit & Savings Bank.....	1,942	1,206	3,534	600	700
Williamsport: West Branch Bank & Trust Co.....	1,212	2,375	3,826	475	225
Wyomissing: Peoples Trust Co.....	2,704	1,426	3,512	800	-----
York:					
Guardian Trust Co.....	1,664	1,923	3,489	800	600
York Trust Co.....	4,096	1,642	5,215	760	1,000

STATE BANK MEMBERSHIP

224

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 4					
KENTUCKY					
(See also district no. 5)					
Lexington: Security Trust Co.....	1,749	2,740	4,264	500	150
Paris: Bourbon-Agricultural Bank & Trust Co.....	538	408	1,221	200	200
Richmond: State Bank & Trust Co.....	880	69	1,182	150	55
OHIO					
Akron:					
Firestone Park Trust & Savings Bank.....	3,843	7,037	12,403	950	300
First-Central Trust Co.....	3,167	5,067	11,951	1,242	883
Apple Creek: Apple Creek Banking Co.....	120	57	215	25	12
Archbold: Peoples State Bank Co.....	174	101	298	30	6
Ashland: Ashland Bank & Savings Co.....	558	567	1,382	150	126
Bellevue: Union Bank & Savings Co.....	905	655	1,636	300	50
Belville: Farmers Bank.....	170	94	298	25	25
Brecksville: Brecksville Bank Co.....	59	114	148	25	8
Canal Winchester: Peoples Bank Co.....	167	211	404	26	38
Castalia: Castalia Banking Co.....	88	43	110	40	9
Colma: The Commercial Bank Co.....	699	472	1,221	100	60
Christiansburg: Farmers & Merchants Bank Co.....	60	50	128	26	25
Cincinnati:					
Central Trust Co.....	23,595	24,179	55,486	6,500	1,250
Fifth-Third Union Trust Co.....	29,433	35,434	78,341	10,000	2,000
Peoples Bank & Savings Co.....	1,559	819	2,467	700	100
Provident Savings Bank & Trust Co.....	16,303	10,856	34,992	1,800	2,700
The Southern Ohio Savings Bank & Trust Co.....	3,074	2,281	5,096	650	320
Western Bank Trust.....	5,423	4,142	11,623	2,250	250
Cleveland: Cleveland Trust Co.....	148,267	76,422	263,630	28,800	2,700
Columbiana: Union Banking Co.....	269	220	638	60	50
Columbus: Fifth Avenue Savings Bank Co.....	674	1,107	1,767	200	63
Connecticut:					
Citizens Banking & Savings Co.....	158	456	567	150	20
Connecticut Mutual Loan & Trust Co.....	274	667	875	200	25
Corland: The Corland Savings & Banking Co.....	234	99	383	43	18
Coshocton: Peoples Bank & Trust Co.....	647	446	1,363	150	70
Danville: Commercial & Savings Bank Co.....	294	68	308	25	20
Delphos:					
Commercial Bank.....	476	275	837	125	50
Peoples Bank of Delphos.....	292	341	701	30	13
Delta: Peoples Savings Bank Co.....	207	217	622	60	10
East Liverpool: Potters Bank & Trust Co.....	1,148	1,487	3,174	680	300
Fayette: Fayette State Savings Bank Co.....	159	80	265	30	10
Galion: The Commercial Savings Bank Co.....	291	330	684	105	25
Geneva: Geneva Savings & Trust Co.....	670	658	1,494	125	100
Gilsumburg: Home Banking Co.....	282	184	628	50	4
Hillsboro: Hillsboro Bank & Savings Co.....	63	165	428	30	40
Hubbard: Hubbard Banking Co.....	429	67	692	80	40
Leesburg: Citizens Bank & Savings Co.....	57	124	268	25	6
Lyons: Farmers State Bank.....	118	75	234	26	8
Madison: Citizens Bank of Madison.....	15	122	135	30	10
Mansfield: The Farmers Savings & Trust Co.....	883	718	1,309	150	30
Marengo: Marengo Banking Co.....	70	40	115	25	6
Martins Ferry: Peoples Savings Bank Co.....	1,334	694	2,082	200	150
Marysville: Marysville Commercial Bank.....	523	350	1,178	100	25
Mason: The First-Mason Bank.....	165	192	404	35	12
Massillon: Merchants Trust Co.....	1,092	678	2,063	260	50
Middletown: American Trust & Savings Bank.....	1,037	927	2,109	400	20
Minster: Minster State Bank.....	262	113	674	25	63
Mount Blanchard: Citizens Bank of Mount Blanchard.....	88	91	162	25	13
Mount Vernon: Knox County Savings Bank.....	454	639	1,219	160	75
Newark:					
Licking County Bank.....	1,208	693	2,161	200	75
Newark Trust Co.....	2,773	542	3,776	400	200
New Lexington: Perry County Bank.....	225	235	687	75	20
New Philadelphia: Ohio Savings & Trust Co.....	841	507	1,488	200	10
Oak Harbor: Oak Harbor State Bank Co.....	183	246	632	100	10
Orville: Orville Savings Bank.....	314	429	796	80	15
Pomeroy: Farmers Bank & Savings Co.....	129	382	621	50	10
Rittman: Rittman Savings Bank.....	344	140	692	75	18
Russellville: Bank of Russellville.....	206	144	373	25	26
St. Marys: Home Banking Co.....	619	353	1,078	150	10
Sandusky: Western Security Bank.....	189	240	640	200	20
Shelby: The Citizens Bank.....	498	638	1,182	125	20
Shiloh: Shiloh Savings Bank Co.....	177	36	202	45	6
Toledo:					
Commerce Guardian Bank.....	1,995	4,690	11,824	1,600	250
Ohio Citizens Trust Co.....	1,344	2,777	6,881	600	200
Toledo Trust Co.....	21,027	16,106	67,944	8,000	1,000

222 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 4—Continued					
OHIO—continued					
Utica: The Utica Savings Bank Co.....	192	182	442	35	12
Van Wert: Peoples Savings Bank.....	554	814	1,192	100	75
Wakeman: Wakeman Bank Co.....	191	81	284	40	14
Wellington: First Wellington Bank.....	678	814	1,071	190	38
Wooster: Commercial Banking & Trust Co.....	343	304	904	180	6
Yellow Springs: Miami Deposit Bank Co.....	289	172	415	90	80
PENNSYLVANIA					
(See also district no. 3)					
Alliquippa: Woodlawn Trust Co.....	1,707	784	2,816	128	178
Ambridge: Economy Bank of Ambridge.....	123	885	850	100	56
Beaver: Beaver Trust Co.....	747	460	1,029	160	200
Dormont: Dormont Savings & Trust Co.....	1,067	341	1,809	128	76
East Pittsburgh: East Pittsburgh Savings & Trust Co.....	1,012	2,207	5,774	300	300
Erie: Security-Peoples Trust Co.....	4,941	4,138	10,524	600	280
McKeesport: Peoples City Bank.....	3,156	1,605	4,852	800	1,000
Meadville: Crawford County Trust Co.....	972	821	2,314	280	69
New Brighton: Beaver County Trust Co.....	959	495	817	300	350
New Castle: Lawrence Savings & Trust Co.....	1,812	1,291	3,183	300	360
Paint Borough (Scalp Level post office): Merchants & Miners Bank.....	106	163	248	80	30
Pittsburgh:					
Allegheny Trust Co.....	1,942	4,981	7,069	700	550
Allegheny Valley Bank of Pittsburgh.....	1,737	885	2,585	200	200
City Deposit Bank & Trust Co.....	7,213	5,778	14,991	1,000	300
Colonial Trust Co.....	9,879	13,534	27,708	2,600	1,365
Commonwealth Trust Co.....	5,690	3,718	14,442	1,600	1,700
Homewood Bank of Pittsburgh.....	214	959	1,288	100	80
Peoples-Pittsburgh Trust Co.....	27,632	41,531	76,966	6,000	10,000
Foster Title & Trust Co.....	2,958	2,431	4,658	191	191
Union Trust Co.....	64,660	184,683	246,758	1,500	700,000
Windber: Windber Trust Co.....	910	1,784	2,865	280	400
WEST VIRGINIA					
(See also district no. 5)					
Sistersville: First-Tyler Bank & Trust Co.....	1,236	166	1,962	200	100
Wheeling:					
Citizens Mutual Trust Co.....	2,991	1,278	4,514	600	300
Security Trust Co.....	1,904	1,816	3,820	300	300
Wheeling Dollar Savings & Trust Co.....	8,556	5,479	16,762	1,795	1,200
DISTRICT NO. 5					
DISTRICT OF COLUMBIA					
Washington:					
American Security & Trust Co.....	11,672	20,728	38,995	3,400	3,400
Washington Loan & Trust Co.....	7,183	6,798	19,606	1,000	1,800
MARYLAND					
Baltimore:					
Baltimore Commercial Bank.....	1,932	1,006	3,715	500	280
Fidelity Trust Co.....	3,039	10,172	15,223	1,000	600
Maryland Trust Co.....	9,672	12,781	30,049	3,000	3,000
Union Trust Co of Maryland.....	11,165	11,499	30,808	3,000	1,300
Forest Hill: Forest Hill State Bank.....	178	127	355	25	13
Hagerstown: Hagerstown Trust Co.....	178	478	1,042	150	30
Salisbury: Farmers & Merchants Bank.....	1,037	194	1,454	175	15
NORTH CAROLINA					
Charlotte: American Trust Co.....	10,331	15,479	37,527	1,200	800
Concord: Citizens Bank & Trust Co.....	438	699	1,208	100	60
Edenton: Bank of Edenton.....	770	211	951	200	40
Elizabethtown: Bank of Elizabethtown.....	120	24	305	25	9
Marshall: Citizens Bank.....	262	125	516	50	35
Tryon: Tryon Bank & Trust Co.....	35	245	331	25	10
Washington: Bank of Washington.....	394	583	1,551	100	-----
Wilmington:					
Peoples Savings Bank & Trust Co.....	944	709	2,227	200	30
Wilmington Savings & Trust Co.....	4,618	723	6,565	300	350
Winston-Salem: Wachovia Bank & Trust Co.....	18,737	18,117	56,902	4,000	1,250

STATE BANK MEMBERSHIP

223 4

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 5—Continued					
SOUTH CAROLINA					
Bishopville: Peoples Bank.....	278	41	408	25	50
Charleston: Carolina Savings Bank.....	1,060	2,427	4,463	200	100
Chester: Commercial Bank.....	628	414	1,213	100	100
Hartsville: Bank of Hartsville.....	550	355	1,270	75	38
VIRGINIA					
Abingdon: Farmers Exchange Bank, Inc.....	209	167	602	80	10
Amelia: Union Bank & Trust Co.....	203	167	424	60	28
Blackstone: Citizens Bank & Trust Co.....	433	76	585	75	25
Chase City: Peoples Bank & Trust Co.....	463	95	845	100	80
Farmville: Planters Bank & Trust Co.....	445	474	1,049	50	30
Glade Spring: Bank of Glade Spring.....	260	99	408	60	60
Hallifax: The Bank of Halifax.....	184	550	826	60	11
Kanbridge: Bank of Lunenburg, Inc.....	349	329	861	85	80
Lacrosse: Bank of Lacrosse.....	247	198	399	50	26
Lawrenceville: Farmers & Merchants Bank of Lawrenceville.....	451	213	804	60	10
Lynchburg: Lynchburg Trust & Savings Bank.....	2,543	1,011	3,689	800	300
Montross: Peoples Bank.....	194	86	255	25	20
Petersburg: Petersburg Savings & American Trust Co.....	1,140	1,052	2,289	515	25
Powhatan: Bank of Powhatan.....	407	75	488	25	25
Richmond:					
Bank of Commerce & Trusts.....	4,722	1,787	7,847	600	300
Mechanics & Merchants Bank.....	921	282	1,268	200	40
State-Planters Bank & Trust Co.....	17,712	15,135	40,399	2,250	600
Rural Retreat: Peoples Bank.....	242	114	379	35	32
Smithfield: Merchants & Farmers Bank, Inc.....	242	54	334	50	44
South Hill: Citizens Bank, Inc.....	245	210	637	50	18
Suffolk: The Farmers Bank of Nansemond.....	2,731	889	3,915	500	400
Tazewell: Farmers Bank of Clinch Valley.....	690	160	914	200	50
Williamsburg: Peninsula Bank & Trust Co.....	894	380	1,454	150	40
Winchester: Union Bank of Winchester.....	342	192	565	100	21
WEST VIRGINIA					
(See also district no. 4)					
Berwind: Berwind Bank.....	459	595	1,024	100	100
Buffalo: Buffalo Bank.....	98	47	153	25	20
Charleston:					
Kanawha Banking & Trust Co.....	1,940	1,167	4,045	750	100
Kanawha Valley Bank.....	7,194	6,470	17,879	1,000	1,200
Lewisburg: Greenbrier Valley Bank.....	269	122	597	75	20
Martinsburg: Peoples Trust Co.....	1,456	276	1,666	500	130
Parsons: Tucker County Bank.....	97	101	282	25	5
Petersburg: Potomac Valley Bank.....	192	34	264	50	9
Rainelle: The Bank of Rainelle.....	33	120	173	25	15
Romney: Bank of Romney.....	523	82	878	200	35
St. Albans: Bank of St. Albans.....	215	144	436	60	85
St. Marys: Pleasants County Bank.....	282	68	339	75	10
Spencer: Traders Trust & Banking Co.....	387	114	608	80	16
Summersville: Farmers & Merchants Bank of Summersville.....	822	128	720	60	26
DISTRICT NO. 6					
ALABAMA					
Altoverville: Altoverville Bank & Trust Co.....	246	182	482	40	20
Birmingham: Birmingham Trust & Savings Co.....	8,112	9,620	20,017	2,500	12
Clanton: Peoples Savings Bank.....	188	285	563	25	28
Clayton: Bank of Commerce.....	117	84	190	50	42
Columbiana: Columbiana Savings Bank.....	188	60	347	35	7
Cullman: Parker Bank & Trust Co.....	380	171	825	90	8
Dothan: Dothan Bank & Trust Co.....	411	557	1,267	60	60
Eutaw: Merchants & Farmers Bank of Greene County.....	287	264	688	55	55
Faunsdale: Watkins Banking Co.....	94	110	163	50	85
Georgiana: Citizens Bank.....	77	6	105	25	2
Gulf: Marion County Banking Co.....	120	6	308	25	7
Marion Junction: Marion Junction State Bank.....	82	10	45	25	18
Oneonta: The Citizens Bank.....	80	12	136	25	8
Pine Apple: Bank of Pine Apple.....	120	124	275	25	10
Salma: Peoples Bank & Trust Co.....	533	394	1,041	120	12
Thomaston: The Planters Bank & Trust Co.....	155	20	138	25	4
Winfield: Winfield State Bank.....	73	81	156	25	8
York: Bank of York.....	92	197	375	25	15

224 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 6—Continued					
FLORIDA					
Marlanna: Citizens State Bank.....	162	130	423	30	-----
St. Petersburg: Union Trust Co.....	506	1,143	3,401	200	30
West Palm Beach:					
Central Farmers Trust Co.....	578	1,941	3,449	250	200
Florida Bank & Trust Co.....	77	309	466	100	50
GEORGIA					
Adairsville: Bank of Adairsville.....	22	5	107	25	-----
Atlanta: Trust Co. of Georgia.....	8,087	3,570	16,335	2,000	1,500
Augusta: Georgia Railroad Bank & Trust Co.....	5,505	1,869	7,715	1,250	200
Bainbridge: Citizens Bank & Trust Co.....	329	82	411	150	5
Blackshear: The Blackshear Bank.....	236	195	403	60	25
Brunswick: Brunswick Bank & Trust Co.....	642	692	1,312	230	100
Canton: Bank of Canton.....	411	243	1,067	150	150
Cochran: State Bank of Cochran.....	125	91	240	25	7
Columbus:					
Columbus Bank & Trust Co.....	4,246	1,166	5,306	850	650
Merchants & Mechanics Bank.....	1,332	383	1,973	200	200
Commerce: Northeastern Banking Co.....	283	69	327	100	25
Dawson: Bank of Dawson.....	443	58	544	125	20
Eastman: Bank of Eastman.....	132	54	231	75	-----
Lawrenceville: Brand Banking Co.....	360	154	512	60	60
Lincolnton: Farmers State Bank.....	125	44	169	15	15
Milledgeville: Bank of Milledgeville.....	311	129	602	50	50
Monroe: Farmers Bank.....	300	229	605	100	20
Pelham: Farmers Bank.....	372	8	303	100	38
Reynolds: Citizens State Bank.....	149	2	143	25	5
Sasser: Bank of Sasser.....	98	23	101	25	33
Savannah:					
Citizens Bank & Trust Co.....	689	296	1,212	350	60
Savannah Bank & Trust Co.....	2,066	300	2,314	700	100
Spouton: Bank of Spouton.....	205	37	242	60	10
Swainsboro: Central Bank.....	272	19	187	25	15
Tifton: Bank of Tifton.....	785	225	1,029	100	150
LOUISIANA					
(See also district no. 11)					
New Orleans: American Bank & Trust Co.....	5,596	9,987	19,217	1,000	500
Slidell: Bank of Slidell.....	289	168	508	50	-----
MISSISSIPPI					
(See also district no. 3)					
Crystal Springs: Truckers Exchange Bank.....	35	39	165	25	-----
Forest: The Bank of Forest.....	25	310	409	25	15
TENNESSEE					
(See also district no. 8)					
Carthage: Citizens Bank & Trust Co.....	89	189	335	25	5
Chattanooga: American Trust & Banking Co.....	2,886	2,319	8,278	625	750
Greeneville: Greene County Union Bank.....	678	103	970	200	-----
Hartsville: Bank of Hartsville.....	129	121	274	25	20
DISTRICT NO. 7					
ILLINOIS					
(See also district no. 3)					
Argenta: Gerber State Bank.....	104	149	285	25	5
Belvidere: Farmers State Bank.....	555	872	1,635	100	100
Bloomington: Peoples Bank of Bloomington.....	906	2,778	6,155	200	300
Byron: Rock River Community Bank.....	83	250	450	50	19
Chicago:					
Amalgamated Trust & Savings Bank.....	533	2,117	3,704	450	80
Drexel State Bank.....	849	2,049	3,911	450	75
Hamilton State Bank.....	174	345	922	200	25
Harris Trust & Savings Bank.....	48,279	81,232	157,396	6,000	7,000
Lake Shore Trust & Savings Bank.....	1,810	2,093	6,392	800	20
Lake View Trust & Savings Bank.....	1,371	7,122	13,238	500	500
Main State Bank.....	584	962	2,178	200	25
Mercantile Trust & Savings Bank.....	2,707	2,563	11,069	600	200

STATE BANK MEMBERSHIP

2254

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 7—Continued					
ILLINOIS—continued					
Chicago—Continued.					
Merchandise Bank & Trust Co.	881	8,698	6,875	500	200
Metropolitan State Bank	1,163	894	1,404	200	50
Northern Trust Co.	29,041	167,725	283,052	8,000	6,000
Personal Loan and Savings Bank	5,739	478	2,136	2,000	50
Sears-Community State Bank	1,162	2,317	8,162	200	20
Skala State Bank	97	1,250	1,441	200	27
State Bank of Clearing	449	360	1,436	120	15
The Upper Avenue Bank	687	2,074	3,191	200	100
Uptown State Bank	833	2,031	4,204	300	100
Cowdren State Bank of Cowdren	116	40	180	25	10
Elburn: Kane County Bank & Trust Co.	189	154	440	50	20
Eureka: Farmers State Bank	110	358	670	50	10
Evanston:					
Evanston Trust & Savings Bank	591	709	1,502	325	-----
State Bank & Trust Co.	2,106	6,336	10,943	1,250	-----
Fulton: Fulton State Bank	129	350	495	50	15
Galesburg: Farmers & Mechanics Bank	817	783	2,183	200	40
Geneva: State Bank of Geneva	705	261	1,901	100	50
Kewanee: Peoples State Savings Bank	1,201	579	2,116	100	50
London Mills: State Bank of London Mills	99	56	201	40	15
Lostant: The Farmers State Bank of Lostant	128	121	412	85	16
Matteson: First State Bank	49	28	114	25	11
Mattoon: Central Illinois Trust & Savings Bank	252	253	538	100	20
Metamora: Metamora State Bank	113	93	385	50	11
Milford: Citizens State Bank	222	28	605	50	10
Monsen: Parish Bank & Trust Co.	75	148	241	50	10
Niantic: State Bank of Niantic	164	211	416	50	15
Oak Park: Oak Park Trust & Savings Bank	2,442	1,610	4,622	1,000	100
Springfield: Springfield Marine Bank	3,927	3,770	8,583	500	200
Stockland: Sumner State Bank	128	16	250	50	10
Tolono:					
Bank of Tolono	62	85	155	25	5
Citizens Bank of Tolono	74	38	150	25	7
Tuscola: Tuscola State Bank	157	228	614	70	70
Walnut: Citizens State Bank	80	106	294	25	5
Washington: Danforth Banking Co.	104	602	744	50	15
Wanna: First State Bank	147	541	768	75	10
Wheaton: Wheaton Trust & Savings Bank	95	745	974	100	25
Wilmette: Wilmette State Bank	307	1,248	2,191	175	50
INDIANA					
(See also district no. 8)					
Connersville: Fayette Bank & Trust Co.	878	864	1,019	250	58
Indianapolis: Fletcher Trust Co.	6,051	18,262	27,908	2,600	500
Jamestown: Citizens State Bank	157	36	393	40	6
Mohawk: Mohawk State Bank	71	35	140	25	5
Muncie: Merchants Trust & Savings Co.	1,138	228	2,412	225	75
Tipton: Farmers Loan & Trust Co.	444	322	774	100	10
IOWA					
Afton: Commercial State Bank	164	64	329	25	16
Algona: Iowa State Bank	490	681	1,873	50	60
Blencoe: Blencoe State Bank	79	114	280	20	8
Cherokee: Cherokee State Bank	714	290	1,431	125	25
Davenport: Davenport Bank & Trust Co.	4,283	10,408	10,991	600	400
Des Moines: Bankers Trust Co.	2,799	5,830	12,353	1,000	125
Fairfield: Iowa State Bank & Trust Co.	171	232	741	100	20
Fontaine: State Savings Bank	162	116	478	40	17
Fort Dodge: The State Bank	203	56	1,121	100	20
Fort Madison: Fort Madison Savings Bank	853	1,190	2,459	205	20
Glenwood: Glenwood State Bank	358	542	941	50	80
Holstein: Holstein State Bank	126	574	769	50	15
Ida Grove: Ida County State Bank	56	370	543	40	9
Monticello: Monticello State Bank	2,463	673	3,135	400	80
Moorhead: Moorhead State Bank	136	65	259	30	15
Muscataine: Muscatine Bank & Trust Co.	843	1,733	3,732	125	150
Newton: Jasper County Savings Bank	847	1,148	2,505	100	50
Osgo: Home Trust & Savings Bank	842	298	761	50	30
Ottumwa: Union Bank & Trust Co.	1,951	1,442	4,264	300	100
Riceville: Riceville State Bank	82	30	116	25	6
Royal: Home State Bank	154	59	229	25	13
Shenandoah: Security Trust & Savings Bank	189	432	839	60	18
Storm Lake: Security Trust & Savings Bank	180	328	538	50	13
Templeton: Templeton Savings Bank	189	86	344	25	6
Williams: Williams Savings Bank	268	148	521	25	6

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 7—Continued					
MICHIGAN					
(See also district no. 9)					
Adrian:					
Adrian State Savings Bank.....	245	292	684	101	.....
Commercial Savings Bank.....	443	458	1,589	110	.....
Lenawee County Savings Bank.....	359	447	1,359	110	.....
Albion: Commercial & Savings Bank.....	200	217	519	100	.....
Alpena: Alpena Savings Bank.....	541	1,069	1,924	200	40
Ann Arbor:					
Farmers & Mechanics Bank.....	2,122	528	3,257	250	250
State Savings Bank.....	2,503	2,263	4,783	400	200
Armada: Armada State Bank.....	101	168	286	25	.....
Bay City: Peoples Commercial & Savings Bank.....	2,135	5,750	8,510	500	250
Big Rapids: Big Rapids Savings Bank.....	90	117	223	50	.....
Blanchard: Blanchard State Bank.....	25	35	99	25	.....
Blissfield: Blissfield State Bank.....	242	132	824	100	25
Bronson: First State Savings Bank.....	110	54	236	50	.....
Brown City: Brown City Savings Bank.....	78	94	260	25	.....
Cass City:					
Cass City State Bank.....	118	70	191	40	.....
The Finney State Bank.....	128	161	311	50	.....
Cassopolis: Cass County State Bank.....	73	94	244	40	15
Charlotte: Eaton County Savings Bank.....	85	280	567	54	.....
Chelsea: Chelsea State Bank.....	490	517	1,008	110	20
Croswell: State Bank of Croswell.....	130	890	650	72	.....
Davison: Davison State Bank.....	69	72	170	40	.....
Detroit:					
Detroit Savings Bank.....	15,269	47,075	85,438	5,500	780
United Savings Bank.....	5,163	7,471	15,325	1,500	300
Dundee: Monroe County Bank.....	179	47	210	40	.....
Farmingington: Farmington State Bank.....	35	283	353	50	10
Fennville: Old State Bank.....	101	139	502	50	5
Flint:					
Citizens Commercial & Savings Bank.....	4,449	5,263	12,076	500	450
Genesee County Savings Bank.....	1,639	2,001	4,462	700	.....
Frankenmuth: Frankenmuth State Bank.....	662	391	1,160	117	.....
Fremont:					
Fremont State Bank.....	248	175	488	50	10
Old State Bank of Fremont.....	290	161	521	62	.....
Grand Haven:					
Grand Haven State Bank.....	860	782	1,698	150	80
Peoples Savings Bank.....	621	338	950	59	80
Grand Rapids: Old Kent Bank.....	14,412	12,124	30,307	3,500	400
Greenville:					
Commercial State Savings Bank.....	556	263	922	100	5
First State Bank of Greenville.....	43	61	277	50	12
Hillsdale: Hillsdale State Savings Bank.....	534	694	2,177	165	25
Holland: Holland City State Bank.....	420	384	998	191	.....
Howell: First State & Savings Bank.....	62	135	245	62	.....
Jonesville: Grosvenor Savings Bank.....	78	140	277	23	.....
Lakeview: Bank of Lakeview.....	23	45	159	30	.....
Lapeer: Lapeer Savings Bank.....	126	54	188	61	.....
Lowell: State Savings Bank.....	157	294	513	60	.....
Manchester:					
Peoples Bank.....	64	88	206	25	.....
Union Savings Bank.....	222	245	534	25	80
Manchester: Manchester County Savings Bank.....	949	1,241	3,222	200	60
Marcellus: G. W. Jones Exchange Bank.....	263	165	607	40	40
Marshall: Commercial Savings Bank.....	372	619	1,162	100	25
Mason:					
Farmers Bank.....	220	193	503	80	5
First State and Savings Bank.....	182	177	429	25	15
Midland: Chemical State Savings Bank.....	678	860	2,701	100	25
Milan: Peoples State Bank of Milan.....	101	94	267	50	.....
Mount Pleasant:					
Exchange Savings Bank.....	219	268	691	80	.....
Isabella County State Bank.....	641	702	1,661	120	85
New Baltimore: Citizens State Savings Bank.....	79	98	203	25	.....
New Haven: New Haven Savings Bank.....	22	85	175	25	.....
Onsted: Onsted State Bank.....	150	81	212	25	12
Pigeon: Pigeon State Bank.....	97	72	263	25	.....
Romeo: Romeo Savings Bank.....	115	67	355	50	.....
Royal Oak: The Guardian Bank of Royal Oak.....	188	1,109	1,709	100	50
Saginaw: Saginaw State Bank.....	581	177	900	400	60
St. Charles: St. Charles State Bank.....	72	276	367	25	15
St. Clair: Commercial & Savings Bank.....	459	1,119	2,047	225	25
Saugstuck: Fruit Growers State Bank.....	144	123	351	60	.....
Sebewaing: Farmers & Merchants State Bank.....	220	259	583	50	.....
South Haven: Citizens State Bank.....	557	785	1,460	100	50

STATE BANK MEMBERSHIP

22745

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 7—Continued					
MICHIGAN—continued					
Sparta: Sparta State Bank.....	143	107	307	30	5
Spring Lake: Spring Lake State Bank.....	278	117	451	25	
Traverse City: Traverse City State Bank.....	385	816	1, 571	200	
Wayne: Wayne State Bank.....	55	294	400	50	10
Williamston: Cressman & Williams State Bank.....	105	158	328	40	20
Williamston State Bank.....	79	60	201		
WISCONSIN					
(See also district no. 9)					
Burlington: Bank of Burlington.....	560	591	1, 220	125	25
Edgerton: Tobacco Exchange Bank.....	170	343	570	50	18
Mantowoc: Mantowoc Savings Bank.....	2, 087	1, 906	5, 228	500	100
Milwaukee: American State Bank.....	534	321	813	200	40
Badger State Bank.....	2, 590	1, 323	4, 548	200	100
Marshall & Isley Bank.....	12, 282	17, 919	36, 549	3, 000	
West Side Bank.....	1, 494	1, 119	3, 042	400	400
Platteville: State Bank of Platteville.....	310	21	470	50	
Sheboygan: Citizens State Bank.....	2, 327	3, 162	5, 903	500	250
South Milwaukee: Home State Bank.....	270	53	959	100	25
Sturgeon Bay: Bank of Sturgeon Bay.....	538	558	1, 539	200	
DISTRICT NO. 8					
ARKANSAS					
Batesville: Citizens Bank & Trust Co.....	351	162	685	60	4
Blytheville: Farmers Bank & Trust Co.....	1, 929	116	1, 519	200	10
Fordyce: Fordyce Bank & Trust Co.....	170	126	373	50	10
Little Rock: W. B. Werthen Co., Bankers.....	2, 385	4, 959	9, 198	675	50
Russellville: Bank of Russellville.....	408	301	816	100	10
Peoples Exchange Bank.....	245	30	333	100	10
Waldron: Bank of Waldron.....	199	88	327	50	10
ILLINOIS					
(See also district no. 7)					
Breesa: State Bank of Breesa.....	101	355	738	50	25
Chester: First State Bank.....	410	322	917	50	25
East St. Louis: Union Trust Co.....	657	1, 444	2, 539	700	
Edwardsville: Bank of Edwardsville.....	370	717	1, 369	150	150
Effingham: Effingham State Bank.....	538	373	1, 222	130	10
Eldorado: C. P. Burnett & Sons.....	178	661	1, 254	100	27
Greenville: State Bank of Hollis & Sons.....	490	180	578	175	20
Harrisburg: First & Savings Bank.....	405	507	1, 137	150	75
Hillsboro: Montgomery County Loan & Trust Co.....	330	401	807	130	
Hoyleton: Hoyleton State & Savings Bank.....	107	98	308	25	5
Jacksonville: Elliott State Bank.....	595	1, 129	3, 291	200	100
Litchfield: Litchfield Bank & Trust Co.....	236	306	630	125	15
O'Fallon: First State Bank.....	124	14	134	25	5
Richview: Richview State Bank.....	45	84	84	25	2
Steeleville: State of Steeleville.....	218	185	494	25	25
KENTUCKY					
(See also district no. 4)					
Danville: Boyle Bank & Trust Co.....	507	278	981	100	75
Hartford: Citizens Bank.....	59	12	205	25	20
Hopkinsville: Planters Bank & Trust Co.....	353	1, 007	1, 536	100	75
Louisville: Kentucky Title Trust Co.....	8, 520	3, 604	4, 035	1, 000	1, 250
Liberty Bank & Trust Co.....	9, 658	4, 023	18, 050	2, 000	
Lincoln Bank & Trust Co.....	4, 528	3, 520	9, 280	1, 250	200
Louisville Trust Co.....	10, 907	5, 926	9, 648	2, 000	500
MISSISSIPPI					
(See also district no. 6)					
Indianola: Peoples Bank.....	107	195	342	25	4

228 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 8—Continued					
MISSOURI					
(See also district no. 10)					
Camden: Camden County Bank.....	80	87	154	25	5
Clinton: Union State Bank of Clinton.....	107	397	741	50	10
Farmington: United Bank of Farmington.....	577	352	1,094	120	25
Glasgow: Glasgow Savings Bank.....	189	248	529	75	76
Hannibal: Farmers & Merchants Bank & Trust Co.....	438	454	997	100	100
Lancaster: Schuyler County State Bank.....	69	252	543	50	.....
Lebanon: State Savings Bank.....	128	141	306	25	18
Luxemburg: Lemay Ferry Bank.....	479	135	603	100	20
Maplewood: Peoples State Bank.....	119	288	418	100	200
Marshall: Wood & Houston Bank.....	763	217	1,464	100	55
Memphis: Bank of Memphis.....	81	165	349	25	5
Moberly: Mechanics Bank & Trust Co.....	214	1,456	2,916	200	22
Monroe City: Monroe City Bank.....	160	270	551	50	.....
Normandy: Normandy State Bank.....	71	289	371	30	7
Pine Lawn: Pine Lawn Bank.....	79	118	254	45	3
Sedalia: Sedalia Bank & Trust Co.....	245	192	571	100	15
St. Louis:					
Baden Bank.....	799	1,069	2,073	415	.....
Bremen Bank & Trust Co.....	952	3,874	4,932	700	100
Cass Bank & Trust Co.....	1,748	2,631	4,017	600	100
Chippewa Trust Co.....	947	497	1,961	300	.....
Easton-Taylor Trust Co.....	416	634	1,497	300	40
Jefferson Bank & Trust Co.....	818	1,057	2,142	450	.....
Jefferson-Gravois Bank.....	1,742	1,879	4,364	900	.....
Lindell Trust Co.....	870	1,590	2,746	350	100
Manchester Bank.....	1,578	2,105	3,552	1,000	.....
Manufacturers Bank & Trust Co. of St. Louis.....	1,830	4,327	8,200	600	400
Mercantile-Commeroe Bank & Trust Co.....	22,542	62,124	128,735	10,000	2,000
Mississippi Valley Trust Co.....	28,504	57,248	78,219	6,500	1,200
Mound City Trust Co.....	691	603	1,416	350	.....
North St. Louis Trust Co.....	1,169	1,650	2,984	500	100
Northwestern Trust Co.....	1,896	3,998	6,185	1,050	25
The Plaza Bank of St. Louis.....	322	1,039	2,853	30	50
Southern Commercial & Savings Bank.....	1,509	1,117	2,964	425	40
Southwest Bank of St. Louis.....	433	1,430	1,833	425	.....
Tower Grove Bank & Trust Co.....	3,714	6,087	10,037	800	200
United Bank & Trust Co.....	2,653	4,979	6,036	1,000	.....
St. Louis County: Gravois Bank of St. Louis County.....	271	255	801	110	10
Vandalia: Vandalia State Bank.....	49	91	150	25	5
Versailles: Bank of Versailles.....	113	67	284	40	15
Washington: Franklin County Bank.....	328	325	657	90	.....
Webster Groves: Webster Groves Trust Co.....	550	922	1,906	100	100
DISTRICT NO. 9					
MICHIGAN					
(See also district no. 7)					
Escanaba: State Savings Bank.....	595	756	1,434	180	.....
Ewen: State Bank of Ewen.....	131	62	227	50	50
Gladstone: Gladstone State Savings Bank.....	292	377	737	.....	.....
Iron Mountain: Commercial Bank.....	747	445	1,383	200	.....
Menominee: Commercial Bank.....	436	537	1,061	170	.....
Sault Ste. Marie:					
Central Savings Bank.....	375	631	1,178	200	.....
Sault Savings Bank.....	306	1,082	1,394	270	.....
MINNESOTA					
Aurora: State Bank of Aurora.....	31	184	287	45	5
Belle Plaine: State Bank of Belle Plaine.....	163	714	358	.....	10
Caladonia: Sprague State Bank.....	333	439	975	60	40
Cannon Falls: Security State Bank.....	115	58	206	25	5
Chatfield: First State Bank.....	66	229	389	25	10
Clinton: Clinton State Bank.....	122	38	203	5	5
Gibbon: State Bank of Gibbon.....	185	105	314	30	10
Houston: Security State Bank of Houston.....	152	337	610	47	8
Plainview: Peoples State Bank.....	61	270	394	25	5
Rushmore: First State Bank of Rushmore.....	136	66	307	35	5
Sacred Heart: Farmers & Merchants State Bank of Sacred Heart.....	161	60	227	50	7
St. Charles: Citizens State Bank.....	96	220	293	50	5
Springfield:					
Farmers & Merchants State Bank.....	206	205	459	40	8
State Bank of Springfield.....	179	124	428	50	10
Wadena: Wadena County State Bank.....	120	240	512	30	10
Westbrook: Citizens State Bank.....	189	81	382	25	10
Wykoff: First State Bank of Wykoff.....	90	136	264	25	5

STATE BANK MEMBERSHIP

2294

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 9—Continued					
MONTANA					
Anaconda: Daly Bank & Trust Co.....	1,009	1,164	2,717	600	25
Big Timber: Citizens Bank & Trust Co.....	410	128	707	125	15
Billings: Security Trust & Savings Bank.....	635	1,146	2,274	175	25
Bozeman:					
Gallatin Trust & Savings Bank.....	209	103	614	175	10
Security Bank & Trust Co.....	212	134	607	100	10
Butte: Metals Bank & Trust Co.....	2,089	5,355	8,807	800	200
Columbus: Yellowstone Bank.....	100	134	352	25	5
Deer Lodge: Deer Lodge Bank & Trust Co.....	478	771	1,690	100	50
Denton: Farmers State Bank.....	49	25	126	25	3
Fromberg: Clerks Fork Valley Bank.....	44	11	79	32	5
Glasgow: Farmers-Stockgrowers Bank.....	87	83	413	35	20
Great Falls: Montana Bank & Trust Co.....	65	779	1,401	100	25
Helena: Union Bank & Trust Co.....	1,234	2,044	5,192	500	50
Laurel: The Yellowstone Bank.....	125	99	444	32	5
Richey: First State Bank.....	91	34	180	25	17
Ronan: Ronan State Bank.....	62	80	315	25	2
Terry: State Bank of Terry.....	205	161	705	40	40
Townsend: State Bank of Townsend.....	157	248	489	80	11
Victor: Farmers State Bank.....	99	88	302	25	15
Warden: Farmers State Bank.....	21	110	144	25	7
SOUTH DAKOTA					
Aloster: State Bank of Aloster.....	153	108	350	25	15
Alpena: Bank of Alpena.....	61	19	75	40	4
Arlington: Citizens State Bank.....	67	67	135	25	7
Belle Fourche: Butte County Bank.....	422	635	1,302	75	25
Belvidere: Belvidere State Bank.....	56	83	300	25	5
Buffalo: First State Bank.....	139	145	304	25	5
Burke: Burke State Bank.....	39	47	139	25	5
Faith: Farmers State Bank.....	70	82	226	25	5
Flandreau: Farmers State Bank.....	229	44	480	50	10
Freeman: Merchants State Bank.....	46	46	232	25	5
Huron: Farmers & Merchants Bank.....	77	714	946	100	12
Madison: Security Bank & Trust Co.....	264	115	575	75	10
McIntosh: Security State Bank.....	24	109	215	30	6
Miller: Hand County State Bank.....	93	53	292	25	5
Mitchell: Commercial Trust & Savings Bank.....	467	956	1,614	200	25
Mobridge: Citizens Bank & Trust Co.....	33	129	190	50	10
Newell: Reclamation State Bank.....	154	176	461	25	15
Presho: Farmers & Merchants State Bank.....	40	24	172	25	5
Sturgis: Bear Butte Valley Bank.....	157	59	484	25	15
Toronto: The Bank of Toronto.....	75	123	252	25	5
Wessington Springs: Jewell County Bank.....	145	32	206	25	10
Winner: Farmers State Bank.....	123	178	577	25	10
Woonsokat: Sanborn County Bank.....	102	86	289	25	5
WISCONSIN					
(See also district no. 7)					
Boycoville: Bank of Boycoville.....	31	240	265	65	2
Glenwood City: First State Bank.....	77	84	237	30	7
DISTRICT NO. 10					
COLORADO					
Delta: Colorado Bank & Trust Co.....	301	207	823	50	42
Denver:					
Central Savings Bank & Trust Co.....	983	1,542	2,673	350	50
International Trust Co.....	2,938	5,633	14,552	600	600
La Junta: Colorado Savings & Trust Co.....	284	177	709	75	20
Sterling: Commercial Savings Bank of Sterling.....	270	260	918	100	20
KANSAS					
Abilene: Citizens Bank.....	273	294	930	50	50
Hiawatha: Morrill & James Bank.....	258	250	799	100	20
Hutchinson: Hutchinson State Bank.....	452	303	1,475	150	54
Kansas City: The Riverview State Bank.....	735	1,536	2,444	150	100
Liberal: Citizens State Bank.....	100	75	395	50	25
Luray: Peoples State Bank of Luray.....	78	26	140	25	5
Ness City: The First State Bank.....	115	49	431	25	4
Osage: Osage State Bank.....	39	30	95	25	5
Osage City: Citizens State Bank.....	168	145	481	25	15
Pratt: Peoples Bank.....	343	487	1,453	100	20
Sedan: Sedan State Bank.....	144	35	285	40	10
Sylvan Grove: Sylvan State Bank.....	128	123	415	25	15
Topeka: Fidelity Savings State Bank.....	459	1,763	3,331	200	18
Winfield: The State Bank.....	284	332	987	110	10

230 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 10—Continued					
MISSOURI					
(See also district no. 8)					
Albany: Gentry County Bank.....	160	244	618	50	25
Carthage: Bank of Carthage.....	615	613	1,667	150	50
Craig: Bank of Craig.....	121	30	228	25	15
Kansas City:					
Commerce Trust Co.....	27,682	51,303	127,635	6,000	2,000
Merchants Bank of Kansas City.....	1,167	708	2,600	200	100
King City: First State Bank of King City.....	103	44	185	30	6
Lamar: Barton County State Bank.....	169	59	364	25	3
Rich Hill: Security Bank of Rich Hill.....	84	106	195	25	5
St. Joseph: Empire Trust Co.....	555	745	1,967	200	50
South St. Joseph: First St. Joseph Stock Yards Bank.....	339	1,379	3,944	250	25
NEBRASKA					
Alma: Harlan County Bank.....	160	100	495	30	5
Bancroft: Citizens Bank.....	76	16	187	30	10
Blair: Washington County Bank.....	246	240	565	35	7
Grand Island: The Commercial Bank.....	450	817	1,473	100	24
Fawcett City: Citizens State Bank.....	84	76	195	25	4
Serbiner: Farmers State Bank.....	38	253	379	40	5
Stromsburg: Stromsburg Bank.....	118	276	452	30	10
Valley: Bank of Valley.....	45	48	185	25	5
Wahoo: Wahoo State Bank.....	118	132	455	40	10
NEW MEXICO					
(See also district no. 11)					
Astec: Citizens Bank.....	121	41	223	30	5
OKLAHOMA					
Okarche: First Bank of Okarche.....	63	98	372	50	17
WYOMING					
Evanston: Stockgrowers Bank.....	324	92	403	50	40
Lusk: Lusk State Bank.....	72	115	312	25	7
Mountain View: Uinta County State Bank.....	69	25	88	40	5
Newcastle: First State Bank.....	168	142	418	38	13
Sundance: Sundance State Bank.....	175	75	472	43	-----
Wheatland:					
State Bank of Wheatland.....	453	97	534	40	50
Stock Growers Bank.....	168	104	345	40	25
Worland: Farmers State Bank of Worland.....	237	72	426	25	4
DISTRICT NO. 11					
ARIZONA					
(See also district no. 12)					
Tucson: Southern Arizona Bank & Trust Co.....	1,747	1,902	5,759	250	270
Willcox: The Bank of Willcox.....	122	150	364	50	5
LOUISIANA					
(See also district no. 6)					
Minden: Minden Bank & Trust Co.....	98	69	361	50	15
Shreveport: Continental-American Bank & Trust Co.....	2,257	1,915	6,275	500	-----
NEW MEXICO					
(See also district no. 10)					
Deming: Mimbres Valley Bank.....	126	70	425	50	25
Logan: McFarland Bros. Bank.....	48	21	80	25	5
TEXAS					
Beaumont: Security State Bank & Trust Co.....	375	685	1,617	200	5
Bevill: State Bank & Trust Co.....	61	72	257	53	10
Bremond: First State Bank.....	50	55	302	55	8
Brownfield: Brownfield State Bank.....	391	27	501	50	-----
Bryan: First State Bank & Trust Co.....	482	245	1,074	100	100
Carrollton: Farmers & Merchants State Bank.....	23	24	84	25	5

STATE BANK MEMBERSHIP

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 11—Continued					
TEXAS—continued					
Celina: First State Bank.....	62	42	174	25	8
Clarendon: Farmers State Bank.....	147	75	210	75	4
Claude: First State Bank.....	49	31	154	50	5
Clifton: Farmers State Bank.....	126	178	421	60	—
Delbart: Citizens State Bank.....	165	27	430	50	25
Dallas: Dallas Bank & Trust Co.....	3,547	7,289	16,925	1,000	500
Del Rio: Del Rio Bank & Trust Co.....	283	91	390	150	—
Dodsonville: First State Bank.....	82	4	88	25	15
East Bernard: Union State Bank.....	200	19	266	60	5
Eden: Eden State Bank.....	125	2	144	75	—
Farris: Farmers & Merchants State Bank.....	199	65	309	50	25
Forney: Forney State Bank.....	72	2	140	40	5
Franklin: First State Bank.....	55	26	104	45	—
Gatesville: Guaranty Bank & Trust Co.....	124	177	463	50	15
Goose Creek: Citizens State Bank & Trust Co.....	314	560	1,008	90	10
Greenville: Citizens State Bank.....	872	438	1,133	100	18
Hamilton: Hamilton Bank & Trust Co.....	79	35	182	50	25
Huntsville: Huntsville Bank & Trust Co.....	214	319	590	50	30
Iola: Iola State Bank.....	32	23	78	25	3
Killeen: First State Bank.....	91	68	221	35	6
Kirkland: First State Bank.....	42	18	62	25	1
Kosse: First State Bank.....	20	6	86	35	8
Ladonia: Farmers & Merchants State Bank.....	59	61	181	25	6
Leakey: First State Bank.....	39	19	44	25	5
Llano: Moore State Bank.....	228	62	354	50	25
Loraine: First State Bank.....	39	32	154	60	—
Madisonville: Farmers State Bank.....	75	64	210	25	12
Madsor: First State Bank.....	203	0	356	38	25
Mabie: First State Bank.....	85	27	134	45	14
McAllen: City State Bank & Trust Co.....	214	370	862	60	15
Mount Pleasant: Guaranty Bond State Bank.....	185	47	330	65	5
Naacogoches: Commercial State Bank.....	485	257	1,076	100	60
Peersall: Security State Bank.....	108	52	224	50	5
Ralls: Security State Bank & Trust Co.....	251	25	305	50	—
Richardson: Citizens State Bank.....	60	10	81	35	1
Robert Lee: First State Bank.....	99	30	125	30	—
Roscoe: Roscoe State Bank.....	52	55	359	30	15
Rusk: Farmers & Merchants State Bank & Trust Co.....	90	107	600	75	—
Shamrock: Farmers & Merchants State Bank of Shamrock.....	107	95	338	50	12
Shiro: Farmers State Bank.....	36	19	95	25	10
Silsbee: Silsbee State Bank.....	148	225	515	40	25
Sinton: Commercial State Bank.....	310	93	614	50	25
Spearman: First State Bank.....	43	78	259	25	7
Thorndale: Thorndale State Bank.....	63	70	264	30	17
Wallington: Wallington State Bank.....	263	34	294	50	10
Wharton: Security Bank & Trust Co.....	94	276	710	75	15
Wharton Bank & Trust Co.....	844	299	995	100	100
Wylie: Farmers & Merchants State Bank of Wylie.....	58	39	120	25	4
DISTRICT NO. 12					
ARIZONA					
(See also district no. 11)					
Buckeye: Buckeye Valley Bank.....	56	60	158	25	11
Phoenix: Valley Bank & Trust Co.....	4,339	5,475	13,915	1,050	210
CALIFORNIA					
Carmel: Bank of Carmel.....	450	188	871	50	60
Downey: Los Nietos Valley Bank.....	450	404	1,053	75	35
Fairfield: Solano County Bank.....	128	815	623	75	12
Le Grand: Le Grand Bank.....	130	88	220	25	13
Long Beach: Farmers & Merchants Bank.....	5,381	1,962	10,135	1,000	250
Los Angeles: California Bank.....	84,158	22,438	74,298	6,500	1,625
Union Bank & Trust Co.....	14,046	11,210	30,226	2,500	1,250
Newman: Bank of Newman.....	592	494	1,103	150	80
Oakland: Central Bank of Oakland.....	20,617	9,610	38,125	4,145	1,354
Pasadena: Citizens Commercial Trust & Savings Bank.....	1,133	1,629	3,311	800	150
First Trust & Savings Bank of Pasadena.....	5,260	3,624	12,257	1,000	400
Salt Lake: Monterey County Trust & Savings Bank.....	5,288	2,270	6,067	675	186
San Francisco: American Trust Co.....	95,718	85,274	217,405	15,000	4,000
Wells Fargo Bank & Union Trust Co.....	59,609	115,106	194,348	9,000	5,000
San Rafael: Bank of San Rafael.....	2,115	1,075	3,145	100	50
Santa Paula: Citizens State Bank.....	347	79	457	100	120

232 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

[In thousands of dollars]

	Loans	Investments	Total deposits	Capital	Surplus
DISTRICT NO. 12—Continued					
IDAHO					
Aberdeen: Bank of Aberdeen.....	65	66	260	25	5
Arco: Butte County Bank.....	61	87	206	1,235	5
Boise: First Security Bank of Idaho.....	5,088	9,827	20,525	1,235	265
Blairton: Hazelton State Bank.....	94	35	192	25	7
Kellogg: First State Bank of Kellogg.....	51	283	424	50	5
Malad City: J. N. Ireland & Co., Bankers.....	118	205	537	40	12
Orofino: Bank of Orofino.....	20	214	322	25	5
Richfield: First State Bank.....	47	50	142	25	8
Soda Springs: Largilliere Co., Bankers.....	120	172	495	25	13
Twin Falls: Twin Falls Bank & Trust Co.....	693	415	2,288	100	30
OREGON					
Albany: Bank of Albany.....	127	255	655	50	15
Dallas: Dallas City Bank.....	209	214	753	50	20
Grants Pass: Grants Pass & Josephine Bank.....	238	361	528	100	25
Haines: Bank of Haines.....	37	45	114	25	3
Myrtle Point: Security Bank of Myrtle Point.....	119	275	610	40	7
Oakland: E. G. Young & Co., Bank.....	70	301	305	50	-----
UTAH					
Brigham: State Security Bank.....	263	290	1,138	150	-----
Cedar City: Bank of Southern Utah.....	272	151	492	100	40
Ephraim: Bank of Ephraim.....	209	25	384	75	35
Gunnison: Gunnison Valley Bank.....	141	25	222	50	-----
Helena: Helena State Bank.....	406	243	838	50	50
Kaysville: Barnes Banking Co.....	311	67	340	50	65
Logan: Oache Valley Banking Co.....	601	474	1,425	150	21
Ogden: Commercial Security Bank.....	1,946	1,650	4,648	550	-----
Primo: Carbon Emery Bank.....	622	307	1,248	50	25
Provo: Farmers & Merchants Bank.....	406	342	942	125	25
Salina: First State Bank of Salina.....	647	72	856	25	100
Salt Lake City:					
Tracy Loan & Trust Co.....	553	898	1,217	260	200
Utah Savings & Trust Co.....	690	1,304	1,945	300	120
Walker Bank & Trust Co.....	5,988	10,718	22,914	2,250	-----
Spanish Fork:					
Bank of Spanish Fork.....	242	69	314	50	15
Commercial Bank.....	413	121	543	100	10
Springville: Springville Banking Co.....	345	293	820	75	65
Vernal:					
Bank of Vernal.....	147	32	194	50	5
Uintah State Bank.....	311	84	610	50	31
WASHINGTON					
Almira: Almira State Bank.....	91	36	153	50	8
Cashmere: Cashmere Valley Bank.....	142	301	515	30	-----
Chehalis: Coffman-Dobson Bank & Trust Co.....	531	769	1,355	285	-----
Coules City: Security State Bank.....	25	28	104	25	-----
Ellensburg: Farmers Bank.....	609	536	1,227	150	50
Hoquiam: Bank of Hoquiam.....	416	457	1,185	170	-----
Kalama: Kalama State Bank.....	50	196	338	50	6
Kelso: Cowlitz Valley Bank.....	92	331	503	70	-----
Lacrosse: First State Bank.....	245	45	255	110	10
Pullman: Pullman State Bank.....	460	103	657	75	7
Puyallup:					
Citizens State Bank.....	176	277	545	100	-----
Puyallup State Bank.....	152	261	592	50	14
Ritzville: Ritzville State Bank.....	54	219	412	45	-----
Rockford: Farmers & Merchants Bank.....	94	10	142	25	5
Rosalie: Bank of Rosalie.....	98	185	230	45	5
Seattle:					
Peoples Bank & Trust Co.....	4,784	5,116	14,326	1,075	300
Seattle Trust Co.....	1,142	2,095	3,053	650	200
Selah: Selah State Bank.....	149	109	305	30	6
South Bend: Pacific State Bank.....	101	240	478	75	-----
Spokane:					
Spokane & Eastern Trust Co.....	5,612	11,034	28,821	1,750	250
Washington Trust Co.....	2,232	948	4,941	200	200
Tekoa: Tekoa State Bank.....	182	243	481	45	16
Toppenish: Traders Bank.....	92	50	273	40	-----
Uplandtown: Farmers State Bank.....	75	38	100	25	5
Wanatchee: Columbia Valley Bank.....	777	381	1,448	200	49
Wilbur: State Bank of Wilbur.....	258	68	421	50	10
Yakima: Yakima Valley Bank & Trust Co.....	360	249	948	250	-----

STATE BANK MEMBERSHIP

- 233 -

LICENSED STATE BANK MEMBERS—SUMMARY CLASSIFICATION ACCORDING TO CAPITAL STOCK,¹ DEC. 31, 1934

States	Number of banks with a capital stock of—										
	Total	\$25,000	\$25,100 to \$49,999	\$50,000	\$50,100 to \$99,999	\$100,000	\$100,100 to \$199,999	\$200,000 to \$499,999	\$500,000 to \$999,999	\$1,000,000 to \$4,999,999	\$5,000,000 and over
New England:											
Maine.....	6					1		3	1	1	
New Hampshire.....	1						1				
Massachusetts.....	34					4	1	15	3	10	1
Rhode Island.....	2									2	
Connecticut.....	6					1	1	1		3	
Middle Atlantic:											
New York.....	117	2	1	6	4	13	10	32	17	13	10
New Jersey.....	53					10	3	15	8	14	
Pennsylvania.....	73	1	2	3	2	2	17	23	9	11	4
East North Central:											
Ohio.....	71	12	5	11	4	5	13	9	5	4	4
Indiana.....	6	1	1			1		2		1	
Illinois.....	64	10	2	12	2	6	8	13	6	4	1
Michigan.....	79	12	8	18	7	7	11	10	3	2	1
Wisconsin.....	13	1	1	2	1	1	1	4	2	1	
West North Central:											
Minnesota.....	17	7	7	2	1						
Iowa.....	25	6	3	6	1	3	2	5	1		
Missouri.....	51	7	4	4	2	6	3	12	7	3	3
South Dakota.....	23	14	3	2	2	1		1	7		
Nebraska.....	9	2	6			1		1			
Kansas.....	14	5	1	2		3	2	1			
South Atlantic:											
Delaware.....	4								1	3	
Maryland.....	7	1					2		1	3	
District of Columbia.....	2									2	
Virginia.....	34	2	1	9	2	2	1	3	3	2	
West Virginia.....	18	3		2	4			3	3		
North Carolina.....	10	2		1		2		3		2	
South Carolina.....	4	1		1	1	1		1			
Georgia.....	25	6		3	2	4	3	2	2	2	
Florida.....	4		1					2			
East South Central:											
Kentucky.....	10	1				2	1	1	1	4	
Tennessee.....	4	2							1	1	
Alabama.....	13	3	2	3	3		1	1	1	1	
Mississippi.....	3	3									
West South Central:											
Arkansas.....	7			2	1	2		1	1	1	
Louisiana.....	4			1	1				1	1	
Oklahoma.....	1										
Texas.....	54	12	11	13	11	4	1	1		1	
Mountain:											
Montana.....	30	6	4	1		3	3		3		
Idaho.....	10	5	2	1		1				1	
Wyoming.....	8	2	5	1							
Colorado.....	1				1	1			1		
New Mexico.....	3		1	1				1			
Arizona.....	4	1		1				1		1	
Utah.....	19	1		6	3	3	3	2	1	1	
Pacific:											
Washington.....	27	3	5	5	3	1	3	4	1	2	
Oregon.....	5	1	1	2	1	1					
California.....	15	1		1	2	2	1	1	1	4	3
Total.....	980	141	77	121	61	96	91	172	83	101	37

¹ Includes capital notes and debentures and par value of preferred and common stock.

234 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

LICENSED STATE BANK MEMBERS—SUMMARY CLASSIFICATION ACCORDING TO CAPITAL STOCK,¹ DEC. 31, 1934—Continued

[In thousands of dollars]

	Aggregate capital stock of banks with a capital stock of—										
	Total	to \$25,000	to \$25,100 to \$49,999	to \$50,000	to \$50,100 to \$99,999	to \$100,000	to \$100,100 to \$199,999	to \$200,000 to \$499,999	to \$500,000 to \$999,999	to \$1,000,000 to \$4,999,999	\$5,000,000 and over
New England:											
Maine.....	4,061				100		780	611	2,600		
New Hampshire.....	150					150					
Massachusetts.....	27,305				400	126	4,500	1,900	15,380	5,000	
Rhode Island.....	5,000								5,000		
Connecticut.....	4,600				100	150	300		4,050		
Middle Atlantic:											
New York.....	447,089	80	30	300	282	1,300	1,495	9,086	11,290	392,255	
New Jersey.....	45,129					1,000	470	4,821	22,650	11,000	
Pennsylvania.....	64,754	25	65	100	111	200	2,332	5,850	20,725	29,096	
East North Central:											
Ohio.....	69,460	300	165	550	283	500	1,680	2,400	6,792	58,200	
Indiana.....	3,140	25	40			100		475	2,500		
Illinois.....	22,000	250	75	600	145	600	1,155	3,325	7,250	5,000	
Michigan.....	18,088	300	293	900	426	700	1,324	2,645	5,000	5,500	
Wisconsin.....	5,430		30	100	55	100	125	1,000	2,000		
West North Central:											
Minnesota.....	693	175	258	100	60				1,000		
Iowa.....	3,630	150	110	250	80	300	245	905	600	2,500	
Missouri.....	35,680	175	145	200	165	800	380	3,785	4,600	3,000	
South Dakota.....	1,010	350	110	100	150	100		200			
Nebraska.....	855	60	205			100					
Kansas.....	1,025	125	40	100		300	200				
South Atlantic:											
Delaware.....	7,173								673	5,500	
Maryland.....	7,850	25				325			600	7,000	
District of Columbia.....	4,400									4,400	
Virginia.....	6,590	60	35	450	140	200	150	700	1,615	3,280	
West Virginia.....	5,910	75		100	200	100		1,850	2,795	2,500	
North Carolina.....	6,200	50		50		200		700	5,200		
South Carolina.....	400	25		75		100		200			
Georgia.....	6,840	150		160	135	400	425	780	1,550	3,200	
Florida.....	580		30			100		450			
East South Central:											
Kentucky.....	7,325	25			200	150	200	600	6,250		
Tennessee.....	875	50						625			
Alabama.....	3,250	200	75	150	205	120			2,500		
Mississippi.....	75	75									
West South Central:											
Arkansas.....	1,235			100	60	200		200	675	1,000	
Louisiana.....	2,060			50	60				50		
Oklahoma.....	30										
Texas.....	3,695	300	463	580	763	400	130	200		1,000	
Mountain:											
Montana.....	3,018	150	143	80		300	475		1,900		
Idaho.....	1,685	125	75	50		100				1,235	
Wyoming.....	201	50	201	50							
Colorado.....	1,075			80	75	100		350	500		
New Mexico.....	105	25	30							1,050	
Arizona.....	1,375	25		50				250		2,200	
Utah.....	4,600	25		250	240	300	435	550			
Pacific:											
Washington.....	5,590	75	205	290	220	100	430	935	550	2,825	
Oregon.....	350	25	40	100	85	100					
California.....	40,669	25		50	150	200	150	300	673	39,646	
Total.....	883,682	3,825	2,833	6,050	4,245	9,000	12,901	47,254	51,965	189,157	565,151

¹ Includes capital notes and debentures and par value of preferred and common stock.

STATE BANK MEMBERSHIP

235 45

LICENSED STATE BANK MEMBERS—SUMMARY CLASSIFICATION ACCORDING TO CAPITAL STOCK, Dec. 31, 1934—Continued

[In thousands of dollars]

	Total deposits of banks with a capital stock of —										
	Total	\$25,000	\$25,000 to \$40,000	\$50,000	\$50,000 to \$100,000	\$100,000	\$100,000 to \$150,000	\$200,000 to \$500,000	\$500,000 to \$999,999	\$1,000,000 to \$4,999,999	\$5,000,000 and over
New England:											
Maine.....	37,777					2,627		7,194	5,480	13,600	
New Hampshire.....	1,178						1,178				
Massachusetts.....	301,456					5,640	1,721	58,781	17,684	216,175	1,488
Rhode Island.....	131,233									131,233	
Connecticut.....	69,458					1,541	1,202	2,753		53,963	
Middle Atlantic:											
New York.....	6,723,761	400	201	2,941	3,225	14,678	10,055	87,921	141,072	295,302	6,167,998
New Jersey.....	405,723			251		11,536	3,622	45,154	44,006	233,354	127,800
Pennsylvania.....	1,000,451	180	448	673	987	2,127	14,753	73,249	49,440	495,141	421,454
East North Central:											
Ohio.....	601,466	3,278	1,442	5,211	2,408	4,709	18,130	17,987	28,031	68,249	465,401
Indiana.....	53,140	140	363			774		4,031		27,808	
Illinois.....	544,319	2,188	613	6,201	1,377	7,517	9,710	39,248	48,726	271,363	167,996
Michigan.....	217,070	3,455	2,423	7,623	2,908	9,287	14,490	21,659	26,048	45,030	85,438
Wisconsin.....	61,378		287	1,049	265	959	1,229	9,942	11,131	36,540	
West North Central:											
Minnesota.....	6,600	2,133	2,637	655	975						
Iowa.....	87,660	1,818	1,280	4,897	836	4,867	5,183	9,832	16,601	12,353	
Missouri.....	431,468	1,826	1,074	2,453	1,188	6,949	3,652	28,691	37,185	17,743	231,789
South Dakota.....	9,997	4,390	523	670	1,878	1,614					
Nebraska.....	4,388	890	2,533			1,473					
Kansas.....	14,194	1,650	285	1,326		5,198	2,463	3,331			
South Atlantic:											
Delaware.....	60,899								7,628	52,771	
Maryland.....	82,044	855					2,496			76,078	
District of Columbia.....	68,601									68,601	
Virginia.....	71,499	743	979	5,453	1,446	1,410	1,454	6,171	14,054	40,339	
West Virginia.....	55,853	577		700	2,318	1,024		6,997	10,226	34,641	
North Carolina.....	111,494	637		516		2,759		6,343		97,739	
South Carolina.....	7,349	418		1,270	1,213			4,453			
Georgia.....	45,889	947		1,617	473	2,283	2,022	4,497	8,120	24,050	
Florida.....	7,741		423							6,850	
East South Central:											
Kentucky.....	50,452	205				2,467	1,182	1,221	4,264	41,113	
Tennessee.....	9,387	609						970	8,278		
Alabama.....	27,060	1,538	829	916	2,730		1,041			20,017	
Mississippi.....	910	616									
West South Central:											
Arkansas.....	13,300			720	685	1,160		1,510	9,198		
Louisiana.....	26,381			608	801				6,276	19,217	
Oklahoma.....	373			873							
Texas.....	26,960	1,636	2,366	4,965	4,764	4,278	800	1,617		16,925	
Mountain:											
Montana.....	28,478	1,439	1,641	480		3,598	3,565		17,716		
Idaho.....	26,171	1,381	743	434		2,288				20,326	
Wyoming.....	2,999	736	1,668	403							
Colorado.....	19,975	738		823	709	918		2,973	14,562		
New Mexico.....	20,191	153	252	428				5,756		13,916	
Arizona.....	20,191	153		384							
Utah.....	40,862	856		2,194	1,388	2,301	3,416	3,165	4,940	22,914	
Pacific:											
Washington.....	50,262	346	1,801	1,882	1,638	545	2,028	9,222	3,053	38,147	
Oregon.....	3,185	114	510	1,408	305	828					
California.....	692,053	220		871	1,482	3,606	1,103	3,311	6,867	88,743	486,051
Total.....	12,211,260	25,611,262	11,081,365,627	110,820	103,608	479,204	543,926	2,583,941	8,234,780		

1 Includes capital notes and debentures and par value of preferred and common stock.

FIDUCIARY POWERS GRANTED TO NATIONAL BANKS

Under section 11 (k) of the Federal Reserve Act as amended, the Federal Reserve Board has authorized the national banks listed below to exercise one or more fiduciary powers as follows:

- (1) Trustee.
- (2) Executor.
- (3) Administrator.
- (4) Registrar of stocks and bonds.
- (5) Guardian of estates.
- (6) Assignee.
- (7) Receiver.
- (8) Committee of estates of lunatics.
- (9) Any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

The numerals opposite the name of each bank, which refer to the list given above, indicate the power or powers it is authorized to exercise.

	Powers granted		Powers granted
DISTRICT NO. 1		DISTRICT NO. 1—Continued	
CONNECTICUT		CONNECTICUT—continued	
(See also district no. 2)			
Ansonia: Ansonia National Bank.....	1 to 9.	Willimantic: Windham National Bank.....	1 to 9.
Canaan: Canaan National Bank.....	1 to 9.	Winsted: Hurlbut National Bank....	1 to 9.
Danielson: Windham County National Bank.....	1 to 9.		
Derby: Birmingham National Bank.....	1 to 9.	MAINE	
Hartford:		Augusta: First National Granite Bank.....	1 to 9.
Capital National Bank & Trust Co.....	1 to 9.	Bangor: Merchants National Bank....	1 to 9.
First National Bank.....	1 to 9.	Bar Harbor: First National Bank....	1 to 4.
Hartford National Bank & Trust Co.....	1 to 9.	Bath:	
Meriden: Home National Bank.....	1 to 9.	Bath National Bank.....	1 to 8.
Middletown:		First National Bank.....	1 to 8.
Central National Bank.....	1 to 9.	Belfast: First National Bank.....	1 to 9.
Middletown National Bank.....	1 to 9.	Eldeford: First National Bank of Eldeford.....	1 to 9.
Mystic: Mystic River National Bank.....	1 to 9.	Camden: Camden National Bank.....	1 to 9.
Naugatuck: Naugatuck National Bank.....	1 to 9.	Danvers: First National Bank of Danvers.....	1, 2, 3, 5, and 8.
New Britain: New Britain National Bank.....	1 to 9.	Ellsworth: Liberty National Bank....	1 to 9.
New Haven:		Farmington:	
First National Bank & Trust Co.....	1 to 8.	First National Bank.....	1 to 9.
New Haven Bank, N. B. A.....	1 to 9.	Peoples National Bank.....	1 to 2, and 5.
Second National Bank.....	1 to 9.	Houlton: First National Bank.....	1 to 5, and 9.
Tradersmens National Bank.....	1 to 9.	Lewiston:	
New London:		First National Bank.....	1 to 9.
National Bank of Commerce.....	1 to 9.	Manufacturers National Bank....	1 to 5, and 9.
National Whaling Bank.....	1 to 9.	Norway: Norway National Bank....	1, 2, and 3.
New London City National Bank.....	1, 2, 3, 5, 7, 8, and 9.	Pittsfield: First National Bank.....	1 to 9.
New Milford: First National Bank.....	1 to 9.	Portland:	
Norwich: Once-Merchants National Bank.....	1 to 8.	Canal National Bank.....	1 to 9.
Putnam: Citizens National Bank.....	1 to 9.	First National Bank at Portland.....	1 to 7 and 9.
Torrington: Torrington National Bank & Trust Co.....	1 to 9.	National Bank of Commerce.....	1 to 9.
Wallingford: First National Bank....	1 to 9.	Portland National Bank.....	1 to 9.
Waterbury:		Rockland: First National Bank.....	1 to 9.
Citizens and Manufacturers National Bank.....	1 to 9.	Rumford: Rumford National Bank....	1 to 9.
Waterbury National Bank.....	1 to 9.	Saco: York National Bank.....	1 to 9.
		Skowhegan: First National Bank....	1 to 9.
		Thomaston: Thomaston National Bank.....	1 to 2, 5, 8, and 9.
		Waldoboro: Madonak National Bank.....	1 to 2, 5 to 7, and 9.
		Waterville: First National Bank....	1 to 9.

238 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

	Powers granted		Powers granted
DISTRICT NO. 1—Continued		DISTRICT NO. 1—Continued	
NEW HAMPSHIRE—continued		VERMONT—continued	
Exeter: Rockingham National Bank.....	1, 2, and 4.	St. Johnsbury:	
Franklin: Franklin National Bank.....	1, 2, 5, and 9.	First National Bank.....	1 to 6 and 9.
Hanover: Dartmouth National Bank.....	1, 2, 4, and 9.	Merchants National Bank.....	1 to 8.
Keene:		Springfield: First National Bank.....	1 to 5.
Ashuelot-Citizens National Bank.....	1 and 4.	Windsor: Windsor County National Bank.....	1 to 3, 5 to 9.
Keene National Bank.....	1 to 4.		
Laconia:		DISTRICT NO. 2	
Laconia National Bank.....	1, 2, and 4.	CONNECTICUT	
Peoples National Bank.....	1 and 4.	(See also district no. 1)	
Lancaster: Lancaster National Bank.....	1, 2, 4, and 9.	Bridgport: First National Bank & Trust Co.....	1 to 9.
Lebanon: National Bank of Lebanon.....	1, 2, 4, 6, 7, and 9.	Danbury:	
Manchester:		City National Bank & Trust Co.....	1 to 9.
Amoskeag National Bank.....	1, 2, and 4.	Danbury National Bank.....	1 to 9.
Manchester National Bank.....	1, 2, 4, and 9.	Greenwich: First National Bank in.....	1 to 9.
Merchants National Bank.....	1, 4, and 9.	New Canaan: First National Bank & Trust Co.....	1 to 9.
Milford: Souhegan National Bank.....	1 and 4.	Norwalk: National Bank of Norwalk.....	1 to 9.
Nashua:		Ridgefield: First National Bank & Trust Co.....	1 to 9.
Indian Head National Bank.....	1 to 4, 6, 7, and 9.	South Norwalk: City National Bank & Trust Co.....	1 to 9.
Second National Bank.....	1, 2, and 4.	Stamford: First Stamford National Bank & Trust Co.....	1 to 9.
Newport: Citizens National Bank.....	1, 2, 4, 6, 7, and 9.		
Peterboro: First National Bank.....	1, 4, and 9.	NEW JERSEY	
Plymouth: Pemigewasset National Bank.....	1 and 4.	(See also district no. 3)	
Portsmouth:		Allendale: First National Bank.....	1 to 9.
First National Bank.....	1, 2, 4, 6, 7, and 9.	Allenhurst: Allenhurst National Bank & Trust Co.....	1 to 9.
New Hampshire National Bank.....	1 and 9.	Alitown: Farmers National Bank & Trust Co.....	1 to 9.
Tilton: Citizens National Bank.....	1 and 2.	Asbury Park: Asbury Park National Bank & Trust Co.....	1 to 9.
Wilton: Wilton National Bank.....	1, 2, 4, 6, 7, and 9.	Atlantic Highlands: Atlantic Highlands National Bank.....	1 to 8.
Wolfeboro: Wolfeboro National Bank.....	1 and 4.	Bayonne: Mechanics' National Bank.....	1 to 9.
		Belleville: Peoples National Bank & Trust Co.....	1 to 9.
RHODE ISLAND		Bergensfield: Bergensfield National Bank & Trust Co.....	1 to 9.
Newport:		Bernardsville: Bernardsville National Bank.....	1 to 9.
Aquidneck National Bank.....	1 to 9.	Boonton: Boonton National Bank.....	1 to 9.
Newport National Bank.....	1 to 9.	Boundbrook: First National Bank.....	1 to 9.
Providence:		Butler: First National Bank.....	1 to 9.
Blackstone Canal National Bank & Trust Co.....	1 to 9.	Caldwell:	
National Bank of Commerce & Trust Co.....	1 to 9.	Caldwell National Bank.....	1 to 9.
Providence National Bank.....	1 to 9.	Citizens National Bank & Trust Co.....	1 to 8.
		Carter: First National Bank.....	1 to 9.
VERMONT		Clifton:	
Barre: Peoples National Bank.....	1 to 9.	Clifton National Bank.....	1 to 9.
Bennington:		Clister: Clister National Bank & Trust Co.....	1 to 9.
County National Bank.....	1 to 9.	Cranbury: First National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Cranford: First National Bank.....	1 to 9.
Brandon: First National Bank.....	1 to 4.	Dover: National Union Bank.....	1 to 9.
Brattleboro: Vermont Peoples National Bank.....	1 to 9.	Dunellen: First National Bank.....	1 to 9.
Burlington: Howard National Bank & Trust Co.....	1 to 8.	Elizabeth: National State Bank.....	1 to 7 and 9.
Chester: National Bank of Chester.....	1, 2, 3, and 5.	Englewood: Citizens National Bank & Trust Co.....	1 to 9.
Danville: Caledonia National Bank.....	1 to 9.	Flemington: Flemington National Bank & Trust Co.....	1 to 9.
Derby Line: National Bank of Derby Line.....	1 to 3, 5, and 9.	Freehold:	
Enosburg Falls: Enosburg Falls National Bank.....	1, 2, 3, 5, 6, and 7.	Central National Bank.....	1 to 9.
Manchester Center: Factory Point National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Middlebury: National Bank of Middlebury.....	1 to 9.	Frenchtown: Union National Bank.....	1 and 4.
Montpelier:		Glen Rock: Glen Rock National Bank.....	1 to 9.
First National Bank.....	1 to 4.	Hackensack: City National Bank & Trust Co.....	1 to 9.
Montpelier National Bank.....	1 to 9.	Hackettstown:	
The Montpelier National Bank.....	1 to 9.	Hackettstown National Bank.....	1 to 9.
Newport: National Bank of Newport.....	1 to 7 and 9.	Peoples National Bank.....	1 to 9.
Northfield: Northfield National Bank.....	1 to 9.		
Rutland:			
Central National Bank.....	1 to 7 and 9.		
Clement National Bank.....	1 to 3, 5 to 7.		
Rutland County National Bank.....	1 to 9.		
St. Albans: Welden National Bank in St. Albans.....	1 to 9.		

240 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

	Powers granted		Powers granted
DISTRICT NO. 2—Continued		DISTRICT NO. 2—Continued	
NEW YORK—continued		NEW YORK—continued	
Cooperstown:		Irvington: Irvington National Bank & Trust Co.	1 to 9.
First National Bank.....	1 to 9.	Islip: First National Bank.....	1 to 9.
Second National Bank.....	1 to 8.	Ithaca: First National Bank.....	1 to 9.
Corning: First National Bank & Trust Co.	1 to 8.	Jamestown: National Chautauque County Bank.	1 to 8.
Cortland:		Kingston:	
National Bank of Cortland.....	1 to 9.	First National Bank of Rondout.	1 to 9.
Second National Bank & Trust Co.	1 to 9.	National Ulster County Bank.....	1 to 9.
Cuba:		Rondout National Bank.....	1 to 9.
Cuba National Bank.....	1 to 9.	State of New York National Bank.	1 to 9.
First National Bank.....	1 to 9.	Liberty: Sullivan County National Bank.	1 to 9.
Delhi: Delaware National Bank.....	1 to 9.	Little Falls: Little Falls National Bank.	1 to 9.
Dolgeville: First National Bank.....	1 to 9.	Lockport: Niagara County National Bank & Trust Co.	1 to 9.
Dover Plains: Dover Plains National Bank.	1 to 9.	Lowville: Black River National Bank.	1 to 9.
Dunkirk:		Lynbrook:	
Lake Shore National Bank.....	1 to 9.	Lynbrook National Bank & Trust Co.	1 to 9.
Merchants National Bank.....	1 to 8.	Peoples National Bank & Trust Co.	1 to 9.
East Rockaway: East Rockaway National Bank & Trust Co.	1 to 9.	Malone: Farmers National Bank....	1 to 9.
Edwards: Edwards National Bank.	4.	Manhasset: First National Bank & Trust Co.	1 to 9.
Elleville: First National Bank & Trust Co.	1 to 9.	Massena: First National Bank & Trust Co.	1 to 9.
Elmira: First National Bank & Trust Co.	1 to 9.	Mattituck: Mattituck National Bank & Trust Co.	1 to 9.
Fairport: Fairport National Bank & Trust Co.	1 to 9.	Merriek: First National Bank.....	1 to 9.
Farmingdale: First National Bank.	1 to 9.	Middletown:	
Far Rockaway: National Bank of Far Rockaway.	4.	First Merchants National Bank & Trust Co.	1 to 9.
Floral Park: First National Bank & Trust Co.	1 to 9.	National Bank of Middletown....	1 to 9.
Fonda: National Mohawk River Bank.	1 to 8.	Mineola: First National Bank.....	1 to 9.
Fort Plain: Fort Plain National Bank.	1 to 9.	Monticello: National Union Bank of Monticello.	1 to 9.
Frankfort: Citizens First National Bank.	1 to 9.	Morristown: Frontier National Bank.	4.
Fredonia: National Bank of Fredonia.	1 to 9.	Mount Kisco: Mount Kisco National Bank & Trust Co.	1 to 9.
Freeport:		Mount Vernon: First National Bank.	1 to 8.
Citizens National Bank.....	1 to 9.	Newburgh:	
First National Bank & Trust Co.	1 to 9.	Highland Quassick National Bank & Trust Co.	1 to 9.
Fulton: Citizens National Bank & Trust Co.	1 to 9.	National Bank of Newburgh....	1 to 9.
Genesee: Genesee Valley National Bank & Trust Co.	1 to 9.	New Rochelle: First National Bank.	1 to 9.
Glens Falls:		New York:	
First National Bank.....	1 to 9.	Chase National Bank.....	1 to 9.
Glens Falls National Bank & Trust Co.	1 to 9.	Commercial National Bank & Trust Co.	1 to 9.
Gloversville:		Dunbar National Bank.....	1 to 9.
City National Bank & Trust Co.	1 to 9.	First National Bank.....	1 to 9.
Fulton County National Bank & Trust Co.	1 to 9.	Fort Greene National Bank.....	1 to 9.
Goshen: National Bank of Orange County.	1 to 9.	Grace National Bank.....	1 to 9.
Granville: Washington County National Bank.	1 to 8.	Kingsboro National Bank of Brooklyn in New York.	1 to 9.
Groton: First National Bank.	2 and 3.	Lafayette National Bank of Brooklyn in New York.	1 to 9.
Hampton Bays: Hampton Bays National Bank.	1 to 9.	National City Bank.....	1 to 9.
Hancock: First National Bank.	1 to 9.	National Safety Bank & Trust Co.	1 to 9.
Haverstraw: National Bank & Trust Co.	1 to 9.	Peoples National Bank of Brooklyn in New York.	1 to 9.
Hoodwick Falls: Peoples First National Bank.	1 to 9.	Public National Bank & Trust Co.	1 to 9.
Hudson:		Sterling National Bank & Trust Co.	1 to 9.
Farmers National Bank.....	1 to 9.	Northport: First National Bank & Trust Co.	1 to 9.
First National Bank & Trust Co.	1 to 9.	Norwich:	
Hudson Falls:		Chenango County National Bank & Trust Co.	1 to 8.
Peoples National Bank.....	1 to 9.	National Bank & Trust Co.....	1 to 9.
Sandy Hill National Bank.....	1 to 9.	Nyaack: Nyaack National Bank & Trust Co.	1 to 9.
Huntington: First National Bank & Trust Co.	1 to 9.		
Ilion:			
Ilion National Bank & Trust Co.	1 to 9.		
Manufacturers National Bank....	1 to 9.		

FIDUCIARY POWERS

	Powers granted		Powers granted
DISTRICT NO. 2—Continued		DISTRICT NO. 2—Continued	
NEW YORK—continued		NEW YORK—continued	
Olean:		Sidney: First National Bank in Sidney.....	1 to 9.
Exchange National Bank.....	1 to 9.	Silver Creek: Silver Creek National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Skaneateles: National Bank & Trust Co.....	1 to 9.
Oneida: Oneida Valley National Bank.....	1 to 9.	Southampton: First National Bank.....	1 to 9.
Oneonta:		Spring Valley: First National Bank.....	1 to 9.
Citizens National Bank & Trust Co.....	1 to 9.	Springville: Citizens National Bank.....	1 to 9.
Wilder National Bank.....	1 to 9.	Stamford: National Bank of Stamford.....	1 to 9.
Ossining: First National Bank & Trust Co.....	1 to 9.	Suffern: Suffern National Bank & Trust Co.....	1 to 9.
Oswego: First & Second National Bank & Trust Co.....	1 to 9.	Syracuse:	
Ovid: First National Bank.....	4.	Lincoln National Bank & Trust Co.....	1 to 9.
Owego:		Merchants National Bank & Trust Co.....	1 to 9.
First National Bank.....	1 to 9.	Tarrytown: Tarrytown National Bank.....	1 to 9, 5 to 9
Owego National Bank.....	1 to 9.	Ticonderoga: Ticonderoga National Bank.....	1 to 9.
Patchogue: Peoples National Bank.....	1 to 9.	Troy:	
Pearl River: First National Bank & Trust Co.....	1 to 9.	Manufacturers National Bank.....	1 to 9.
Peekskill:		National City Bank.....	1 to 9.
Peekskill National Bank & Trust Co.....	1 to 9.	Union National Bank.....	1 to 9.
Westchester County National Bank.....	1 to 9.	Tuckahoe: First National Bank & Trust Co.....	1 to 9.
Perry: First National Bank.....	1 to 9.	Utica: Oneida National Bank & Trust Co.....	1 to 9.
Plattsburg:		Valley Stream: Valley Stream National Bank & Trust Co.....	1 to 9.
Merchants National Bank in Plattsburg.....	1 to 9.	Walden: First National Bank & Trust Co.....	1 to 9.
Plattsburg National Bank & Trust Co.....	1 to 5, 7 to 9.	Walton: First National Bank & Trust Co.....	1 to 9.
Plattsburgh: First National Bank.....	1 to 9.	Warrensburg: Emerson National Bank.....	1 to 9.
Port Chester: First National Bank & Trust Co.....	1 to 9.	Warsaw: Wyoming County National Bank.....	1 to 9.
Port Henry: Citizens National Bank.....	1 to 9.	Warwick: First National Bank.....	1 to 9.
Port Jarvis:		Watertown:	
First National Bank.....	1 to 9.	Jefferson County National Bank.....	1 to 9.
National Bank & Trust Co. of Port Jarvis.....	1 to 9.	Watertown National Bank.....	1 to 9.
Port Richmond: Staten Island National Bank & Trust Co.....	1 to 9.	Watervliet: National Bank of Watervliet.....	1 to 9.
Port Washington: Port Washington National Bank & Trust Co.....	1 to 9.	Waverly: Citizens National Bank.....	1 to 9.
Potsdam: Citizens National Bank.....	1 to 9.	Wellsville: Citizens National Bank.....	1 to 9.
Poughkeepsie:		Westbury: Westley Hills National Bank.....	1 to 9.
Falkirk National Bank & Trust Co.....	1 to 9.	Westfield: National Bank of Westfield.....	1 to 9.
Farmers & Manufacturers National Bank.....	1 to 9.	Whitehall: Merchants National Bank.....	1 to 9.
First National Bank.....	1 to 9.	White Plains: Peoples National Bank & Trust Co.....	1 to 9.
Merchants National Bank & Trust Co.....	1 to 9.	Yonkers:	
Red Hook: First National Bank.....	1, 2, and 3.	Central National Bank.....	1 to 9.
Richfield Springs: First National Bank.....	1 to 9.	Yonkers National Bank & Trust Co.....	1 to 9.
Riverhead: Suffolk County National Bank.....	1 to 9.		
Rochester: First National Bank & Trust Co.....	1 to 9.	DISTRICT NO. 3	
Rockville Center: Nassau County National Bank.....	1 to 9.	DELAWARE	
Rome: Farmers National Bank & Trust Co.....	1 to 9.	Delmar: First National Bank.....	1 to 9.
Roscoe: First National Bank & Trust Co.....	1 to 9.	Dover: First National Bank.....	1 to 9.
Roslyn: Roslyn National Bank & Trust Co.....	1 to 9.	Harrington: First National Bank.....	1 to 9.
Rye: Rye National Bank.....	1 to 9.	Laurel: Peoples National Bank.....	1 to 9.
St. Johnsville: First National Bank.....	1 to 9.	Millford: First National Bank & Trust Co.....	1 to 9.
Saranac Lake: Adirondack National Bank & Trust Co.....	1 to 9.	Seaford: First National Bank.....	1 to 9.
Saratoga Springs: Saratoga National Bank.....	1 to 9.	Smryna:	
Saugerties: First National Bank & Trust Co.....	1 to 9.	Fruit Growers National Bank & Trust Co.....	1 to 9.
Scarsdale: Scarsdale National Bank & Trust Co.....	1 to 9.	National Bank of Smryna.....	1 to 9.
Schenectady:		Wilmington:	
Mohawk National Bank.....	1 to 9.	Central National Bank.....	1 to 9.
Union National Bank.....	1 to 9.	Union National Bank.....	1 to 9.

242 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

	Powers granted		Powers granted
DISTRICT NO. 3—Continued		DISTRICT NO. 3—Continued	
NEW JERSEY		PENNSYLVANIA	
(See also district no. 2)		(See also district no. 4)	
Abesson: First National Bank.....	1 to 9.	Allentown:	
Audubon: Audubon National Bank.....	1 to 9.	Allentown National Bank.....	1 to 9.
Barnegat: First National Bank.....	1 to 9.	Merchants National Bank.....	1 to 9.
Beach Haven: Beach Haven National Bank & Trust Co.	1 to 9.	Second National Bank.....	1 to 9.
Beverly: First National Bank & Trust Co.	1 to 9.	Altoona: First National Bank.....	1 to 9.
Blackwood: First National Bank & Trust Co.	1 to 9.	Annville: Annville National Bank.....	1 to 9.
Bordentown: First National Bank.....	1 to 9.	Ashland: The Ashland National Bank.....	1 to 9.
Bridgeton:		Ashley: First National Bank.....	1 to 9.
Bridgeton National Bank.....	1 to 9.	Atglen: Atglen National Bank.....	1 to 9.
Cumberland National Bank.....	1 to 9.	Avoos: First National Bank.....	1 to 9.
Farmers and Merchants National Bank.....	1 to 9.	Bangor: Merchants National Bank.....	1 to 9.
Burlington: Mechanics National Bank.....	1 to 9.	Bellefonte: First National Bank.....	1 to 9.
Camden:		Bellville: Kishacoquillas Valley National Bank.....	1 to 9.
American National Bank.....	1 to 9.	Berwick:	
First Camden National Bank & Trust Co.	1 to 9.	Berwick National Bank.....	1 to 9.
Third National Bank & Trust Co.	1 to 9.	First National Bank.....	1 to 9.
Cape May: Merchants National Bank.....	4.	Bethlehem:	
Collingswood: Citizens National Bank.....	1 to 9.	Bethlehem National Bank.....	1 to 9.
Elmer: First National Bank.....	1 to 9.	First National Bank & Trust Co.	1 to 9.
Glassboro: First National Bank.....	1 to 9.	Bloomsburg: Citizens National Bank & Trust Co.	1 to 9.
Haddonfield: Haddonfield National Bank.....	1 to 9.	Boyertown:	
Hightstown: First National Bank.....	1 to 9.	Farmers National Bank & Trust Co.	1 to 9.
Hopewell: Hopewell National Bank.....	1 to 9.	National Bank & Trust Co.	1 to 9.
Lakewood: Peoples National Bank in Lakewood.....	1 to 9.	Bradford: Commercial National Bank.....	1 to 9.
Medford: Burlington County National Bank.....	1 to 9.	Bridgeport: Bridgeport National Bank.....	1 to 9.
Merchantville: Merchantville National Bank & Trust Co.	1 to 9.	Bristol: Farmers National Bank of Bucks County.....	1 to 9.
Milville: Millville National Bank.....	1 to 9.	Catsasquas:	
Mount Holly: Union National Bank & Trust Co.	1 to 9.	Lehigh National Bank.....	1 to 9.
Paulsboro: First National Bank & Trust Co.	1 to 9.	National Bank of Catsasquas.....	1 to 9.
Pemberton: Peoples National Bank & Trust Co.	1 to 9.	Chambersburg:	
Penns Grove: Penns Grove National Bank & Trust Co.	1 to 9.	National Bank of Chambersburg.....	1 to 9.
Pitman: Pitman National Bank & Trust Co.	1 to 9.	Valley National Bank.....	1 to 9.
Point Pleasant Beach: Ocean County National Bank.....	1 to 9.	Chester: Delaware County National Bank.....	1 to 9.
Princeton: First National Bank.....	1 to 9.	Clearfield: County National Bank at Clearfield.....	1 to 9.
Roebling: First National Bank & Trust Co.	1 to 9.	Coatesville:	
Salem:		National Bank of Chester Valley.....	1 to 9.
City National Bank & Trust Co.	1 to 9.	National Bank of Coatesville.....	1 to 9.
Salem National Bank & Trust Co.	1 to 9.	Columbia:	
Swedesboro: Swedesboro National Bank.....	1 to 9.	Central National Bank.....	1 to 9.
Toms River: First National Bank.....	1 to 9.	First Columbia National Bank.....	1 to 9.
Trenton:		Conshohocken: First National Bank.....	1 to 9.
Broad Street National Bank.....	1 to 9.	Dallastown: First National Bank & Trust Co.	1 to 9.
First-Mechanics National Bank.....	1 to 9.	Danville:	
Prospect National Bank.....	1 to 9.	Danville National Bank.....	1 to 9.
Ventnor City: Ventnor City National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Wineland: Wineand National Bank & Trust Co.	1 to 9.	Doylestown: Doylestown National Bank & Trust Co.	1 to 9.
Wildwood: Marine National Bank.....	1 to 9.	Du Bois:	
Woodbury: First National Bank & Trust Co.	1 to 9.	Deposit National Bank.....	1 to 9.
Woodstown:		Du Bois National Bank.....	1 to 9.
First National Bank.....	1 to 9.	East Stroudsburg: Monroe County National Bank.....	1 to 9.
Woodstown National Bank & Trust Co.	1 to 9.	Easton:	
		Easton National Bank.....	1 to 9.
		First National Bank & Trust Co.	1 to 9.
		Ebensburg: First National Bank.....	1 to 9.
		Edwardsville: Peoples National Bank.....	1 to 9.
		Elizabethtown: First National Bank & Trust Co.	1 to 9.
		Emaus: Emaus National Bank.....	1 to 9.
		Ephrata:	
		Ephrata National Bank.....	1 to 9.
		Farmers National Bank.....	1 to 9.
		Gap: Gap National Bank & Trust Co.	1 to 9.
		Gettysburg:	
		First National Bank.....	1 to 9.
		Gettysburg National Bank.....	1 to 9.

	Powers granted		Powers granted
DISTRICT NO. 2—Continued		DISTRICT NO. 2—Continued	
PENNSYLVANIA—continued		PENNSYLVANIA—continued	
Greencastle: First National Bank.....	1 to 9.	Myerstown: Myerstown National Bank.....	1 to 9.
Harleysville: Harleysville National Bank.....	1 to 9.	Nanticoke:	
Harrisburg: Harrisburg National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Hatsboro: Hatsboro National Bank.....	1 to 9.	Miners National Bank.....	1 to 9.
Hatfield: Hatfield National Bank.....	1 to 9.	Nanticoke National Bank.....	1 to 9.
Hazleton:		Nazareth: Nazareth National Bank & Trust Co.....	1 to 9.
First National Bank.....	1 to 9.	New Holland: Farmers National Bank & Trust Co.....	1 to 9.
Hazelton National Bank.....	1 to 9.	Newtown: First National Bank & Trust Co.....	1 to 7 and 9.
Honesdale: Honesdale National Bank.....	1 to 9.	Newville: First National Bank.....	1 to 9.
Honeybrook: First National Bank.....	1 to 9.	Norristown:	
Hummelstown: Hummelstown National Bank.....	1 to 9.	Montgomery National Bank.....	1 to 9.
Huntingdon:		Peoples National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Northampton: Cement National Bank of Siegfried.....	1 to 9.
Union National Bank & Trust Co.....	1 to 8.	Northumberland: Northumberland National bank.....	1 to 9.
Johnstown: Moham National Bank.....	1 to 9.	Oley: First National Bank.....	1 to 9.
Kane: First National Bank.....	1 to 9.	Orwigsburg: First National Bank & Trust Co.....	1 to 9.
Kennett Square: National Bank & Trust Co. of Kennett Square.....	1 to 9.	Oxford: National Bank of Oxford.....	1 to 9.
Kingsport: Kingsport National Bank.....	1 to 9.	Palmerton: First National Bank.....	1 to 9.
Kutztown: Kutztown National Bank.....	1 to 9.	Pen Argyl: First National Bank.....	1 to 9.
Lancaster:		Philadelphia:	
Conestoga National Bank.....	1 to 9.	Central Penn National Bank.....	1 to 9.
Fulton National Bank.....	1 to 9.	City National Bank.....	1 to 9.
Lancaster County National Bank & Trust Co.....	1 to 9.	Corn Exchange National Bank & Trust Co.....	1 to 9.
Langhorne: Peoples National Bank.....	1 to 9.	Erie National Bank.....	1 to 9.
Lansdale: First National Bank.....	1 to 9.	Erie National Bank.....	1 to 9.
Lansdowne: National Bank of Lansdowne.....	1 to 9.	Kensington National Bank.....	1 to 2, 5 & 9.
Lebanon:		Market Street National Bank.....	1 to 9.
First National Bank.....	1 to 9.	National Bank of Germantown & Trust Co.....	1 to 8.
Lebanon National Bank.....	1 to 9.	North Broad National Bank.....	1 to 9.
Peoples National Bank.....	1 to 9.	Northeast National Bank.....	1 to 9.
Lehigh:		Philadelphia National Bank.....	1 to 9.
Citizens National Bank & Trust Co.....	1 to 9.	Second National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Tioga National Bank & Trust Co.....	1 to 9.
Lewisburg:		Traders National Bank & Trust Co.....	1 to 9.
Lewisburg National Bank.....	1 to 9.	Phillipsburg: First National Bank.....	1 to 9.
Union National Bank.....	1 to 9.	Phoenixville: Farmers and Mechanics National Bank.....	1 to 9.
Lewistown:		Pine Grove: Pine Grove National Bank & Trust Co.....	1 to 9.
Citizens National Bank.....	1 to 9.	Pittston:	
Mifflin County National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Russell National Bank.....	1 to 9.	Liberty National Bank.....	1 to 9.
Lititz: Farmers National Bank.....	1 to 9.	Plymouth: First National Bank.....	1 to 9.
Littlestown: Littlestown National Bank.....	1 to 9.	Port Allegany: First National Bank.....	1 to 9.
Lock Haven: First National Bank.....	1 to 9.	Potstown:	
Lozanser: Luzerne National Bank.....	1 to 9.	Citizens National Bank & Trust Co.....	1 to 9.
Mahanoy City:		National Bank of Potstown.....	1 to 9.
First National Bank.....	1 to 9.	National Iron Bank.....	1 to 9.
Union National Bank.....	1 to 8.	Pottsville:	
Malvern: National Bank of Malvern.....	1 to 9.	Miners National Bank.....	1 to 9.
Keystone National Bank.....	1 to 9.	Pennsylvania National Bank & Trust Co.....	1 to 9.
Manheim National Bank.....	1 to 9.	Red Lion:	
Mauch Chunk: Mauch Chunk National Bank.....	1 to 9.	Farmers & Merchants National Bank.....	1 to 9.
Mechanicsburg: Second National Bank.....	1 to 9.	First National Bank & Trust Co.....	1 to 9.
Media: First National Bank.....	1 to 9.	Ridgway: Ridgway National Bank.....	1 to 9.
Millheim: Farmers National Bank & Trust Co.....	1 to 9.	Sayre: First National Bank.....	1 to 9.
Milton: First Milton National Bank.....	1 to 9.	Schuylkill Haven: First National Bank & Trust Co.....	1 to 9.
Montoursville: First National Bank.....	1 to 9.	Schwankaville: National Bank & Trust Co.....	1 to 9.
Montrose: First and Farmers National Bank & Trust Co.....	1 to 9.	Scranton:	
Mount Carmel:		First National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Third National Bank & Trust Co.....	1 to 9.
Union National Bank.....	1 to 9.	Selinsgrove: First National Bank.....	1 to 9.
Mount Joy:		Shamokin:	
First National Bank & Trust Co.....	1 to 9.	Market Street National Bank.....	1 to 9.
Union National Mount Joy Bank.....	1 to 9.	National Dime Bank of Shamokin.....	1 to 9.
Mountville: Mountville National Bank.....	1 to 4.		

	Powers granted		Powers granted
DISTRICT NO. 3—Continued		DISTRICT NO. 4—Continued	
PENNSYLVANIA—continued		KENTUCKY—continued	
Shenandoah:		Georgetown:	
Merchants National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Miners National Bank.....	1 to 9.	Georgetown National Bank.....	1 to 5, 7 to 9.
Shickshinny: First National Bank...	1 to 3, 5 to 8.	Harlan: Harlan National Bank.....	1 to 5, 7 to 9.
Shippensburg:		Lexington: First National Bank & Trust Co.	1 to 9.
First National Bank.....	1 to 9.	Ludlow: First National Bank.....	1 to 9.
Peoples National Bank.....	1 to 9.	Middlesboro: National Bank of Middlesboro.	1 to 5, 7 to 9.
Smethport: Grange National Bank of McKean County.	1 to 9.	Mount Sterling:	
Souderton: Union National Bank & Trust Co.	1 to 9.	Montgomery National Bank....	1 to 8.
Spring City: National Bank & Trust Co.	1 to 9.	Mount Sterling National Bank...	1 to 9.
State College:		Traders National Bank.....	1 to 5, 7 to 9.
First National Bank.....	1 to 9.	Newport:	
Peoples National Bank.....	1 to 9.	American National Bank.....	1 to 5, 7 to 9.
Stroudsburg: First Stroudsburg National Bank.	1 to 9.	Newport National Bank.....	1 to 5, 7 to 9.
Sunbury: First National Bank.....	1 to 9.	Paintsville: Second National Bank.	1 to 8.
Swarthmore: Swarthmore National Bank & Trust Co.	1 to 9.	Paris: National Bank & Trust Co....	1 to 9.
Tamaqua:		Pikeville: First National Bank.....	1 to 8.
First National Bank.....	1 to 9.	Richmond: Madison Southern National Bank & Trust Co.	1 to 9.
Tamaqua National Bank.....	1 to 9.	Saylesville: Saylesville National Bank.	2 to 8.
Tioga: Grange National Bank.....	1 to 4.	Somerset:	
Topcon: National Bank of Topcon....	1 to 9.	Farmers National Bank.....	1 to 5, 7 to 9.
Towards: Citizens National Bank....	1 to 9.	First National Bank.....	1 to 4.
Tyone: First Blair County National Bank.	1 to 9.	Williamsburg: First National Bank.	1 to 4.
Watsonstown: Farmers National Bank.	1 to 9.	Winchester: Clark County National Bank.	1 to 5, 7 to 9.
Waynesboro:		OHIO	
Citizens National Bank & Trust Co.	1 to 9.	Alliance: Alliance First National...	1 to 9.
First National Bank & Trust Co.	1 to 9.	Ashtabula:	
Weatherly: First National Bank.....	1 to 9.	Farmers National Bank & Trust Co.	1 to 9.
Wernersville: Wernersville National Bank & Trust Co.	1 to 9.	National Bank of Ashtabula.....	1 to 7 and 9.
West Chester:		Athens:	
First National Bank.....	1 to 9.	Athens National Bank.....	1 to 7 and 9.
National Bank of Chester County & Trust Co.	1 to 9.	Bank of Athens, N. B. A.....	1 to 7 and 9.
West Grove: National Bank & Trust Co.	1 to 9.	Canton: First National Bank.....	1 to 7 and 9.
Wilkes-Barre:		Cincinnati:	
Miners National Bank.....	1 to 9.	Atlas National Bank.....	1 to 9.
Second National Bank.....	1 to 9.	First National Bank.....	1 to 7 and 9.
Wyoming National Bank.....	1 to 9.	Lincoln National Bank.....	1 to 9.
Williamsport:		Second National Bank.....	1 to 7 and 9.
First National Bank.....	1 to 9.	Circleville: First National Bank....	1 to 7 and 9.
Williamsport National Bank.....	1 to 9.	Cleveland:	
Wrightsville: First National Bank....	1 to 9.	Central United National Bank...	1 to 7 and 9.
York:		National City Bank.....	1 to 7 and 9.
Central National Bank & Trust Co.	1 to 9.	Columbus:	
Drovers and Merchants National Bank.	1 to 9.	City National Bank & Trust Co.	1 to 7 and 9.
First National Bank.....	1 to 9.	Huntington National Bank.....	1 to 7 and 9.
Industrial National Bank of West York.	1 to 9.	Ohio National Bank.....	1 to 7 and 9.
Western National Bank.....	1 to 9.	Coshocton: Commercial National Bank.	1 to 7 and 9.
York County National Bank.....	1 to 9.	Dayton:	
York National Bank & Trust Co.	1 to 9.	Merchants National Bank & Trust Co.	1 to 9.
DISTRICT NO. 4		Third National Bank & Trust Co.	1 to 7 and 9.
KENTUCKY		Winters National Bank & Trust Co.	1 to 9.
(See also district no. 5)		East Liverpool: First National Bank.	1 to 7 and 9.
Ashland:		Findlay: First National Bank & Trust Co.	1 to 7 and 9.
Second National Bank.....	1 to 5, 7 to 9.	Greenville: Second National Bank...	1 to 7 and 9.
Third National Bank.....	1 to 5, 7 to 9.	Hamilton:	
Brooksville: First National Bank....	1 to 5 and 8.	First National Bank & Trust Co.	1 to 7 and 9.
Covington: First National Bank & Trust Co.	1 to 9.	Second National Bank.....	1 to 8.
Cynthiana:		Hillsboro: Merchants National Bank.	1 to 7 and 9.
Farmers National Bank.....	1 to 9.	Lancaster: Fairbild National Bank.	1 to 7 and 9.
National Bank of Cynthiana.....	1 to 5, 7 to 9.	Lebanon: Lebanon-Citizens National Bank.	1 to 7 and 9.
		Lima: National Bank of Lima.....	1 to 7 and 9.
		Mansfield:	
		Citizens National Bank & Trust Co.	1 to 4 and 9.
		Mansfield Savings Trust National Bank.	1 to 7 and 9.

	Powers granted		Powers granted
DISTRICT NO. 4—Continued		DISTRICT NO. 4—Continued	
OHIO—continued		PENNSYLVANIA—continued	
Marietta: Citizens National Bank . . .	1 to 7 and 9.	Monsess: Peoples National Bank & Trust Co.	1 to 8.
Marion: National City Bank & Trust Co.	1 to 7 and 9.	Monongahela City: First National Bank	1 to 8, 5 to 8.
Massillon: First National Bank in Massillon	4.	New Bethlehem: First National Bank	1 to 9.
Mount Vernon: The Knox National Bank	1 to 7 and 9.	New Brighton: Union National Bank	1 to 9.
Newark: Park National Bank	1 to 7 and 9.	New Castle: Citizens National Bank	1 to 9.
New Philadelphia: Citizens National Bank	1 to 7 and 9.	First National Bank of Lawrence County	1 to 9.
Piqua: Citizens National Bank & Trust Co.	1 to 9.	New Kensington: First National Bank	1 to 8.
Piqua National Bank & Trust Co.	1 to 7 and 9.	Logan National Bank & Trust Co.	1 to 7.
Portsmouth: Security Central National Bank	1 to 7 and 9.	Oakmont: First National Bank	1.
Ravenna: Second National Bank	1, 4, and 9.	Oil City: First National Bank	1 to 9.
Sandusky: Third National Exchange Bank	1 to 9.	Oil City National Bank	1 to 9.
Springfield: First National Bank & Trust Co.	1 to 9.	Pittsburgh: Farmers' Deposit National Bank	4 and 9.
Steubenville: National Exchange Bank & Trust Co.	1 to 7 and 9.	First National Bank	1 to 9.
Peoples National Bank	1 to 7 and 9.	Forbes National Bank	1 to 9.
Tiffin: Commercial National Bank	1 to 7 and 9.	Mellon National Bank	1 to 9.
Tiffin National Bank	1 to 7 and 9.	Union National Bank	1 to 9.
Toledo: National Bank of Toledo	1 to 7 and 9.	Punxsutawney: Punxsutawney National Bank	1 to 9.
Troy: First Troy National Bank & Trust Co.	1 to 7 and 9.	Reynoldsville: First National Bank	1 to 9.
Warren: Second National Bank	1 to 9.	Sharon: First National Bank in Sharon	1 to 9.
Wilmington: Clinton County National Bank & Trust Co.	1 to 7 and 9.	McDowell National Bank	1 to 8.
Wooster: Wayne County National Bank	1 to 9.	Merchants and Manufacturers National Bank	1 to 9.
Youngstown: Mahoning National Bank	1 to 9.	Titusville: Second National Bank	1 to 9.
Union National Bank	1 to 7 and 9.	Uniontown: Second National Bank	1 to 9.
Zanesville: Citizens National Bank in Zanesville	1 to 7 and 9.	Warren: Warren National Bank	1 to 9.
First National Bank	1, 4 and 9.	Washington: Citizens National Bank	1 to 3, 5 to 7, and 9.
PENNSYLVANIA		Waynesburg: First National Bank & Trust Co.	
(See also district no. 3)		Union National Bank	
Arnold: National Deposit Bank of Arnold	1 to 9.	WEST VIRGINIA	
Braddock: Braddock National Bank	1 to 9.	(See also district no. 5)	
Butler: Butler County National Bank & Trust Co.	1 to 9.	Elm Grove: First National Bank	1 to 9.
Charleroi: National Bank of Charleroi & Trust Co.	1 to 9.	Sistersville: Union National Bank	1 to 9.
Connellsville: National Bank & Trust Co. of Connellsville	1 to 9.	Wheeling: National Bank of West Virginia	1 to 9.
Erie: First National Bank	1 to 9.	National Exchange Bank	1 to 9.
Marine National Bank	1 to 9.	DISTRICT NO. 5	
National Bank & Trust Co.	1 to 9.	DISTRICT OF COLUMBIA	
Franklin: Lambert National Bank	1 to 9.	Washington: Franklin National Bank	1 to 8.
Greensburg: First National Bank in Greensburg	1 to 9.	Hamilton National Bank	1 to 8.
Greenville: First National Bank	1 to 9.	Liberty National Bank	1 to 8.
Greenville National Bank	1 to 9.	Lincoln National Bank	1 to 8.
Grove City: First National Bank	1 to 9.	National Bank of Washington	1 to 8.
Grove City National Bank	1 to 9.	National Metropolitan Bank	1 to 8.
Knox: Clarion County National Bank of Edenburg	1 to 9.	Riggs National Bank	1 to 8.
Leesburg: First National Bank	1 to 9.	Second National Bank	1 to 8.
McKeesport: First National Bank	1 to 9.	MARYLAND	
Meadville: First National Bank	1 to 5, 7 to 9.	Baltimore: Baltimore National Bank	1 to 9.
Merchants National Bank & Trust Co.	1 to 9.	First National Bank	1 to 9.
Meyersdale: Citizens National Bank	1 to 9.	Western National Bank	1 to 9.
		Cumberland: First National Bank	1 to 9.
		Second National Bank	1 to 9.
		Denton: Denton National Bank	1 to 9.
		Easton: Easton National Bank	1 to 9.
		Frederick: Farmers & Mechanics National Bank	1 to 9.

246 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

	Powers granted		Powers granted
DISTRICT NO. 5—Continued		DISTRICT NO. 5—Continued	
MARYLAND—continued		VIRGINIA—continued	
Hagerstown:		Covington:	
Nicodemus National Bank.....	1 to 9.	Citizens National Bank.....	1 to 9.
Second National Bank.....	1 to 9.	Covington National Bank.....	1 to 4.
Pocomoke City: Citizens National Bank.....	1 to 9.	Culpeper: Second National Bank.....	1 to 9.
Rising Sun: National Bank of Rising Sun.....	1 to 9.	Danville:	
Rockville: Montgomery County National Bank.....	1 to 3.	American National Bank & Trust Co.....	1 to 9.
Salisbury: Salisbury National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Snow Hill: First National Bank.....	1 to 9.	Emporia:	
Towson: Towson National Bank.....	1 to 9.	Citizens National Bank.....	1 to 9.
Westminster:		First National Bank.....	1 to 9.
Farmers & Mechanics National Bank.....	1 to 9.	Fairfax: National Bank of Fairfax.....	1 to 9.
First National Bank.....	1 to 9.	Farmville:	
Williamsport: Washington County National Bank.....	1 to 9.	First National Bank.....	1 to 9.
		Peoples National Bank.....	1 to 9.
		Fredericksburg: Planters National Bank in Fredericksburg.....	1 to 9.
NORTH CAROLINA		Hampton: Merchants National Bank.....	1 to 9.
Asheboro: First National Bank.....	1 to 9.	Harrisonburg:	
Asheville: First National Bank & Trust Co. in Asheville.....	1 to 9.	First National Bank.....	1 to 9.
Charlotte:		National Bank of Harrisonburg.....	1 to 9.
Charlotte National Bank.....	1 to 9.	Rockingham National Bank.....	1 to 9.
Commercial National Bank.....	1 to 9.	Leeburg:	
Union National Bank.....	1 to 9.	Loudoun National Bank.....	1 to 9.
Concord: Concord National Bank.....	1 to 9.	Peoples National Bank.....	1 to 9.
Elizabeth City: First & Citizens National Bank.....	1 to 9.	Lexington:	
Gastonia: First National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Graham: National Bank of Alamance.....	1 to 9.	Peoples National Bank.....	1 to 9.
Greensboro: Security National Bank.....	1 to 9.	Rockbridge National Bank.....	1 to 9.
Lenoir: Union National Bank.....	1 to 9.	Lovington: First National Bank of Nelson County.....	1 to 9.
Lumberton: National Bank of Lumberton.....	1 to 9.	Lynchburg:	
Mooresville: First National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Morganton: First National Bank.....	1 to 9.	Lynchburg National Bank & Trust Co.....	1 to 9.
Mount Airy: First National Bank.....	1 to 9.	Marion: Marion National Bank.....	1 to 9.
Reidsville: First National Bank.....	1 to 9.	Marshall: Marshall National Bank & Trust Co.....	1 to 9.
Rocky Mount: Planters National Bank & Trust Co.....	1 to 9.	Martinsville: First National Bank.....	1 to 9.
Salisbury: First National Bank.....	1 to 9.	Narrows: First National Bank.....	1 to 9.
Thomasville: First National Bank.....	1 to 9.	Newport News: First National Bank.....	1 to 9.
Wadesboro: First National Bank.....	1 to 9.	Norfolk:	
		National Bank of Commerce.....	1 to 9.
		Seaboard Citizens National Bank.....	1 to 9.
		Norton: First National Bank.....	1 to 9.
		Orange:	
SOUTH CAROLINA		Citizens National Bank.....	1 to 9.
Anderson: Carolina National Bank.....	1 to 9.	National Bank of Orange.....	1 to 9.
Camden: First National Bank.....	1 to 9.	Petersburg: Citizens National Bank.....	1 to 9.
Charleston: South Carolina National Bank.....	1 to 9.	Phoenix: Old Point National Bank.....	1 to 9.
Chester: Peoples National Bank.....	1 to 9.	Portsmouth: American National Bank.....	1.
Gaffney: Merchants & Planters National Bank.....	1 to 9.	Pulaski:	
Greenville:		Peoples National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Pulaski National Bank.....	1 to 9.
Peoples National Bank.....	1 to 9.	Radford: First and Merchants National Bank.....	1 to 9.
Holly Hill: First National Bank.....	1 to 3, 5 to 9.	Richmond:	
Rock Hill: Peoples National Bank.....	1 to 9.	Central National Bank.....	1 to 9.
Sumter: National Bank of South Carolina.....	1 to 9.	First & Merchants National Bank.....	1 to 9.
		Roanoke:	
VIRGINIA		Colonial American National Bank.....	1 to 9.
Abingdon: First National Bank.....	1 to 9.	First National Exchange Bank.....	1 to 9.
Alexandria:		Rocky Mount: Peoples National Bank.....	1 to 9.
Alexandria National Bank.....	1 to 9.	Salem: Farmers National Bank.....	1 to 9.
Citizens National Bank.....	1 to 9.	Stanley: Farmers & Merchants National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Staunton:	
Appalachia: First National Bank.....	1 to 9.	Augusta National Bank.....	1 to 9.
Bedford: Peoples National Bank.....	1 to 9.	National Vay Bank.....	1 to 9.
Blacksburg: First National Bank.....	1 to 9.	Staunton National Bank & Trust Co.....	1 to 9.
Bristol: Dominion National Bank.....	1 to 9.	Strasburg:	
Charlottesville:		First National Bank.....	1 to 9.
National Bank & Trust Co. at Charlottesville.....	1 to 9.	Massanutten National Bank.....	1 to 9.
Peoples National Bank.....	1 to 9.	Suffolk: National Bank of Suffolk.....	1 to 9.
Clifton Forge: First National Bank.....	1 to 6 and 9.		

	Powers granted		Powers granted
DISTRICT NO. 5—Continued		DISTRICT NO. 6—Continued	
VIRGINIA—continued		ALABAMA—continued	
Warrenton: Fauquier National Bank	1 to 9.	Tallahade: Isbell National Bank	1 to 2, 5 to 7 and 9.
Waynesboro: First National Bank	1 to 9.	Tallahade: Talladege National Bank	1 to 9.
Winchester: Farmers & Merchants National Bank & Trust Co.	1 to 9.	Troy: First Farmers & Merchants National Bank	1 to 7 and 9.
Shenandoah Valley National Bank	1 to 9.	Tuscaloosa: City National Bank	1 to 5.
Wytheville: First National Farmers Bank	1 to 9.	Tuscaloosa: First National Bank	1 to 8.
WEST VIRGINIA		Wetumpka: First National Bank	1 to 9.
(See also district no. 4)		FLORIDA	
Beckley: Beckley National Bank	1 to 9.	Bradenton: First National Bank	1 to 4.
Bluefield: First National Bank	1 to 9.	Daytona Beach: First Atlantic National Bank	1 to 9.
Bluefield: First Pop National Bank	1 to 9.	De Funiak Springs: First National Bank	1 to 8.
Charleston: Charleston National Bank	1 to 9.	Jacksonville: Atlantic National Bank	1 to 9.
Charleston: National Bank of Commerce	1 to 9.	Jacksonville: Barnett National Bank	1 to 9.
Charleston: Empire National Bank	1 to 9.	Jacksonville: Florida National Bank	1 to 9.
Charleston: Merchants National Bank	1 to 9.	Lake City: First National Bank	1 to 9.
Charleston: Union National Bank	1 to 9.	Miami: First National Bank	1 to 9.
Grafton: First National Bank	1 to 9.	Miami: Florida National Bank & Trust Co. at Miami	1 to 9.
Huntington: First Huntington National Bank	1 to 9.	Miami Beach: Miami Beach First National Bank	1 to 9.
Madison: Boone National Bank	1 to 4.	Ocala: Munroe & Chambliss National Bank	1 to 9.
Martinsburg: Old National Bank	1 to 9.	Orlando: First National Bank at Orlando	1 to 9.
Montgomery: Montgomery National Bank	1 to 9.	Palm Beach: First National Bank in Palm Beach	1 to 9.
Moorfield: South Branch Valley National Bank	1 to 3, 5 to 9.	Pensacola: Citizens & Peoples National Bank	1 to 9.
Parkersburg: Parkersburg National Bank	1 to 9.	St. Augustine: St. Augustine National Bank	1 to 9.
St. Marys: First National Bank	1 to 9.	Sanford: Sanford Atlantic National Bank	1 to 9.
Welch: McDowell County National Bank in Welch	1 to 9.	Sarasota: Palmer National Bank & Trust Co.	1 to 3, 5 to 7 and 9.
Williamson: First National Bank	1 to 9.	Tampa: Exchange National Bank	1 to 9.
Williamson: National Bank of Commerce	1 to 9.	Tampa: First National Bank	1 to 8.
DISTRICT NO. 6		Winter Haven: Exchange National Bank	1 to 9.
ALABAMA		GEORGIA	
Albertville: Albertville National Bank	1 to 9.	Albany: City National Bank	1 to 9.
Anniston: Anniston National Bank	1 to 7 and 9.	Athens: National Bank of Athens	1 to 4.
Anniston: Commercial National Bank	1 to 5, 7, and 9.	Atlanta: First National Bank	1 to 9.
Anniston: First National Bank	1 to 8.	Fulton: National Bank	1 to 9.
Birmingham: First National Bank	1 to 9.	Augusta: National Exchange Bank	1 to 9.
Chilman: Leath National Bank	1 to 4.	Birmingham: First National Bank	1 to 8.
Decatur: Morgan County National Bank	1, 2, 3, and 5.	Brunswick: National Bank of Brunswick	1 to 9.
Decatur: First National Bank	1 to 8.	Cartersville: First National Bank	1 to 9.
Decatur: First National Bank	1 to 9.	Columbus: First National Bank	1 to 9.
Florence: First National Bank	1 to 8.	Columbus: Fourth National Bank	1 to 9.
Fort Payne: First National Bank	1.	Dalton: First National Bank	1 to 5.
Greenville: First National Bank	1 to 9.	La Grange: La Grange National Bank	1 to 8.
Mobile: American National Bank & Trust Co.	1 to 9.	Louisville: First National Bank	1 to 9.
Mobile: First National Bank	1 to 9.	Macon: First National Bank & Trust Co.	1 to 9.
Mobile: Merchants National Bank	1 to 9.	Moultrie: Moultrie National Bank	1 to 9.
Montgomery: Alabama National Bank	1 to 9.	Quitman: Peoples-First National Bank	1 to 8.
Montgomery: First National Bank	1 to 9.	Rome: First National Bank	1 to 9.
Oneonta: First National Bank	1 to 3, 5 to 9.	Rome: National City Bank	1 to 9.
Opelika: Farmers National Bank	1 to 9.	Savannah: Citizens & Southern National Bank	1 to 9.
Opelika: First National Bank	1 to 7.	Savannah: Liberty National Bank & Trust Co.	1 to 9.
Opp: First National Bank	1 to 9.		
Piedmont: First National Bank	1 to 3.		
Selma: City National Bank	1 to 8.		
Sylacauga: Merchants & Planters National Bank	1 to 9.		

248 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

	Powers granted		Powers granted
DISTRICT NO. 6—Continued		DISTRICT NO. 7—Continued	
LOUISIANA		ILLINOIS—continued	
(See also district no. 11)			
Baton Rouge:		Batavia:	
City National Bank.....	1 to 9.	Batavia National Bank.....	1 to 9.
Louisiana National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Grtna: First National Bank of	1 to 9.	Belvidere: Second National Bank.....	1 to 9.
Jefferson Parish at Gretna.		Blue Island: First National Bank.....	1 to 9.
La Fayette: First National Bank.....	1 to 9.	Charleston: Charleston National	1, 2, 3, 6,
Lake Charles: First National Bank.....	1 to 9.	Bank.	and 8.
New Orleans:		Chicago:	
Hibernia National Bank in New	1 to 9.	American National Bank &	1 to 9.
Orleans.		Trust Co.	
National Bank of Commerce.....	1 to 9.	City National Bank & Trust Co.	1 to 9.
Whitney National Bank.....	1 to 9.	Continental Illinois National	1 to 9.
MISSISSIPPI		Bank & Trust Co.	
(See also district no. 8)		Continental National Bank &	1 to 9.
Biloxi: First National Bank.....	1 to 5.	Trust Co.	
Canton: First National Bank.....	1 to 4.	First National Bank.....	1 to 9.
Eatonsburg: First National Bank.....	1 to 9.	First National Bank of Engle-	1 to 4.
Jackson:		wood.	
Capital National Bank in Jack-	1 to 9.	Lawndale National Bank.....	1 to 9.
son.		Liberty National Bank.....	1 to 9.
Jackson State National Bank.....	1 to 7 and 9.	Live Stock National Bank.....	1 to 9.
Laurel:		Mutual National Bank.....	1 to 9.
Commercial National Bank &	1 to 9.	National Builders Bank.....	1 to 9.
Trust Co.		Terminal National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Chillicothe: First National Bank.....	1 to 9.
McComb City: First National Bank.....	1 to 3 and 5.	Cicero: First National Bank.....	1, 2, 3, 5,
Meridian: Citizens National Bank.....	1 to 9.	and 8.	
Vicksburg:		Danville:	
First National Bank & Trust Co.	1 to 9.	First National Bank.....	1 to 9.
Merchants National Bank &	1 to 9.	Palmer American National Bank.	1 to 9.
Trust Co.		Second National Bank.....	1 to 9.
Yazoo City: Delta National Bank.....	1 to 9.	Decatur:	
TENNESSEE		Citizens National Bank.....	1 to 9.
(See also district no. 8)		National Bank of Decatur.....	1 to 9.
Chattanooga:		Des Plaines: First National Bank.....	1 to 9.
Commercial National Bank.....	1 to 9.	Dixon: Dixon National Bank.....	1 to 9.
Hamilton National Bank.....	1 to 9.	Dundee: First National Bank.....	1 to 9.
Clarksville: First National Bank.....	1.	Elgin: First National Bank.....	1 to 9.
Copperhead: First National Bank of	1 to 3, 5 to 8.	El Paso: Woodford County	1 to 9.
Folk County.		National Bank.	
Decherd: First National Bank of	1, 3 to 9.	Evanston: First National Bank &	1 to 9.
Franklin County.		Trust Co.	
Gallatin: First & Peoples National	1 to 9.	Galesburg: First Galesburg National	1 to 9.
Bank.		Bank & Trust Co.	
Greenville: First National Bank.....	1 to 9.	Havana: Havana National Bank.....	1 to 9.
Kingsport: First National Bank.....	1 to 7 and 9.	Kankakee: City National Bank.....	1 to 4.
Knoxville:		Knoxville: Farmers National Bank.....	1 to 9.
Hamilton National Bank.....	1 to 9.	Lake Forest: First National Bank.....	1 to 9.
Park National Bank.....	1 to 8.	La Salle: La Salle National Bank	1 to 9.
Lewisburg: First National Bank.....	1 to 8.	& Trust Co.	
Nashville:		Macomb: Union National Bank.....	1 to 9.
American National Bank.....	1 to 9.	Mattoon: National Bank of Mattoon.	1 to 9.
Broadway National Bank.....	1 to 7 and 9.	Moline: Moline National Bank.....	1 to 9.
Third National Bank.....	1 to 9.	Monticello: National Bank of Mon-	1 to 9.
Shelbyville: Peoples National Bank.	1 to 3, 5 to 9.	ticello.	
South Pittsburg: First National	1 to 9.	Ottawa: First National Bank.....	1 to 9.
Bank.		Paris:	
Springfield: First National Bank.....	2, 3, 5 to 7,	Citizens National Bank.....	1 to 9.
and 9.		Edgar County National Bank.....	1 to 9.
Tullahoma: Traders National Bank.	1 to 9.	Pekin: American National Bank.....	1 to 9.
Winchester: Farmers National Bank.	1 to 3, 5 to 9.	Peoria:	
DISTRICT NO. 7		Central National Bank & Trust	1 to 9.
ILLINOIS		Co.	
(See also district no. 8)		Commercial Merchants National	1 to 9.
Aurora:		Bank & Trust Co.	
Merchants National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Old Second National Bank.....	1 to 9.	Princeton: Citizens National Bank.....	1 to 3, 5 to 8.
		Rockford:	
		Illinois National Bank & Trust	1 to 9.
		Co.	
		Swedish-American National	1 to 9.
		Bank.	
		Third National Bank.....	1 to 9.
		St. Charles: St. Charles National	1 to 9.
		Bank.	
		Springfield:	
		First National Bank.....	1 to 9.
		Hinds National Bank.....	1 to 9.
		Streator: Union National Bank.....	1 to 9.
		Sycamore: National Bank & Trust	1 to 9.
		Co.	
		Waukegan: First National Bank.....	1 to 9.

	Powers granted		Powers granted
DISTRICT NO. 7—Continued		DISTRICT NO. 7—Continued	
INDIANA		INDIANA—continued	
(See also district no. 8)			
Albion: Albion National Bank.....	2, 3, 5, and 8.	South Bend: Merchants National Bank.....	1 to 9.
Attica: Central National Bank & Trust Co.....	1 to 9.	Terre Haute: Merchants National Bank.....	1, 2, 3, 5, and 8.
Auburn: City National Bank.....	1 to 9.	Terre Haute First National Bank.....	1 to 9.
Aurora: First National Bank.....	1 to 9.	Thornstown: Home National Bank.....	1 to 8.
Batesville: First National Bank.....	1 to 9.	Tipton: Citizens National Bank.....	1 to 9.
Bloomington: Bloomington National Bank.....	1 to 9.	Wabash: First National Bank in Wabash.....	1 to 9.
First National Bank.....	1 to 7 and 9.	IOWA	
Huffman: Old First National Bank.....	1 to 9.	Akron: First National Bank.....	1 to 9.
Brasil: Riddell National Bank.....	1 to 9.	Arlington: American National Bank.....	1 to 9.
Brookville: Franklin County National Bank.....	1 to 4.	Amelia: First National Bank.....	1 to 9.
National Brookville Bank.....	1 to 9.	Bloom: Citizens National Bank.....	1 to 3 and 8.
Cloverdale: First National Bank.....	1 to 9.	Cedar Rapids: Merchants National Bank.....	1 to 4.
Columbus: First National Bank.....	1 to 9.	Charles City: Citizens National Bank.....	1 to 9.
Crawfordsville: Citizens National Bank.....	1 to 4.	Commercial National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Charter Oak: First National Bank.....	1, 2, 3, and 5.
Dana: First National Bank.....	1 to 3.	Clinton: City National Bank.....	1 to 9.
Danville: First National Bank.....	1 to 9.	Columbus Junction: Louis County National Bank.....	1, 2, 9, and 8.
Dyer: First National Bank.....	1 to 4.	Council Bluffs: City National Bank.....	1 to 8.
East Chicago: First National Bank in East Chicago.....	1 to 9.	Creston: First National Bank.....	1 to 9.
Union National Bank of Indiana Harbor at East Chicago.....	1 to 9.	Des Moines: Central National Bank & Trust Co.....	1 to 9.
Elkhart: First National Bank.....	1 to 9.	Iowa-Des Moines National Bank & Trust Co.....	1 to 9.
Elwood: First National Bank.....	1 to 8.	Dubuque: First National Bank.....	1 to 9.
Fort Wayne: Fort Wayne National Bank.....	1 to 9.	Dysart: Dysart National Bank.....	1 to 9.
Lincoln National Bank & Trust Co.....	1 to 9.	Eldon: First National Bank.....	1 to 9.
Franklin: Johnson County National Bank.....	1, 2, 3, 5, and 8.	Fairfield: First National Bank in Fairfield.....	1 to 9.
Goshen: First National Bank.....	1 to 3, 5 and 7.	Fonda: First National Bank.....	1 to 4.
Indianapolis: American National Bank.....	1 to 9.	Fort Dodge: Fort Dodge National Bank.....	1 to 8.
Indiana National Bank.....	1 to 9.	Gradbrook: First National Bank.....	1 to 9.
Merchants National Bank.....	1 to 9.	Grinnell: Poweshiek County National Bank.....	1 to 9.
Knights-town: Citizens National Bank.....	1 to 3, 5 to 7, and 9.	Harian: Harlan National Bank.....	1 to 8.
La Fayette: First-Merchants National Bank.....	1 to 8.	Iowa City: First Capital National Bank.....	1 to 9.
La Porte: First National Bank & Trust Co.....	1 to 9.	Keokuk: Keokuk National Bank.....	1 to 9.
Liberty: Union County National Bank.....	1 to 9.	Knoxville: Community National Bank & Trust Co.....	1 to 9.
Logansport: National Bank of Logansport.....	1 to 9.	Mason City: First National Bank.....	1 to 9.
Lowell: Lowell National Bank.....	1 to 8.	Nowell: First National Bank.....	1 to 9.
Marion: First National Bank in Marion.....	1 to 9.	Newton: Newton National Bank.....	1 to 9.
Marion National Bank.....	1 to 9.	Oelwein: First National Bank.....	1 to 7.
Michigan City: First National Bank.....	1 to 9.	Orange City: Orange City National Bank.....	1 to 9.
Merchants National Bank.....	1 to 9.	Paulina: First National Bank.....	1 to 7 and 9.
Mishawaka: First National Bank.....	1 to 9.	Perry: First National Bank.....	1 to 9.
Montezuma: First National Bank.....	1 to 3, 5 to 9.	Peterson: First National Bank.....	1 to 4.
New Carlisle: First National Bank.....	1 to 9.	Friminger: First National Bank.....	1 to 9.
Noblesville: American National Bank.....	1 to 9.	Red Oak: First National Bank.....	1 to 9.
Plainfield: First National Bank & Trust Co.....	1 to 9.	Remsen: First National Bank.....	1 to 8.
Remington: Farmers National Bank.....	1 to 3, 5 to 8.	Ripley: First National Bank.....	1, 2, 3, 5 to 8.
Richmond: First National Bank.....	1 to 9.	Sibley: First National Bank.....	1 to 9.
Second National Bank.....	1 to 9.	Sioux City: First National Bank in Sioux City.....	1 to 9.
Rochester: First National Bank.....	1 to 8, 7, and 8.	Live Stock National Bank.....	1 to 9.
Rockville: Rockville National Bank.....	1 to 9.	Security National Bank.....	1 to 9.
Rushville: Rush County National Bank.....	1 to 4.	Toy National Bank.....	1 to 9.
Rushville National Bank.....	1 to 4.	Spencer: Clay County National Bank.....	1 to 9.
Shelbyville: Farmers National Bank.....	1 to 9.	Storm Lake: Citizens First National Bank.....	1 to 9.
Shelby National Bank.....	1 to 9.	Thornton: First National Bank.....	1 to 9.
		Waverly: First National Bank.....	1 to 4.
		Webster City: Farmers National Bank.....	1 to 9.

250 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

	Powers granted		Powers granted
DISTRICT NO. 7—Continued		DISTRICT NO. 8—Continued	
MICHIGAN		ARKANSAS—continued	
(See also district no. 9)			
Ann Arbor: First National Bank & Trust Co.	1 to 9.	Fordyce: First National Bank.....	1 to 9.
Battle Creek: City National Bank & Trust Co.	1 to 8.	Forrest City: National Bank of Eastern Arkansas.	1 to 9.
Charlotte: First National Bank.....	2, 3, 5, and 8.	Fort Smith: City National Bank.....	1 to 9.
Coldwater: Southern Michigan National Bank.	1 to 9.	First National Bank.....	1 to 9.
Detroit: Merchants National Bank.....	1 to 9.	Hot Springs: Arkansas National Bank.	1 to 9.
National Bank of Detroit.....	1 to 9.	Little Rock: Commercial National Bank.....	1 to 9.
Flint: National Bank of Flint.....	1, 2, 3, 5, and 8.	Peoples National Bank.....	1 to 9.
Jackson: National Bank of Jackson.....	1 to 9.	Union National Bank.....	1 to 9.
Kalamazoo: First National Bank & Trust Co.	1 to 9.	Newport: First National Bank.....	1 to 8.
Lapeer: First National Bank.....	2, 3, 5, and 8.	Pine Bluff: Simmons National Bank.	1 to 9.
Monroe: First National Bank.....	1 to 9.	Texasarkans: State National Bank.....	1 to 9.
Muskegon: Hackley Union National Bank.	1 to 9.		
Petoskey: First National Bank.....	1 to 4.	ILLINOIS	
Port Huron: First National Trust & Savings Bank.	1 to 9.	(See also district no. 7)	
Quincy: First National Bank.....	2, 3, 5, and 8.	Alton: First National Bank & Trust Co. In Alton.	1 to 9.
St. Johns: St. Johns National Bank.....	2, 3, 5, and 8.	Belleville: Belleville National Bank.....	1 to 9.
Saginaw: Second National Bank & Trust Co.	1 to 8.	First National Bank.....	1 to 9.
Union City: Union City National Bank.	2, 3, 5, and 8.	St. Clair National Bank.....	1 to 9.
WISCONSIN		Bend: First National Bank of Bend.	1 to 2, 5 to 8.
(See also district no. 9)		Bridgeport: First National Bank.....	1 to 9.
Beaver Dam: American National Bank.....	1 to 9.	Bunker Hill: First National Bank.....	1 to 9.
Old National Bank.....	1 to 9.	Carlinville: Carlinville National Bank.	1 to 9.
Beloit: Second National Bank.....	1 to 9.	Carmi: National Bank of Carmi.....	1 to 9.
Berlin: First National Bank.....	1 to 9.	Centralia: Old National Bank.....	1 to 9.
Fond du Lac: First Fond du Lac National Bank.	1 to 8.	East St. Louis: Southern Illinois National Bank.	1 to 9.
National Exchange Bank.....	1, 2, 3, 5, and 8.	Edwardsville: Edwardsville National Bank & Trust Co.	1 to 2, 5 to 7, and 9.
Green Bay: Kellogg Citizens National Bank.	1 to 9.	Efingham: First National Bank.....	1 to 9.
Hartford: First National Bank.....	1 to 7 and 9.	Highland: First National Bank.....	1 to 9.
Janesville: First National Bank.....	1 to 9.	Jonesboro: First National Bank.....	1 to 9.
Lake Geneva: First National Bank.....	1 to 9.	Lebanon: First National Bank.....	1 to 9.
Mantowoc: First National Bank in Manitowoc.	1 to 9.	Mascoutah: First National Bank in Mascoutah.	1 to 9.
Marinette: First National Bank.....	1 to 9.	Metropolis: City National Bank.....	1 to 4.
Menasha: First National Bank.....	1 and 4.	Millstadt: First National Bank.....	1 to 9.
Milwaukee: Marine National Exchange Bank.	1 to 9.	Murphysboro: First National Bank.	1 to 8.
Monroe: First National Bank.....	1 to 9.	Nashville: Farmers & Merchants National Bank.	1 to 9.
Neenah: First National Bank.....	1 to 9.	First National Bank.....	1 to 9.
National Manufacturers Bank.....	1 to 3.	National Stock Yards National Bank of National City.	1 to 9.
Platteville: First National Bank.....	1 to 9.	O'Fallon: First National Bank.....	1 to 9.
Racine: First National Bank & Trust Co.	1 to 9.	Quincy: First National Bank.....	1 to 2, 5 to 7.
Ripon: First National Bank.....	1 to 9.	Vandalia: First National Bank.....	1 to 8.
Sheboygan: Security National Bank.	1 to 9.		
Sparta: Farmers National Bank.....	1 to 9.	INDIANA	
Stevens Point: Citizens National Bank.....	1 to 9.	(See also district no. 7)	
First National Bank.....	1 to 8.	Bedford: Bedford National Bank.....	1 to 2, 5 to 9.
Waukesha: Waukesha National Bank.	1 to 8.	Bicknell: First National Bank.....	1 to 9.
Wausau: National Bank of Wausau.	1 to 9.	Boonville: First National Bank.....	1 to 9.
West Bend: First National Bank.....	1 to 9.	Brownstown: First National Bank.....	1 to 2, 5 to 7, and 9.
Wisconsin Rapids: First National Bank.	1 to 9.	Cannelton: First Cannelton National Bank.	1 to 3, 5 to 8.
		Evansville: National City Bank.....	1 to 9.
		Old National Bank.....	1 to 9.
		Fort Branch: Farmers & Merchants National Bank.	1 to 9.
		Madison: First National Bank.....	1 to 9.
		Mitchell: First National Bank.....	1 to 8.
		Petersburg: First National Bank.....	2, 3, and 5.
DISTRICT NO. 8			
ARKANSAS			
El Dorado: First National Bank.....	1 to 9.		
Fayetteville: First National Bank.....	1 to 9.		

	Powers granted		Powers granted
DISTRICT NO. 8—Continued		DISTRICT NO. 8—Continued	
INDIANA—continued		MISSOURI—continued	
Princeton: Farmers National Bank	1 to 3, 5 to 7, and 9.	Unionville: Marshall National Bank	1 to 3, 5 to 7.
Seymour: Seymour National Bank	1 to 9.	Warrensburg: Peoples National Bank	1 and 4.
Tall City:		TENNESSEE	
Citizens National Bank	1 to 7 and 9.	(See also district no. 6)	
Toll City National Bank	1 to 9.	Dyersburg: First-Citizens National Bank	1 to 9.
Vevay: First National Bank	1 to 9.	Jackson:	
Vincennes: American National Bank	1 to 9.	First National Bank	1.
Wadesville: Farmers National Bank	1 to 9.	National Bank of Commerce	1 to 9.
Washington:		First National Bank	1 to 9.
Peoples National Bank & Trust Co.	1 to 9.	National Bank of Commerce in Memphis	1 to 9.
Washington National Bank	1 to 9.	Union-Planters National Bank & Trust Co.	1 to 9.
KENTUCKY		Union City: Old National Bank	1 to 9.
(See also district no. 4)		DISTRICT NO. 9	
Bowling Green—American National Bank	1 and 4.	MICHIGAN	
Carrollton: First National Bank	1 to 9.	(See also district no. 7)	
Clay: Farmers National Bank	1 to 9.	Hancock: National Metals Bank	1 to 9.
Columbia: First National Bank & Trust Co.	1 to 3, 5 to 8.	Houghton: Houghton National Bank	1 to 9.
Danville:		Ironwood: Gogebic National Bank	2, 3, 5, and 8.
Citizens National Bank	1 to 9.	Lake Linden: First National Bank	2, 3, 5, and 8.
Farmers National Bank	1 to 8.	Marquette:	
Ellettsburgtown: First-Hardin National Bank	1 to 9.	First National Bank & Trust Co.	1 to 9.
Frankfort: State National Bank	1 to 9.	Union National Bank	1 to 9.
Lawrenceburg:		Menominee:	
Anderson National Bank	1 to 3, 5 to 9.	First National Bank	1 to 9.
Lawrenceburg National Bank	1 to 8.	Lumbermen's National Bank	2, 3, 4, and 8.
Lebanon:		Munising: First National Bank of Alger County	2, 3, 5, and 8.
Citizens National Bank	1 to 9.	Negaunee: First National Bank	2, 3, 5, and 8.
Farmers National Bank	1 to 9.	MINNESOTA	
Marion National Bank	1 to 5 and 8.	Albert Lea:	
Louisville:		First National Bank	1 to 8.
Citizens Union National Bank	1 to 9.	Freeborn County National Bank	1 to 9.
First National Bank	1 to 8.	Bemidji: First National Bank	1 to 9.
Madisonville: Farmers National Bank	1 to 9.	Blooming Prairie: First National Bank	1, 2, 3, and 5.
Maysfield: First National Bank	1 to 9.	Chatfield: First National Bank	1 to 5.
Morganfield: Morganfield National Bank	1 to 9.	Duluth:	
Paducah: Peoples National Bank	1 to 9.	City National Bank	1 to 9.
Princeton:		First & American National Bank	1 to 9.
Farmers National Bank	1 to 9.	Minnesota National Bank	1 to 9.
First National Bank	1 to 3, 5 to 9.	Northern National Bank	1 to 9.
MISSISSIPPI		Eveleth: First National Bank	1 to 3, 5 to 9.
(See also district no. 6)		Fairmont:	
Columbus: First Columbus National Bank	1 to 9.	First National Bank	1 to 9.
Greenville: First National Bank	1 to 4.	Martin County National Bank	1 to 9.
West Point: First National Bank	1 to 9.	Faribault: Security National Bank & Trust Co.	1 to 9.
MISSOURI		Fergus Falls:	
(See also district no. 10)		Fergus Falls National Bank & Trust Co.	1 to 8.
Carrollton: First National Bank	1 to 8.	First National Bank	1 to 9.
Columbia:		Hastings: First National Bank	1 to 9.
Boone County National Bank	1 to 9.	Little Falls: First National Bank	1, 2, 3, 5, 6, 8, and 9.
Exchange National Bank	1 to 8.	Minneapolis:	
Hannibal: Hannibal National Bank	1 to 9.	First National Bank & Trust Co.	1 to 9.
Jefferson City: Exchange National Bank	1 to 9.	Marquette National Bank	1 to 9.
Kirksville: Citizens National Bank	1 to 8.	Midland National Bank & Trust Co.	1 to 9.
Luzemburg: Letyette National Bank & Trust Co.	1 to 9.	Northwestern National Bank & Trust Co.	1 to 9.
Monett: First National Bank	1 to 9.	Northfield: Northfield National Bank & Trust Co.	1 to 9.
Pierce City: First National Bank	1 to 9.	Owatonna: First National Bank	1 to 9.
St. Charles: First National Bank	1 to 9.	Proctor: First National Bank	1 to 9.
St. Louis:		Red Wing:	
Boatmen's National Bank	1 to 9.	First National Bank	1 to 9.
First National Bank	1 to 9.	Goodhue County National Bank	1 to 9.
Mercantile Commerce National Bank in St. Louis	1 to 9.	Red Wing National Bank & Trust Co.	1 to 9.
Security National Bank, Savings & Trust Co.	1 to 9.	St. Paul:	
South Side National Bank in St. Louis	1 to 9.	American National Bank	1 to 9.
Secalia: Third National Bank	1 to 3, 5 to 7	Empire National Bank & Trust Co.	1 to 9.
Springfield: Union National Bank	1 to 9.		
Trenton: Trenton National Bank	1 to 9.		

252 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

	Powers granted		Powers granted
DISTRICT NO. 9—Continued		DISTRICT NO. 9—Continued	
MINNESOTA—continued		SOUTH DAKOTA—continued	
St. Paul—Continued.		Sioux Falls:	
First National Bank.....	1 to 9.	Citizens National Bank & Trust Co.	1 to 9.
Midway National Bank.....	1 to 9.	First National Bank & Trust Co.	1 to 8.
Twin Cities National Bank.....	1 to 9.	Security National Bank & Trust Co.	1 to 9.
St. Peter: First National Bank.....	1 to 8.	Watertown: First Citizens National Bank.	1 to 9.
Spring Valley: First National Bank.....	1 to 9.	Yankton: First Dakota National Bank & Trust Co.	1 to 9.
Sillwater: First National Bank.....	1 to 9.		
Truman: Truman National Bank.....	1 to 9.	WISCONSIN	
Virginia: American Exchange National Bank.	1 to 2, 5 to 8.	(See also district no. 7)	
Waseca: Farmers National Bank.....	1 to 9.	Barron: First National Bank.....	1 to 3.
Windom: First National Bank.....	1 to 9.	Chippewa Falls:	
Winona:		First National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Lumbermens National Bank.....	1 to 9.
Winona National & Savings Bank.	1 to 9.	Eau Claire:	
		American National Bank & Trust Co.	1 to 9.
MONTANA		Union National Bank.....	1 to 9.
Billings:		Menomonia: First National Bank.....	1 to 9.
Midland National Bank.....	1 to 9.	Superior:	
Montana National Bank.....	1 to 9.	First National Bank.....	1 to 7.
Bozeman: Commercial National Bank.	1 to 4.	National Bank of Commerce.....	1 to 9.
Dillon: First National Bank.....	1 to 7 and 9.		
Great Falls:		DISTRICT NO. 10	
First National Bank.....	1 to 9.	COLORADO	
Great Falls National Bank.....	1 to 4.	Boulder: National State Bank.....	1 to 9.
Helena: First National Bank & Trust Co.	1 to 7 and 9.	Brush: First National Bank.....	1 to 2, 5 to 8.
Kalispol: First National Bank.....	1 to 4.	Canon City:	
Lewisburg: National Bank of Lewis town.	1 to 9.	First National Bank.....	1 to 9.
Livingston: National Park Bank in Livingston.	1 to 9.	Fremont County National Bank.	1 to 4.
Miles City: First National Bank.....	1 to 9.	Center: First National Bank.....	1 to 4.
Missoula:		Colorado Springs:	
First National Bank.....	1 to 7 and 9.	Colorado Springs National Bank.	1 to 9.
Western Montana National Bank.	1 to 8.	Exchange National Bank.....	1 to 9.
		First National Bank.....	1 to 9.
NORTH DAKOTA		Denver:	
Bismarck:		American National Bank.....	1 to 7.
Dakota National Bank & Trust Co.	1 to 9.	Colorado National Bank.....	1 to 9.
First National Bank.....	1 and 9.	Denver National Bank.....	1 to 9.
Dickinson: First National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Ellendale: First National Bank.....	1 to 4.	United States National Bank.....	1 to 9.
Fargo:		Durango: Burns National Bank.....	1 to 7.
First National Bank & Trust Co.	1 to 9.	Eagle: First National Bank of Eagle County.	1 to 4.
Merchants National Bank & Trust Co.	1 to 9.	Englewood: First National Bank.....	1 to 4.
Grafton: Grafton National Bank.....	1 to 9.	Florence: First National Bank.....	1 to 9.
Grand Forks: First National Bank in Grand Forks.	1 to 9.	Fort Collins: Poudre Valley National Bank.	1 to 7 and 9.
Jamestown:		Fort Morgan: First National Bank.....	1 to 4.
James River National Bank & Trust Co.	1 to 9.	Glenwood Springs: First National Bank.	1 to 3, 5 to 7.
National Bank.....	1 to 9.	Grand Junction: First National Bank in Grand Junction.	1 to 9.
Valley City: First National Bank.....	1 to 9.	Greeley:	
		First National Bank.....	1 to 9.
SOUTH DAKOTA		Greeley National Bank.....	1 to 9.
Aberdeen:		Gunnison: First National Bank.....	1 to 9.
Aberdeen National Bank & Trust Co.	1 to 9.	Hugo: First National Bank.....	1 to 3.
First National Bank & Trust Co.	1 to 9.	Las Animas: First National Bank.....	1 to 9.
Arlington: First National Bank.....	1 to 4.	Longmont:	
Brookings: Security National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Chamberlain: First National Bank & Trust Co.	1 to 9.	Longmont National Bank.....	1 to 9.
Clear Lake: Deuel County National Bank.	1 to 9.	Montrose: Montrose National Bank.....	1 to 9.
Deerwood: First National Bank.....	1 to 9.	Orway: First National Bank.....	1 to 9.
Huron: National Bank of Huron.....	1 to 9.	Walsenburg: First National Bank.....	1 to 9.
Lake Norden: First National Bank & Trust Co.	1 to 2, 5 to 8.	Windsor: First National Bank.....	1 to 4.
Lead: First National Bank.....	1 to 9.		
Miller: First National Bank.....	1 to 9.	KANSAS	
Rapid City: First National Bank.....	1 to 7 and 9.	Anthony:	
		Citizens National Bank.....	1 to 8.
		First National Bank.....	1 to 4.
		Arkansas City: Home National Bank.	1 to 9.
		Atchison: City National Bank.....	1 to 9.
		Chanute: First National Bank.....	1 to 9.

254 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

	Powers granted		Powers granted
DISTRICT NO. 10—Continued		DISTRICT NO. 11—Continued	
WYOMING		TEXAS—continued	
Buffalo: First National Bank.....	1 to 4.	Del Rio: Del Rio National Bank.....	1 to 9.
Casper:		Denison:	
Casper National Bank.....	1 to 5.	Citizens National Bank.....	1 to 9.
Wyoming National Bank.....	1 to 9.	State National Bank.....	1 to 9.
Cheyenne:		El Paso:	
American National Bank.....	1 to 9.	El Paso National Bank.....	1 to 9.
Stock Growers National Bank.....	1 to 9.	State National Bank.....	1 to 9.
Cody:		Floresville: First City National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Fort Worth:	
Shoshone National Bank.....	1 and 4.	Continental National Bank.....	1 to 9.
Evanston: First National Bank.....	1 to 2.	First National Bank.....	1 to 9.
Kemmerer: First National Bank.....	1 to 5.	Port Worth National Bank.....	1 to 9.
Laramie: First National Bank.....	1 to 3.	Galveston:	
Powell: First National Bank.....	1 to 8.	City National Bank.....	1 to 9.
Rawlins:		First National Bank.....	1 to 9.
First National Bank.....	1 to 9.	Hutchings-Sealy National Bank.....	1 to 9.
Rawlins National Bank.....	1 to 9.	United States National Bank.....	1 to 9.
Rock Springs: Rock Springs National Bank.....	1 to 9.	Granger: First National Bank.....	1 and 2.
Sheridan: First National Bank.....	1 to 9.	Greenville: Greenville National Exchange Bank.....	1 to 4.
Thermopolis: First National Bank.....	1 to 9.	Houston:	
DISTRICT NO. 11		City National Bank.....	1 to 9.
ARIZONA		First National Bank in Houston.....	1 to 9.
(See also district no. 12)		National Bank of Commerce.....	1 to 7 and 9.
Nogales: First National Bank.....	1 to 3.	San Jacinto National Bank.....	1 to 9.
Tucson: Consolidated National Bank.....	1 to 4.	Second National Bank.....	1 to 7 and 9.
LOUISIANA		South Texas Commercial National Bank.....	1 to 9.
(See also district no. 6)		State National Bank.....	1 to 9.
Homer: Homer National Bank.....	1 to 8.	Union National Bank.....	1 to 9.
Shreveport:		Italy: First National Bank.....	1 to 9.
Commercial National Bank in.....	1 to 9.	Kingsville: First National Bank.....	1 to 9.
First National Bank.....	1 to 9.	La Grange: First National Bank.....	1.
NEW MEXICO		Longview: First National Bank.....	1 to 3, 5, and 8.
(See also district no. 10)		McKinney: Collin County National Bank.....	1 to 9.
Roswell: First National Bank.....	1 to 3.	Marfa: Marfa National Bank.....	1 to 9.
Silver City: American National Bank.....	2 and 3.	Marshall:	
OKLAHOMA		First National Bank.....	1 to 3 and 5.
Durant: Durant National Bank in Durant.....	1 to 3, 5 to 8.	Marshall National Bank.....	1 to 5.
TEXAS		Midland: Midland National Bank.....	1 to 9.
Abilene:		Orange:	
Farmers & Merchants National Bank.....	1 to 9.	First National Bank in Orange.....	1 to 9.
Albany: First National Bank.....	4.	Orange National Bank.....	1 to 9.
Amarillo: First National Bank.....	1 to 9.	Palestine: Royall National Bank.....	1 to 4.
Austin:		Paris: First National Bank.....	1 to 9.
American National Bank.....	1 to 9.	Port Arthur:	
Austin National Bank.....	1 to 9.	First National Bank.....	1 to 5.
Bay City: First National Bank.....	1 and 4.	Merchants National Bank.....	1 to 9.
Beaumont:		San Angelo:	
American National Bank.....	1 to 9.	Central National Bank.....	1 to 4.
First National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Bonham: First National Bank.....	1 to 3, 5 to 7.	San Antonio National Bank.....	1 to 9.
Brady: Brady National Bank.....	1 to 2 and 5.	San Antonio:	
Brenham: First National Bank.....	1 to 7 and 9.	Aisno National Bank.....	1 to 9.
Brownsville: State National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Cameron: Citizens National Bank.....	1 to 9.	Gross National Bank.....	1 to 9.
Childress: First National Bank.....	1 to 9.	National Bank of Commerce.....	1 to 9.
Colorado: City National Bank.....	1 to 4.	Seguin: First National Bank.....	1 to 9.
Corpus Christi: Corpus Christi National Bank.....	1 to 7.	Sherman: Merchants & Farmers National Bank.....	1 to 9.
Corsicana: First National Bank.....	1 to 9.	Stanton: First National Bank.....	1 to 3.
Dallas:		Stephenville: Farmers-First National Bank.....	1 to 9.
First National Bank in.....	1 to 9.	Teague: Teague National Bank.....	1 to 9.
National Bank of Commerce.....	1 to 9.	Terrell: American National Bank.....	1 to 3.
Republic National Bank & Trust Co.....	1 to 9.	Texarkana: Texarkana National Bank.....	1 to 9.
		Troup: First National Bank.....	1.
		Tyler:	
		Citizens National Bank.....	1 to 9.
		Peoples National Bank.....	1 to 9.
		Victoria: Victoria National Bank.....	1 to 4.
		Waco:	
		Citizens National Bank.....	1 to 9.
		First National Bank.....	1 to 4.
		Wichita Falls: First National Bank.....	1 to 9.

FIDUCIARY POWERS

	Powers granted		Powers granted
DISTRICT NO. 12		DISTRICT NO. 12—Continued	
ALASKA		OREGON—continued	
Fairbanks: First National Bank.....	1 to 9.	Grants Pass: First National Bank of Southern Oregon.....	1 to 3, 5 to 7, and 9.
ARIZONA		Harrisburg: First National Bank.....	1 to 3.
Phoenix: First National Bank.....	1 to 9.	Hood River: First National Bank.....	1 to 9.
Winslow: First National Bank.....	1.	Junction City: First National Bank.....	1 to 3, 5 to 7, and 9.
CALIFORNIA		Klamath Falls:	
Bakersfield: First National Bank.....	1 to 9.	American National Bank.....	1 to 8.
Beverly Hills: Beverly Hills National Bank & Trust Co.....	1 to 9.	First National Bank.....	1 to 9.
Fullerton: First National Trust & Savings Bank.....	1 to 9.	Marshfield:	
Long Beach: California First National Bank.....	1 to 9.	Coos Bay National Bank.....	1 to 9.
Los Angeles:		First National Bank of Coos Bay.....	1 to 9.
Citizens National Trust & Savings Bank.....	1 to 9.	Madford: First National Bank.....	1 to 9.
Farmers & Merchants National Bank.....	1 to 9.	Newberg: United States National Bank of Newberg.....	1 to 9.
Seaboard National Bank.....	1 to 9.	Portland:	
Security-First National Bank.....	1 to 9.	First National Bank.....	1 to 9.
Mountain View: First National Bank.....	4.	United States National Bank.....	1 to 9.
Orange: First National Bank.....	1 to 9.	UTAH	
Pasadena: Security National Bank.....	1 to 9.	Logan: First National Bank.....	1 to 9.
Pomona: First National Bank.....	1 to 3, 5 to 7.	Ogden: First Security Bank of Utah, National Association.....	1 to 9.
Redwood City: First National Bank of San Mateo County.....	1 to 3, 5, 7, and 9.	Price: First National Bank.....	2, 3, 5 to 8.
Riverside: Citizens National Trust & Savings Bank.....	1 to 9.	Salt Lake City:	
Sacramento: Capital National Bank.....	1 to 9.	Continental National Bank & Trust Co.....	1 to 7 and 9.
Salinas: Salinas National Bank.....	4.	First National Bank.....	1 to 4.
San Bernardino: American National Bank.....	1 to 9.	WASHINGTON	
San Diego:		Bellingham:	
First National Trust & Savings Bank.....	1 to 9.	American National Bank.....	1 to 3 and 9.
San Francisco:		Bellingham National Bank.....	1 to 9.
Anglo California National Bank.....	1 to 9.	First National Bank.....	1 to 5 and 9.
Bank of America National Trust & Savings Association.....	1 to 9.	Northwestern National Bank.....	1 to 9.
Bank of California, N. A.....	1 to 9.	Burlington: First National Bank.....	1 to 7 and 9.
Crocker First National Bank.....	1 to 9.	Colfax: Farmers National Bank.....	1 to 5.
Pacific National Bank.....	1 to 9.	Dayton: Columbia National Bank.....	1 to 3.
Santa Ana: First National Bank.....	1 to 9.	Ellensburg: Washington National Bank.....	1 to 9.
Santa Barbara:		Everett:	
County National Bank & Trust Co.....	1 to 9.	Security National Bank.....	1 to 9.
First National Trust & Savings Bank.....	1 to 9.	First National Bank.....	1 to 8.
Stockton: First National Bank.....	1 to 9.	Longview: First National Bank.....	1 to 9.
Ventura: Union National Bank.....	1 to 9.	Mount Vernon: First National Bank.....	1 to 9.
Whittier: Whittier National Trust & Savings Bank.....	1 to 9.	Okanogan: First National Bank.....	1 to 9.
Woodland: Bank of Woodland, N. A.....	1 to 3, 7 to 9.	Port Angeles: First National Bank.....	1 to 9.
IDAHO		Pullman: First National Bank.....	1 to 7.
Boise: First National Bank of Idaho.....	1 to 5.	Seattle:	
Haeserman: First National Bank.....	1.	First National Bank.....	1 to 9.
Hailey: Hailey National Bank.....	1 to 3.	National Bank of Commerce.....	1 to 9.
Idaho Falls: American National Bank.....	1 to 9.	Pacific National Bank.....	1 to 9.
Lewiston: Lewiston National Bank.....	1 to 9.	University National Bank.....	1 to 9.
Moscow: First National Bank.....	1 to 4.	Spokane:	
NEVADA		First National Bank in Spokane.....	1 to 9.
Reno: First National Bank in Reno.....	1 to 7, and 9.	Old National Bank & Union Trust Co.....	1 to 9.
OREGON		Tacoma:	
Ashland: First National Bank.....	1 to 9.	National Bank of Tacoma.....	1 to 9.
Athens: First National Bank.....	1 to 9.	Puget Sound National Bank.....	1 to 9.
Baker: First National Bank.....	1 to 9.	Topsyush: First National Bank.....	1 to 9.
Corvallis: First National Bank.....	1 to 9.	Waitsburg: First National Bank.....	1 to 9.
Eugene:		Walla Walla:	
First National Bank.....	1 to 9.	Baker-Boyer National Bank.....	1 to 9.
United States National Bank.....	1 to 9.	First National Bank.....	1 to 9.
		Wenatchee: First National Bank.....	1 to 9.
		Yakima: Yakima First National Bank.....	1 to 9.
		HAWAIIAN ISLANDS	
		Honolulu: Bishop National Bank of Hawaii at Honolulu.....	1 to 8.

NOTE.—The above list does not include the names of national banks which have received permission to administer trusts transferred to them in connection with the acquisition of assets of other banking institutions, but which have not been granted the right to accept new trust business.

DESCRIPTION OF FEDERAL RESERVE DISTRICTS

Federal reserve district	Land area (square miles)	Population July 1, 1924 (estimated)
No. 1—Boston.....	61,245	7,621,000
No. 2—New York.....	51,890	16,749,000
No. 3—Philadelphia.....	30,842	7,732,000
No. 4—Cleveland.....	73,424	11,869,000
No. 5—Richmond.....	152,316	11,244,000
No. 6—Atlanta.....	248,225	11,618,000
No. 7—Chicago.....	190,613	18,967,000
No. 8—St. Louis.....	194,810	9,791,000
No. 9—Minneapolis.....	415,004	5,427,000
No. 10—Kansas City.....	485,438	8,071,000
No. 11—Dallas.....	286,116	7,264,000
No. 12—San Francisco.....	682,823	10,142,000
Total.....	2,973,776	126,426,000

FEDERAL RESERVE DISTRICTS

DISTRICT NO. 1—BOSTON	61,245	7,621,000	
Connecticut (excluding Fairfield County).....	4,189	1,256,000	
Maine.....	22,895	854,000	
Massachusetts.....	8,039	4,235,000	
New Hampshire.....	9,031	470,000	
Rhode Island.....	1,967	705,000	
Vermont.....	9,124	361,000	
DISTRICT NO. 2—NEW YORK	51,890	16,749,000	
Connecticut (Fairfield County).....	631	369,000	
New Jersey.....	3,905	3,291,000	
Counties of:			
Bergen.....	Hunterdon	Morris	Sussex
Essex.....	Middlesex	Passaic	Union
Hudson.....	Monmouth	Somerset	Warren
New York.....	47,654	13,056,000	
DISTRICT NO. 3—PHILADELPHIA	30,842	7,732,000	
Delaware.....	1,955	242,000	
New Jersey.....	3,909	940,000	
Counties of:			
Atlantic.....	Cape May	Gloucester	Ocean
Burlington.....	Cumberland	Mercer	Salem
Camden.....			
Pennsylvania (eastern part).....	30,988	6,550,000	
Counties of:			
Adams.....	Clinton	Lebanon	Philadelphia
Bedford.....	Columbia	Lehigh	Pike
Berks.....	Cumberland	Luzerne	Potter
Blair.....	Dauphin	Lycoming	Schuylkill
Bradford.....	Delaware	McKean	Snyder
Bucks.....	Elk	Mifflin	Sullivan
Cambria.....	Franklin	Monroe	Susquehanna
Cameron.....	Fulton	Montgomery	Tioga
Carbon.....	Huntingdon	Montour	Union
Caster.....	Juniata	Northampton	Wayne
Chester.....	Lackawanna	Northumberland	Wyoming
Clearfield.....	Lancaster	Perry	York

DESCRIPTION OF FEDERAL RESERVE DISTRICTS

467
257

FEDERAL RESERVE DISTRICTS—Continued

Federal reserve district	Land area (square miles)	Population July 1, 1934 (estimated)	
DISTRICT NO. 4—CLEVELAND	78,424	11,589,000	
Kentucky (eastern part)	17,614	1,270,000	
Counties of—			
Bath	Fleming	Lawrence	Nicholas
Bell	Floyd	Lee	Owsley
Boone	Garrard	Leslie	Pendleton
Bourbon	Grant	Letcher	Perry
Boyd	Greenup	Lewis	Pike
Bracken	Harrison	Lincoln	Powell
Breathitt	Harrison	McCreary	Pulaski
Campbell	Jackson	Madison	Robertson
Carter	Jessamine	Maggoffin	Rockcastle
Clark	Johnson	Martin	Rowan
Clay	Kenton	Mason	Scott
Elliot	Knott	Menifee	Whitley
Kasill	Knox	Montgomery	Wolfe
Fayette	Laurel	Morgan	Woodford
Ohio	40,740	6,836,000	
Pennsylvania (western part)	18,896	3,276,000	
Counties of—			
Allegheny	Crawford	Indiana	Venango
Armstrong	Erie	Jefferson	Warren
Beaver	Fayette	Lawrence	Washington
Butler	Forest	Mercer	Westmoreland
Clarion	Greene	Somerset	
West Virginia (northern part)	1,308	207,000	
Counties of—			
Brooke	Marshall	Tyler	
Hancock	Ohio	Wetzel	
DISTRICT NO. 5—RICHMOND	162,316	11,244,000	
District of Columbia	62	497,000	
Maryland	9,941	1,671,000	
North Carolina	48,740	3,301,000	
South Carolina	20,498	1,790,000	
Virginia	40,233	2,446,000	
West Virginia (southern part)	22,616	1,570,000	
Counties of—			
Barbour	Hardy	Mingo	Roane
Berkeley	Harrison	Monongalia	Summers
Boone	Jackson	Monroe	Taylor
Braxton	Jefferson	Morgan	Tucker
Cabell	Kanawha	Nicholas	Upshur
Calhoun	Lewis	Pendleton	Wayne
Clay	Lincoln	Pleasants	Webster
Doddridge	Logan	Pocahontas	Wirt
Fayette	McDowell	Fulton	Wood
Gilmer	Marton	Fulton	Wyoming
Grant	Mason	Raleigh	
Greenbrier	Mercer	Randolph	
Hampshire	Mineral	Ritchie	
DISTRICT NO. 6—ATLANTA	248,226	11,518,000	
Alabama	51,270	2,710,000	
Florida	54,831	1,578,000	
Georgia	58,725	2,911,000	
Louisiana (southern part)	20,891	1,407,000	
Parishes of—			
Acadia	Evangeline	Rapides	Tangipahoa
Allen	Iberia	St. Bernard	Terrebonne
Ascension	Iberville	St. Charles	Vermilion
Assumption	Jefferson	St. Helena	Verona
Avoailles	Jefferson Davis	St. James	Washington
Beauregard	Lafayette	St. John the Bap-	West Baton
Calcasieu	La Fourche	tist	Rouge
Cameron	Livingston	St. Landry	West Feliciana
East Baton	Orleans	St. Martin	
Rouge	Plaquemines	St. Mary	
East Feliciana	Foate Coupee	St. Tammany	
Mississippi (southern part)	25,619	985,000	
Counties of—			
Adams	Harrison	Lawrence	Scott
Amite	Iberville	Leake	Sharkey
Clalborne	Iscouena	Lincoln	Simpson
Clarke	Jackson	Madison	Smith
Copiah	Jasper	Marion	Stone
Covington	Jefferson	Newbern	Walthall
Forrest	Jefferson Davis	Newton	Warren
Franklin	Jones	Pearl River	Wayne
George	Kemper	Perry	Wilkinson
Greene	Lemaire	Pike	Yazoo
Hancock	Lauderdale	Rankin	

FEDERAL RESERVE DISTRICTS—Continued

Federal reserve district	Land area (square miles)	Population July 1, 1924 (estimated)
DISTRICT NO. 6.—ATLANTA—Continued Tennessee (eastern part)	30,961	1,870,000
Counties of—		
Anderson Giles McMinn Scott		
Bedford Granger Mason Sequatchie		
Bledsoe Greens Marion Sevier		
Blount Grundy Marshall Smith		
Bradley Hamblen Maury Stewart		
Campbell Hamilton Meigs Sullivan		
Cannon Hancock Monroe Sumner		
Carter Hawkins Montgomery Trousdale		
Chestnut Hickman Moore Union		
Clallborne Houston Morzan Union		
Clay Humphreys Overton Van Buren		
Cooke Jackson Perry Warren		
Coffee Jefferson Pickett Washington		
Cumberland Johnson Polk Wayne		
Davidson Knox Putnam White		
De Kalb Lawrence Rhea Williamson		
Dickson Lewis Roane Wilson		
Fentress Lincoln Robertson		
Franklin Loudon Rutberford		
DISTRICT NO. 7.—CHICAGO	190,512	18,967,000
Illinois (northern part)	35,448	6,595,000
Counties of—		
Boone Ford Livingston Rock Island		
Bureau Fulton Logan Sangamon		
Carroll Grundy McDonough Schuyler		
Cass Hancock McHenry Shelby		
Champaign Anderson McLean Stark		
Christian Henry Macon Stephenson		
Clark Iroquois Marshall Tazewell		
Coles Jo Daviess Mason Vermillion		
Cook Kane Menard Warren		
Cumberland Kankakee Mercer Whiteside		
De Kalb Kendall Moultrie Will		
De Witt Knox Ogles Winnebago		
Douglas Lake Peoria Woodford		
Du Page La Salle Platt		
Edgar Lee Putnam		
Indiana (northern part)	26,707	2,683,000
Counties of—		
Adams Fountain La Porte Ripley		
Allen Franklin Madison Rush		
Bartholomew Fulton Marion St. Joseph		
Benton Grant Marshall Shelby		
Blackford Hamilton Miami Starke		
Boone Hancock Monroe Steuben		
Brown Hendricks Montgomery Tippecanoe		
Carroll Henry Morgan Union		
Cass Howard Newton Vermillion		
Clay Huntington Noble Vigo		
Clinton Jasper Ohio Wabash		
Dearborn Jay Owen Warren		
Decatur Jennings Parke Wayne		
De Kalb Johnson Porter White		
Delaware Kosciusko Pulaski White		
Elkhart Lagrange Putnam White		
Fayette Lake Randolph Whitley		
Iowa	55,556	2,485,000
Michigan (southern part)	40,730	4,756,000
Counties of—		
Alcona Eston Leapeer Ogemaw		
Allegan Emmet Leelanau Osceola		
Alpena Genesee Leawassee Oscoda		
Antrim Gladwin Livingston Otsego		
Arenac Grand Traverse Macomb Ottawas		
Barry Gratiot Marquette Presque Isle		
Bay Hillsdale Mason Roscommon		
Berrien Huron Mecosta Saginaw		
Branch Ingham Midland St. Clair		
Calhoun Ionia Missaukee St. Joseph		
Cass Isabella Montcalm Shiawassee		
Charlevoix Jackson Montmorency Tuscola		
Cheboygan Kalamazoo Muskegon Van Buren		
Chippewa Kalamazoo Newaygo Washtenaw		
Clinton Kent Oakland Wayne		
Crawford Lake Oseana Wexford		

DESCRIPTION OF FEDERAL RESERVE DISTRICTS

259 **46**

FEDERAL RESERVE DISTRICTS—Continued

Federal Reserve district	Land area (square miles)	Population July 1, 1934 (estimated)
DISTRICT NO. 7.—CHICAGO—Continued		
Wisconsin (southern part)	81,938	2,446,000
Counties of—		
Adams Green Lake Marquette Sheboygan		
Brown Iowa Milwaukee Vernon		
Calumet Jackson Monroe Walworth		
Clark Jefferson Oconto Washington		
Columbia Jenseu Outagamie Waushara		
Crawford Kenosha Ozaukee Waupesa		
Dane Kewaunee Portage Waushara		
Dodge Lafayette Racine Winnebago		
Dool Langlade Richland Wood		
Fond du Lac Manitowee Rock		
Grant Marathon Sauk		
Green Marinette Shawano		
DISTRICT NO. 8.—ST. LOUIS	194,810	9,791,000
Arkansas	52,328	1,876,000
Illinois (southern part)	30,595	1,291,000
Counties of—		
Adams Franklin Macoupin Randolph		
Alexander Gallatin Madison Richland		
Bond Greene Marion St. Clair		
Brown Hamilton Massas Saline		
Calhoun Hardin Monroe Scott		
Clay Jackson Montgomery Union		
Clinton Jasper Morgan Wash		
Crawford Jefferson Perry Washington		
Edwards Jersey Pike Wayne		
Edingham Johnson Pope White		
Fayette Lawrence Pulaski Williamson		
Indiana (southern part)	9,338	621,000
Counties of—		
Clark Greene Martin Spencer		
Crawford Harrison Orange Sullivan		
Daviess Jackson Perry Switzerland		
Dubois Jefferson Pike Vanderburg		
Floyd Knox Posey Warrick		
Gibson Lawrence Scott Washington		
Kentucky (western part)	22,567	1,387,000
Counties of—		
Adair Crittenden Hopkins Ohio		
Allen Cumberland Jefferson Oldham		
Anderson Davies Larus Owen		
Ballard Edmonson Livingston Russell		
Barren Franklin Logan Shelby		
Boyle Fulton Lyon Simpson		
Breckenridge Gallatin McCracken Spencer		
Bullitt Graves McLean Taylor		
Butler Grayson Marion Todd		
Caldwell Green Marshall Trigg		
Caldway Hancock Meade Trimble		
Carrisis Hardin Mercer Union		
Carroll Hart Metcalfe Warren		
Casey Henderson Monroe Washington		
Christian Henry Muhlenberg Wayne		
Clinton Hickman Nelson Webster		
Mississippi (northern part)	20,843	1,072,000
Counties of—		
Alcorn De Soto Monroe Tate		
Attala Grenada Montgomery Tippah		
Benton Holmes Noxubee Tishomingo		
Bolivar Humphreys Oktibbeha Tunica		
Calhoun Iwawamba Pontalca Union		
Carroll Lafayette Pontotoc Washington		
Chickasaw Lee Prentiss Webster		
Choctaw LeFlore Quitman Winston		
Clay Leflore Sunflower Yalobusha		
Coahoma Marshall Tallahatchie		

260 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

FEDERAL RESERVE DISTRICTS—Continued

Federal Reserve district	Land area (square miles)	Population July 1, 1924 (estimated)
DISTRICT NO. 8—ST. LOUIS—Continued		
Missouri (eastern part).....	55,206	2,748,000
Counties of—		
Adair Douglas Maries Reynolds		
Audrain Dunklin Marlon Ripley		
Barry Franklin Mercer St. Charles		
Benton Gasconade Miller St. Clair		
Bollinger Greene Mississippi St. Francois		
Boone Grundy Monticau St. Louis		
Butler Harrison Monroe St. Louis City		
Caldwell Henry Montgomery Ste. Genevieve		
Callaway Hickory Morgan Saline		
Camden Howard New Madrid Schuyler		
Cape Girardeau Howell Oregon Scotland		
Carroll Iron Osage Scott		
Carter Jefferson Ozark Shannon		
Cedar Johnson Painesiot Shelby		
Chariton Knox Perry Stoddard		
Christian Leclde Pettis Stone		
Clark Lafayette Phelps Sullivan		
Cole Lawrence Pike Taney		
Cooper Lewis Polk Texas		
Crawford Lincoln Pulaski Warren		
Dade Linn Putnam Washington		
Dallas Livingston Ralls Wayne		
Davies Mason Randolph Webster		
Dent Madison Ray Wright		
Tennessee (western part).....	10,756	808,000
Counties of—		
Benton Fayette Henry Shelby		
Carroll Gibson Lake Tipton		
Chester Hardeman Lauderdale Weakley		
Crockett Hardin McNairy		
Decatur Haywood Madison		
Dyer Henderson Obion		
DISTRICT NO. 9—MINNEAPOLIS	414,004	5,427,000
Michigan (northern part).....	16,691	336,000
Counties of—		
Alger Dickinson Keweenaw Manominee		
Baraga Gogebic Luce Ontonagon		
Chippewa Houghton Mackinac Schoolcraft		
Delta Iron Marquette		
Minnesota.....	80,858	2,602,000
Montana.....	146,121	1,837,606
North Dakota.....	70,183	688,000
South Dakota.....	76,838	705,000
Wisconsin (northern part).....	23,273	556,000
Counties of—		
Ashland Dunn Oneida Sawyer		
Barron Eau Claire Pepin Taylor		
Bayfield Florence Pierce Trempealeau		
Buffalo Forest Polk Vilas		
Burnett Iron Price Washburn		
Chippewa La Crosse Rusk		
Douglas Lincoln St. Croix		
DISTRICT NO. 10—KANSAS CITY	480,438	8,071,000
Colorado.....	103,038	1,056,000
Kansas.....	81,774	1,905,000
Missouri (western part).....	10,621	501,000
Counties of—		
Andrew Cass Holt Nodaway		
Atchison Clay Jackson Platte		
Barton Clinton Jasper Vernon		
Bates De Kalb McDonald Worth		
Buchanan Gentry Newton		
Nebraska.....	78,808	1,365,000
New Mexico (northern part).....	48,359	239,000
Counties of—		
Bernalillo Mora San Miguel Valencia		
Colfax Rio Arriba Santa Fe		
Harding Sandoval		
McKinley San Juan Union		

Population Apr. 1, 1920; decreased 1920 to 1924; no estimate made.

DESCRIPTION OF FEDERAL RESERVE DISTRICTS

261

FEDERAL RESERVE DISTRICTS—Continued

46

Federal reserve district	Land area (square miles)	Population July 1, 1934 (estimated)
DISTRICT NO. 10—KANSAS CITY—Continued		
Oklahoma (northwestern part).....	61,770	2,314,000
Counties of—		
Adair..... Ellis..... Logan..... Pontotoc.....		
Alfalfa..... Garfield..... Love..... Pottawatomie.....		
Beaver..... Garvin..... McClain..... Roger Mills.....		
Beckham..... Grady..... McIntosh..... Rogers.....		
Blaine..... Grant..... Major..... Seminole.....		
Caddo..... Greer..... Mayes..... Sequoyah.....		
Canadian..... Harmon..... Murray..... Stephens.....		
Carter..... Harper..... Muskogee..... Texas.....		
Cherokee..... Haskell..... Noble..... Tillman.....		
Cimarron..... Hughes..... Nowata..... Tulsa.....		
Cleveland..... Jackson..... Oklahoma..... Wagoner.....		
Comanche..... Jefferson..... Oklahoma..... Washington.....		
Cotton..... Kay..... Oklahoma..... Washita.....		
Craig..... Kingfisher..... Osage..... Woods.....		
Creek..... Kiowa..... Ottawa..... Woodward.....		
Custer..... Latimer..... Pawnee.....		
Delaware..... Le Flore..... Payne.....		
Devon..... Lincoln..... Pittsburg.....		
Wyoming.....	97,548	232,000
DISTRICT NO. 11—DALLAS	388,116	7,264,000
Arizona (southeastern part).....	23,412	133,000
Counties of—		
Cochise..... Greenlee..... Pima..... Santa Cruz.....		
Graham.....		
Louisiana (northern part).....	18,518	699,000
Parishes of—		
Blenville..... De Soto..... Madison..... Tensas.....		
Bossier..... East Carroll..... Morehouse..... Union.....		
Caddo..... Franklin..... Natchitoches..... Webster.....		
Caldwell..... Grant..... Ouachita..... West Carroll.....		
Catahoula..... Jackson..... Red River..... Winn.....		
Claborne..... La Salle..... Richland.....		
Concordia..... Lincoln..... Sabine.....		
New Mexico (southern part).....	74,144	198,000
Counties of—		
Catron..... Eddy..... Lincoln..... Sierra.....		
Chaves..... Grant..... Luna..... Socorro.....		
Curry..... Guadalupe..... Otero..... Torrance.....		
De Baca..... Hidalgo..... Quay.....		
Dona Ana..... Lea..... Roosevelt.....		
Oklahoma (southeastern part).....	7,644	161,000
Counties of—		
Atoka..... Choctaw..... Johnston..... Marshall.....		
Bryan..... Coal..... McCurtain..... Pushmataha.....		
Texas.....	262,398	6,073,000
DISTRICT NO. 12—SAN FRANCISCO	683,852	10,143,000
Arizona (northwestern part).....	90,398	324,000
Counties of—		
Apache..... Maricopa..... Navajo..... Yavapai.....		
Cocconino..... Mohave..... Pinal..... Yuma.....		
Gila.....		
California.....	155,652	6,168,000
Idaho.....	83,354	448,000
Nevada.....	109,821	94,000
Oregon.....	85,607	950,000
Utah.....	32,184	820,000
Washington.....	60,836	1,008,000

FEDERAL RESERVE BRANCH TERRITORIES

[December 31, 1934]

BUFFALO BRANCH (District No. 2).—The 10 most westerly counties of New York State, as follows:

Monroe	Orleans	Allegany	Wyoming
Genesee	Erle	Cattaraugus	Livingston
			Niagara

CINCINNATI BRANCH (District No. 4).—That part of Kentucky in Federal reserve district No. 4, and the following 26 counties in southern Ohio:

Adams	Clermont	Greene	Meigs	Ross
Athens	Clinton	Hamilton	Miami	Scioto
Brown	Darke	Highland	Montgomery	Vinton
Burles	Fayette	Jackson	Pike	Warren
Clark	Gallia	Lawrence	Preble	Washington

PITTSBURGH BRANCH (District No. 4).—Those portions of the States of Pennsylvania and West Virginia included in Federal reserve district No. 4.

BALTIMORE BRANCH (District No. 5).—The State of Maryland and the following 30 counties of West Virginia:

Barbour	Grant	Lewis	Pendleton	Taylor
Berkeley	Hampshire	Marion	Pleasants	Tucker
Boston	Hardy	Mineral	Preston	Upshur
Calhoun	Harrison	Monongalia	Randolph	Webster
Doddridge	Jackson	Morgan	Ritchie	Wirt
Gilmer	Jefferson	Nicholas	Roane	Wood

CHARLOTTE BRANCH (District No. 5).—The following counties in the States of North Carolina and South Carolina:

NORTH CAROLINA

Alexander	Caldwell	Haywood	McDowell	Swain
Allegany	Catawba	Henderson	Mocklenburg	Transylvania
Ashe	Cherokee	Iredell	Mitchell	Union
Avery	Clay	Jackson	Polk	Watauga
Buncombe	Cleveland	Lincoln	Rowan	Wilkes
Burke	Gaston	Macon	Rutherford	Yancey
Cabarrus	Graham	Madison	Stanly	

SOUTH CAROLINA

Abbeville	Edgefield	Lancaster	Newberry	Saluda
Aiken	Fairfield	Laurens	Oconee	Spartanburg
Anderson	Greenville	Lexington	Pickens	Union
Cherokee	Greenwood	McCormick	Richland	York
Chester				

BIRMINGHAM BRANCH (District No. 6).—The State of Alabama except the following counties: Mobile, Baldwin, Russell, Pike, Barbour, Coffee, Dale, Henry, Covington, Geneva, and Houston, and towns and cities in Lee and Chambers counties located on or south of the Atlanta & West Point Railroad and the Western Railway of Alabama.

JACKSONVILLE BRANCH (District No. 6).—The entire State of Florida.

NASHVILLE BRANCH (District No. 6).—That part of the State of Tennessee included in Federal reserve district No. 6 with the exception of the city of Chattanooga.

NEW ORLEANS BRANCH (District No. 6).—Those parts of the States of Louisiana and Mississippi located in Federal reserve district No. 6, and the counties of Mobile and Baldwin in Alabama.

DETROIT BRANCH (District No. 7).—The following 19 counties in the State of Michigan:

Bay	Ingham	Livingston	Saginaw	Tuscola
Genesee	Jackson	Macomb	Sanilac	Washtenaw
Hillsdale	Lapeer	Monroe	St. Clair	Wayne
Huron	Lenawee	Oakland	Shlawassee	

LITTLE ROCK BRANCH (District No. 8).—Territory is not determined by State or county lines. Branch territory consists of all cities in Arkansas except those assigned to the head office and to the Memphis branch. (For names of cities see Federal Reserve Interdistrict Collection System list.)

LOUISVILLE BRANCH (District No. 8).—Territory is not determined by State or county lines. Branch territory consists of all cities in Kentucky and Indiana, included in Federal reserve district No. 8, except those assigned to the head office. (For names of cities see Federal Reserve Interdistrict Collection System list.)

MEMPHIS BRANCH (District No. 8).—Territory is not determined by State or county lines. Branch territory consists of all cities in Mississippi included in Federal reserve district No. 8; all cities in Tennessee included in district No. 8, except those assigned to St. Louis, and cities in Arkansas not assigned to St. Louis or Little Rock. (For names of cities see Federal Reserve Interdistrict Collection System list.)

HELENA BRANCH (District No. 9).—The entire State of Montana.

DENVER BRANCH (District No. 10).—The entire State of Colorado and that part of the State of New Mexico included in Federal Reserve District No. 10.

OKLAHOMA CITY BRANCH (District No. 10).—That part of the State of Oklahoma located in Federal Reserve District No. 10.

OMAHA BRANCH (District No. 10).—The entire States of Nebraska and Wyoming.

EL PASO BRANCH (District No. 11).—That part of the States of Arizona and New Mexico located in Federal Reserve District No. 11, and the following 14 counties in the State of Texas:

Andrews	Ector	Jeff Davis	Midland	Ward
Crane	El Paso	Loving	Pecos	Winkler
Culberson	Hudspeth	Martin	Reeves	

HOUSTON BRANCH (District No. 11).—The following 41 counties in the southeast part of the State of Texas:

Anderson	Colorado	Jackson	Montgomery	Shelby
Angelina	Fayette	Jasper	Nacogdoches	Trinity
Austin	Fort Bend	Jefferson	Newton	Tyler
Bastrop	Galveston	Lavaca	Orange	Victoria
Brazoria	Grimes	Lee	Folk	Walker
Brazos	Hardin	Liberty	Sabine	Waller
Burleson	Harris	Madison	San Augustine	Washington
Chambers	Houston	Matagorda	San Jacinto	Wharton
Cherokee				

SAN ANTONIO BRANCH (District No. 11).—The following 54 counties in the State of Texas:

Aranzas	Comal	Hidalgo	Llano	Starr
Atascosa	De Witt	Jim Hogg	Live Oak	Tarrell
Bandera	Dimmit	Jim Wells	Mason	Travis
Bee	Duval	Karnes	Maverick	Uvalde
Bexar	Edwards	Kendall	McMullen	Val Verde
Blanco	Frio	Kenedy	Medina	Webb
Brewster	Gillespie	Kerr	Nueces	Willacy
Brooks	Goliad	Kimble	Presidio	Wilson
Caldwell	Gonzales	Kinney	Real	Zapata
Calhoun	Gusdalupe	Kleburg	Refugio	Zavalla
Cameron	Hays	La Salle	San Patricio	

LOS ANGELES BRANCH (District No. 12).—That part of the State of Arizona located in Federal Reserve District No. 12, and the following counties in California:

Imperial	Los Angeles	Riverside	San Diego	Ventura
Inyo	Orange	San Bernardino	Santa Barbara	

PORTLAND BRANCH (District No. 12).—The entire State of Oregon, except the towns of Klamath Falls, Lakeview, and Merrill, which are affiliated with the head office, and the following five counties in the State of Washington:

Clarke and the town of Ilwaco, Wash.	Cowlitz	Klickitat	Skamania	Wahkiakum
--------------------------------------	---------	-----------	----------	-----------

SALT LAKE CITY BRANCH (District No. 12).—The entire State of Utah and the following counties in Idaho and Nevada:

IDAHO				
Ada	Bonneville	Custer	Jerome	Fayette
Adams	Butte	Elmore	Lemhi	Power
Bannock	Camas	Franklin	Lincoln	Teton
Bear Lake	Canyon	Fremont	Madison	Twist Falls
Bingham	Caribou	Gem	Minidoka	Valley
Blaine	Cassia	Gooding	Oneida	Washington
Boise	Clark	Jefferson	Owyhee	

NEVADA				
Clark	Elko	Lincoln	White Pine	

SEATTLE BRANCH (District No. 12).—The following 16 counties in the State of Washington, except the town of Ilwaco, Wash.

Clallam	King	Lewis	Pierce	Snohomish
Grays Harbor	Kitsap	Mason	San Juan	Thurston
Island	Kittitas	Pacific ¹	Skagit	Whatcom
Jefferson				

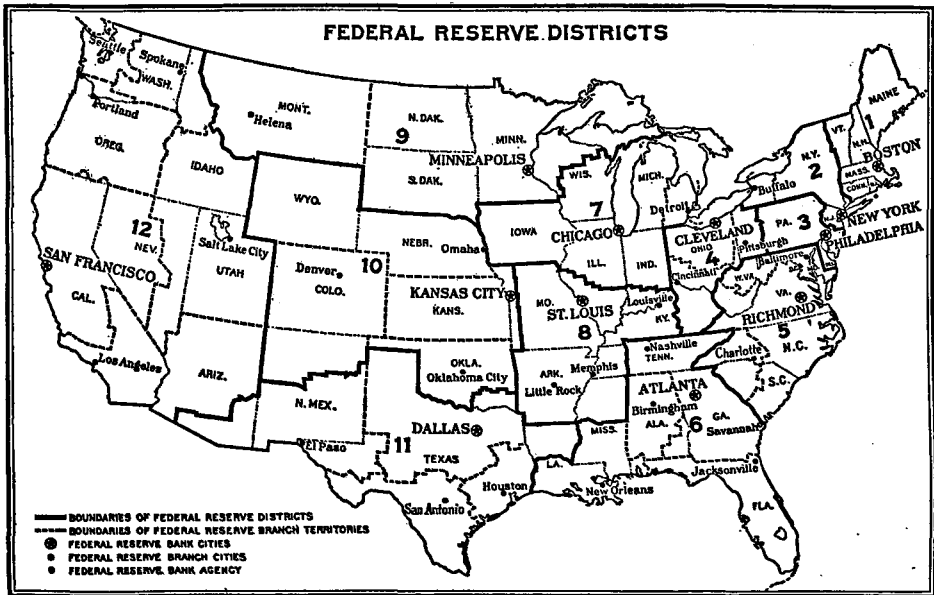
SPOKANE BRANCH (District No. 12).—The following counties in the States of Washington and Idaho:

WASHINGTON				
Adams	Columbia	Garfield	Fend Oreille	Walla Walla
Asotin	Douglas	Grant	Spokane	Whitman
Benton	Ferry	Lincoln	Stevens	Yakima
Chelan	Franklin	Okanogan		

IDAHO				
Benevolah	Boundary	Idaho	Latah	Nev Pecos
Bonder	Clearwater	Kootenai	Lewis	Shoshone

¹ Except the town of Ilwaco (see Portland branch).

FEDERAL RESERVE DISTRICTS



INDEX

	Page
Acceptances:	
Held by Federal Reserve banks.....	100
Held by group of accepting banks.....	166
Held by member banks on call dates.....	150-151
Maturity of bills held by Federal Reserve banks.....	99, 101
Number of pieces handled by Federal Reserve banks.....	41, 103, 104, 105
Open-market discount rates.....	4, 134, 135
Outstanding.....	165
Payable in foreign currencies.....	88, 90, 100
Purchased by member banks.....	150, 158, 160, 162
Rates, discount and open-market:	
Average rates earned on bills bought by Federal Reserve banks.....	40, 133
Buying rates of Federal Reserve banks.....	4, 133
Change in Federal Reserve bank rates.....	1, 129-132
Open-market rates in New York City.....	4, 134, 135
Trade, held by Federal Reserve banks.....	100
Acts amending Federal Reserve Act. (See Federal Reserve Act.)	
Additions and withdrawals, banks in Federal Reserve System.....	45, 177
Adjusted-service certificates, discount of paper secured by.....	98
Administrator, list of national banks authorized to act as.....	236
Advances to industries by Federal Reserve banks. (See Industries, loans to.)	
Advances to member banks under section 10 (b) of Federal Reserve Act.....	98, 99
Extension of time limit.....	53
Rates on.....	129
Advisory Council, Federal:	
Meetings of.....	62
Expenses of.....	112
Members of.....	201
Recommendations of, to Federal Reserve Board.....	201-205
Affiliates of member banks.....	2, 58-60
Voting permits, applications for.....	2, 60
Agencies of Federal Reserve banks. (See Branches and agencies.)	
Amendments to Federal Reserve Act. (See Federal Reserve Act.)	
Area of Federal Reserve districts.....	256-261
Assessment for expenses of Federal Reserve Board.....	63, 112, 210
Assets and liabilities:	
Federal Reserve banks:	
At the end of each month.....	90
At the end of 1933 and 1934.....	92-95
Weekly statement and balance-sheet items.....	88
Member banks:	
Country banks.....	142
National and State banks.....	142
On call dates.....	146
Reporting banks:	
In 91 cities.....	158
In New York City.....	160
Outside New York City.....	162
National banks.....	142
Reserve city member banks.....	142
State bank members.....	142
Assignee, list of national banks authorized to act as.....	236
Automobiles:	
Factory employment index.....	194
Factory pay-roll index.....	193
Production index.....	192

	Page
Balance sheets. (See Condition of banks.)	
Bank consolidations.....	45, 177
Bank examinations.....	54
Bank debits.....	166
Bank failures. (See Bank suspensions.)	
Bank mergers.....	45, 177
Bank premises, Federal Reserve.....	42, 89, 91, 92, 109, 112, 113
Book value.....	109
Cost of.....	109
Date occupied.....	109
Depreciation charges.....	113
Repairs, cost of.....	112
Bank suspensions.....	3, 25, 26, 167-176
By Federal Reserve districts and States.....	168-174
By years.....	167
Deposits of banks suspended.....	167, 169, 170, 171, 173, 175, 176
Loans to banks by Reconstruction Finance Corporation.....	26
Number:	
By Federal Reserve districts and States.....	172, 174
Classified according to capital stock.....	167
Bankers' acceptances. (See Acceptances.)	
Bankers' balances of member banks.....	142, 146, 148, 159, 161, 163
Banking Act of 1933, administration of.....	2, 57
Banking conditions in 1934, discussion of.....	1
Banking corporations engaged in foreign banking business, examination of.....	55
Baumann, John C., appointed assistant counsel of Federal Reserve Board.....	63
Bills bought by Federal Reserve banks.....	67-83, 88-95, 99, 100
Earnings on.....	40, 110, 112
Rates of.....	40, 133
Holdings:	
By classes.....	100
By maturities.....	101
Open-market purchases.....	88, 92
On call dates.....	82
Outright.....	88, 90
Payable in foreign currencies.....	88, 90, 100
Under resale agreement.....	90
Volume of:	
Federal Reserve banks.....	41, 103, 104
Federal Reserve branch banks.....	44, 105
Bills discounted by Federal Reserve banks.....	67-83, 85, 87, 88-95, 101
Earnings on.....	40, 110, 112, 133
Rates of.....	40, 133
Holdings:	
By classes.....	98
By maturities.....	99, 101
By months.....	85
By States.....	87
On call dates.....	82
Secured by United States Government obligations.....	88, 92, 94, 98, 99
Under resale agreement.....	90
Volume of.....	41, 103, 104
Bills payable and rediscounts, member banks on call dates.....	148
Black, Eugene R., Governor of Board, resignation of.....	62
Boatwright, H. Lee, assistant counsel, resignation of.....	63
Bonds:	
Capital issues.....	183
Index of prices.....	184
Of Federal Farm Mortgage Corporation as security for advances to member banks, amendment to Federal Reserve Act.....	47
Paper secured by:	
Discount rates.....	136
Held by member banks.....	150
United States. (See United States Government securities.)	
Yield on.....	4, 185
Book value, Federal Reserve bank premises.....	109

	Page
Borrowings of member banks at Federal Reserve banks:	
All banks.....	152, 155
Banks in New York City, Chicago, and other reserve cities.....	155-157
Reporting member banks:	
In 91 cities.....	159
In New York City.....	161
Outside New York City.....	163
Branches and agencies of Federal Reserve banks:	
Bank premises:	
Cost of.....	109
Date occupied.....	109
Book value.....	109
Clearing operations.....	44, 105
Counties comprising territory.....	262, 263
Directors of.....	212-215
Expenses of.....	44
Managers of.....	212-215
Number of.....	43
Territory.....	262, 263
Volume of operations.....	44, 105
Brokers, loans to:	
As reported by New York Stock Exchange.....	165
By member banks:	
In 91 cities.....	158
In New York City.....	160, 164
By weeks.....	164
On call dates.....	150
Outside New York City.....	162
Building:	
Contracts awarded.....	28, 31, 186
Eligibility of construction loan for rediscount, provisions of act.....	49
For Federal Reserve Board.....	43, 52
Account.....	210
Materials, wholesale prices.....	196, 197
Buildings, Federal Reserve banks.....	42, 109
Book value.....	109
Cost of bank premises.....	109
Date occupied.....	109
Depreciation charges.....	113
Repairs, cost of.....	112
Business conditions in 1934.....	4, 28-33
Report of Federal Advisory Council on.....	201
Call loans:	
In New York City.....	164, 165
Money rates in New York City.....	134, 135
Capital:	
Banks suspended.....	167
Federal Reserve banks.....	89, 91, 93, 95
Member banks.....	142, 146
Requirement for membership in System, amendment to act regard- ing.....	50
State bank members of System.....	216
Capital issues.....	4, 183
Capital stock:	
Reduction in, number of applications approved by Board.....	56
State member banks, classification according to.....	233-235
Car loadings, index of.....	28, 186
Cash in vault, member banks.....	141, 159, 161, 163
In 91 cities.....	159
In New York City.....	161
Outside New York City.....	163
Cash reserves of Federal Reserve banks.....	84, 88, 90, 92, 94
Cement, clay, and glass:	
Factory employment index.....	194
Factory pay-roll index.....	193

	Page
Central banks, foreign:	
Discount rates.....	138
Gold reserves.....	9
Chart showing.....	10
Open-market rates.....	138
Central reserve city banks:	
Condition of.....	142
Demand and time deposits.....	148
Deposits, reserves, and borrowings at Federal Reserve banks.....	152, 155
Loans and investments.....	144, 150
Certificates of indebtedness, Treasury:	
Held by Federal Reserve banks.....	92, 94, 102
Yield on.....	134
Chairmen of board of directors of Federal Reserve banks. (See Federal Reserve agents.)	
Changes in discount rates of Federal Reserve banks.....	1, 129
Changes in membership in Federal Reserve System.....	45, 177
Charts:	
All member banks—loans, investments, deposits, and holdings of securities.....	18
Excess reserves of member banks.....	15
Gold reserves of central banks and governments.....	10
Manufactures, durable and nondurable.....	29
Reserve bank credit and related items.....	13
Wholesale prices.....	32
Check clearing and collection:	
Gold settlement fund transactions.....	106
Operations, volume of:	
Federal Reserve banks.....	41, 103, 104
Federal Reserve branch banks.....	44, 105
Par list, number of banks on.....	44, 108
Chemicals:	
Factory employment index.....	194
Factory pay-roll index.....	193
Prices, wholesale, index of.....	196, 197
Chicago, member banks in:	
Condition of.....	142
Deposits of.....	148, 152
Deposits, reserves, and borrowings at Federal Reserve banks.....	152, 156
Loans and investments.....	144, 150
Circulation, money. (See Currency; Federal Reserve notes; Money.)	
Classification according to capital stock, State bank members.....	233-235
Classification of demand and time deposits of member banks.....	148
Classification of loans and investments of member banks.....	144, 150
Clayton Antitrust Act, administration of.....	2, 57
Clayton, Lawrence, appointed assistant to Governor.....	63
Coal, index of production.....	192
Coin:	
Circulation.....	124
Held by Federal Reserve banks.....	88, 90, 92
Received and counted:	
At Federal Reserve banks.....	41, 103, 104
At Federal Reserve branch banks.....	44, 105
Collateral held by Federal Reserve banks as security:	
For Federal Reserve notes.....	93, 94, 115
For Federal Reserve bank notes.....	93, 94, 116
Collateral notes of member banks held by Federal Reserve banks.....	98, 99
Collection of checks. (See Check clearing and collection.)	
Commercial paper:	
Money rates in New York City.....	134, 135, 136
Outstanding.....	165
Purchased by member banks.....	150, 158, 160, 162
Commodity prices, wholesale.....	81, 196, 197
Chart showing.....	32
Condition of banks:	
All banks in the United States.....	140, 141
Deposits, exclusive of interbank deposits; number of banks.....	140
Loans and investments.....	141

Condition of banks—Continued.

	Page
Federal Reserve banks:	
Assets and liabilities:	
At the end of each month.....	90
At the end of 1933 and 1934.....	92-95
Weekly statement and balance-sheet items.....	88
Bills bought. (See Bills bought.)	
Bills discounted. (See Bills discounted.)	
Deposits, reserves, note circulation, and cash ratio.....	84
United States securities, holdings of. (See United States securities.)	
Member banks:	
All banks:	
Assets and liabilities:	
On Dec. 31, 1934, by classes of banks.....	142
On call dates, 1920-34.....	146
Changes during 1934.....	23
Classification of demand and time deposits.....	148
Classification of loans and investments on call dates.....	150
Classification of loans, investments, and deposits, by classes of banks.....	144
Deposits subject to reserve, reserves required, reserves held, and borrowings at Federal Reserve banks.....	152, 155-157
Net demand and time deposits:	
By months.....	153
In larger and smaller centers.....	154
Reporting banks:	
In 91 cities.....	158
In New York City.....	160
Outside New York City.....	162
Consolidations, bank.....	45, 177
Construction contracts awarded.....	28, 31, 186
Construction loan, eligibility of, for rediscount; provisions of act.....	49
Copper, index of production.....	192
Cost of Federal Reserve bank premises.....	109
Counties in Federal Reserve districts.....	256-261
Counties in Federal Reserve branch territories.....	262-263
Country member banks:	
Condition of.....	142
Demand and time deposits.....	148
Deposits, reserves, and borrowings at Federal Reserve banks.....	152
Loans and investments.....	144, 151
Credit:	
Federal Reserve bank. (See Federal Reserve bank credit.)	
Member bank.....	17, 139
Credit agreements, Federal Reserve banks with foreign central banks.....	53
Currency:	
Amounts received and counted:	
At Federal Reserve banks.....	41, 103, 104
At Federal Reserve branch banks.....	4, 105
Circulation.....	7, 12, 16, 67-82, 84, 123, 124, 125
By kinds.....	124
By months.....	123
Chart showing.....	13
Paper.....	16, 125
Revised to exclude gold coin.....	67
Federal Reserve, cost of.....	112, 210
Currie, Lauchlin, appointed assistant director of Division of Research and Statistics.....	63
Debentures of intermediate credit banks held by Federal Reserve banks.....	91
Debits to individual account.....	166
Deferred availability items of Federal Reserve banks.....	89, 91, 93
Deficient reserve penalties imposed by Federal Reserve banks.....	110, 112
Demand deposits. (See Deposits.)	
Department-store sales.....	28, 186

Deposits:	Page
All banks in the United States, exclusive of interbank deposits.....	140
Banks suspended.....	167-171, 175, 176
Federal Reserve bank.....	84, 89, 91, 93
Foreign bank.....	84, 89, 91, 93, 95, 148
Government:	
Held by Federal Reserve banks.....	67-82, 84, 89, 91, 93
Held by member banks.....	143, 144, 146, 148, 159, 161, 163
In 91 cities.....	159
In New York City.....	161
On call dates.....	146
Outside New York City.....	163
Insurance of.....	27
Examination of banks.....	2, 55
Provisions of act extending time limit on.....	50
Recommendations of Federal Advisory Council relative to.....	205
Member bank:	
All banks.....	4, 17-22, 142, 144, 146, 148, 152, 153, 154, 155
Chart showing.....	18
Classification of time and demand, on call dates.....	148
Net demand and time.....	153, 154, 155
By months.....	153
In larger and smaller centers.....	154
Subject to reserve, reserves required, reserves held, and borrowings at Federal Reserve banks.....	152, 155-157
Reporting banks:	
In 91 cities.....	159
In New York City.....	161
Outside New York City.....	163
Payment of interest on:	
Amendment to regulation Q.....	52
Rate of interest fixed by Board.....	1
Recommendations of Federal Advisory Council relative to.....	203
Moneys of Federal Savings and Loan Insurance Corporation with Federal Reserve banks, provisions of law relating to.....	49
Nonmember bank.....	67-82, 140
Postal savings.....	148
Rate of interest fixed by Board on time and savings.....	1
State bank members of Federal Reserve System.....	216
Deputy chairmen of board of directors of Federal Reserve banks, list of.....	212-215
Directors of Federal Reserve banks:	
List of.....	212-215
Meetings, expenses of.....	112
Directors of member banks, stock ownership by, provisions of act regarding.....	50
Discount and open-market operations of Federal Reserve banks:	
Acceptances. (See Acceptances.)	
Bills bought.....	67-83, 88-95, 99, 100
Earnings on.....	40, 110, 112
Rates of.....	40, 133
Holdings:	
By classes.....	100
By maturities.....	101
Open-market purchases.....	88, 92
On call dates.....	82
Outright.....	88, 90
Payable in foreign currencies.....	88, 90, 100
Under resale agreement.....	90
Volume of:	
Federal Reserve banks.....	41, 103, 104
Federal Reserve branch banks.....	44, 105
Bills discounted.....	67-83, 85, 87, 88-95, 101
Earnings on.....	40, 110-112
Rates of.....	40, 133
Holdings:	
By classes.....	98
By maturities.....	99, 101
By months.....	85
By States.....	87

Discount and open-market operations of Federal Reserve banks—Con.	
Bills discounted—Continued.	Page
On call dates.....	82
Secured by United States Government obligations.....	88, 92, 94, 98, 99
Under resale agreement.....	90
Volume of.....	41, 103, 104
Collateral notes of member banks discounted and held.....	98, 99
Discounts for individuals, partnerships, and corporations.....	98, 99
Dollar exchange bills discounted or purchased.....	88, 90
Industrial advances and commitments to make industrial advances.....	85, 86
Maturity of bills purchased or held.....	99, 101
Loans to industries. (See Industries, loans to.)	
Number of banks discounting paper:	
By districts.....	96
By months.....	96
By States.....	97
Number of pieces handled.....	41, 103, 104
Rates charged and rates of earnings on bills discounted.....	40, 133
United States Government securities:	
Earnings and rates of earnings.....	40, 110, 112, 133
Paper secured by, purchased and held.....	88, 92, 94, 98, 99
Purchased and held.....	67-83, 88-95, 102
By classes.....	102
Volume of operations.....	41, 103, 104
Discount and open-market rates:	
Average rates earned by Federal Reserve banks on:	
Bills discounted.....	40, 133
United States securities.....	40, 133
Buying rates on acceptances.....	4, 133
Central banks in foreign countries:	
Changes in.....	138
Open-market rates.....	138
Changes in Federal Reserve bank rates.....	1, 129-132
Open-market rates in New York City.....	4, 134, 135
By months.....	134
By weeks.....	135
Rates charged customers:	
In New York City.....	136
In principal cities.....	137
Discounts for individuals, partnerships, and corporations.....	98, 99
Rates.....	130, 131
Districts, Federal Reserve. (See Federal Reserve districts.)	
Dividends:	
Federal Reserve banks.....	40, 111, 113
Member banks.....	178
National banks.....	178
State bank members.....	179
Dollar bankers' acceptances held by group of accepting banks.....	166
Dollar exchange bills held by Federal Reserve banks.....	88, 90
Due from foreign banks to Federal Reserve banks.....	83, 88, 90, 92, 94
Due to and from banks (bankers' balances).....	142, 146, 148, 159, 161, 163
Earmarked gold for foreign account.....	119, 120
Earnings and expenses:	
Federal Reserve banks.....	39-41, 89, 110-114, 133
Each bank during year 1934.....	112
Earnings, by sources.....	110
Rates of earnings.....	40, 133
Member banks.....	178
National banks.....	178
State member banks.....	178
Eccles, Marriner S., appointed Governor of Federal Reserve Board.....	62
Eligible paper held by Federal Reserve agent as security:	
For Federal Reserve bank notes.....	116
For Federal Reserve notes.....	115
Employees:	
Federal Reserve banks, number and salaries.....	41, 112, 216
Federal Reserve Board, number and salaries.....	206
employment, factory.....	28, 186, 194

	Page
England:	
Discount rates of Bank of.....	138
Gold reserves, chart showing.....	10
Open-market money rates.....	138
Examinations, bank:	
Corporation engaged in foreign banking.....	55
Federal Reserve banks.....	55
Private banks.....	60
State member banks.....	54
Under Federal deposit insurance.....	2, 55
Excess reserves:	
Federal Reserve banks.....	4, 12, 14, 84
Member banks.....	1, 4, 12, 14, 15, 22, 152, 155-157
Chart showing.....	15
Executor, list of national banks authorized to act as.....	236
Expenses:	
Branches and agencies of Federal Reserve banks.....	44
Federal Reserve banks.....	39, 40, 110, 112
Fiscal agency departments of Federal Reserve banks.....	114
Federal Reserve Board.....	63, 210, 211
Member banks.....	178-179
National banks.....	178-179
State bank members.....	178-179
Exports and imports:	
Acceptances based on, held by Federal Reserve banks.....	100
Gold.....	5, 7, 121, 122
By countries.....	121
By months.....	122
Expressage, cost of, at Federal Reserve banks.....	112
Factory employment and pay rolls.....	28, 31, 186, 193, 194
Failures, bank. (See Bank suspensions.)	
Farm products, prices of, index of.....	196
Federal Advisory Council:	
Meetings of.....	62
Expenses of.....	112
Members of.....	201
Recommendations of, to Federal Reserve Board.....	201-205
Federal deposit insurance.....	27
Examination of banks under.....	2, 55
Provisions of act extending time limit on.....	50
Recommendations of Federal Advisory Council relative to.....	205
Federal intermediate credit banks, bills discounted for.....	90
Federal Open Market Committee, meeting of.....	62
Federal Reserve Act, provisions of acts amending.....	45-52
Act of June 30, 1934—Gold Reserve Act:	
Conditions as to acquisition or transportation of gold.....	46
Redemption of currency in gold.....	46
Reduction in weight of gold dollar; stabilization fund.....	47
Relating to Federal Reserve notes.....	46
Transfer of gold from Federal Reserve banks to United States.....	46
Acts of January 31 and April 27, 1934:	
Federal Reserve banks as fiscal agents of Home Owners' Loan Corporation.....	48
Obligations eligible for purchase by Federal Reserve banks.....	47
Security for 15-day advances to member banks by Federal Reserve banks.....	47
Act of March 6, 1934—Direct obligations of United States as security for Federal Reserve notes, extension of time limit.....	48
Act of May 13, 1934—Robbery of member bank.....	48
Act of June 6, 1934—Securities Exchange Act.....	49
Act of June 16, 1934:	
Capital requirements for membership in Federal Reserve System.....	50
Insurance of bank deposits, extension of time limit.....	50
Stock ownership by directors of member banks.....	50

Federal Reserve Act, provisions of acts amending—Continued.		Page
Act of June 19, 1934:		
Criminal provisions.....	-----	52
Building for Federal Reserve Board.....	-----	52
Industrial advances by Federal Reserve banks.....	-----	50
Liability of national banks.....	-----	51
Act of June 27, 1934:		
Applicability of restrictions on real-estate loans to loans under Housing Act.....	-----	48
Deposit of moneys of Federal Savings and Loan Insurance Corporation with Federal Reserve banks.....	-----	49
Eligibility for rediscount of construction loans.....	-----	49
Federal Reserve agents:		
Conferences of, expenses of.....	-----	112
Federal Reserve note accounts.....	-----	115
Federal Reserve bank note accounts.....	-----	116
Gold fund, summary of transactions.....	-----	107
List of.....	-----	112-115
Salaries of.....	-----	216
Federal Reserve bank credit:		
Annual averages.....	-----	67, 83
By weeks (Wednesday series).....	-----	71-77
Chart showing.....	-----	13
Discussion of.....	-----	12-15
End of month series.....	-----	78-81
Monthly averages.....	-----	68, 83
On call dates.....	-----	82
Outstanding.....	-----	83
Weekly averages.....	-----	69-70
Federal Reserve bank float.....	-----	83, 90
Federal Reserve bank notes:		
Circulation.....	-----	124
Federal Reserve agents' accounts.....	-----	116
Held by Federal Reserve banks.....	-----	88, 90, 92, 94
Federal Reserve banks:		
Agreements with foreign banks to purchase commercial bills.....	-----	53
As fiscal agents for Home Owners' Loan Corporation, provisions of law.....	-----	48
Bank premises.....	-----	42, 89, 91, 92, 109, 112, 113
Cost of.....	-----	109
Bills bought by. (See Bills bought.)		
Bills discounted by. (See Bills discounted.)		
Branches and agencies of:		
Bank premises.....	-----	109
Clearing operations.....	-----	44, 105
Counties comprising territory.....	-----	262
Directors of.....	-----	212-215
Expenses of.....	-----	44
Managers of.....	-----	212-215
Number of.....	-----	43
Territory.....	-----	262
Volume of operations.....	-----	44, 105
Building operations.....	-----	42, 109
Capital.....	-----	89, 91, 93, 95
Chairman of boards of directors, list of.....	-----	212-215
Clearing operations.....	-----	41, 103, 104
Condition of. (See Condition of banks.)		
Deposits. (See Deposits.)		
Directors, list of.....	-----	212-215
Discount rates. (See Discount and open-market rates.)		
Discounts. (See Discount and open-market operations.)		
Dividends paid.....	-----	40, 111, 113
Earnings and expenses.....	-----	39-41, 110-114, 138
Each bank during year 1934.....	-----	112
Earnings, by sources.....	-----	110
Rates of earnings.....	-----	40, 133
Employees, number and salaries.....	-----	41, 112, 216
Examinations, number of.....	-----	55

	Page
Federal Reserve banks—Continued.	
Fiscal agency operations.....	114
Franchise tax paid to Government.....	111
Gold settlement fund.....	106
Governors:	
Conferences, expenses of.....	112
List of.....	212-215
Salaries of.....	216
Number of banks discounting paper at.....	96, 97
Officers and directors, list of.....	212-215
Officers, salaries of.....	216
Profit and loss account.....	113
Redemption fund.....	88, 90, 92
Reserves. (See Reserves.)	
Resources and liabilities. (See Assets and liabilities.)	
Salaries, officers and employees.....	41, 112, 216
Tax, franchise, paid to Government.....	111
Volume of operations.....	41, 103, 104, 105
All banks.....	41, 103
Branches.....	43, 105
Each bank.....	104
Federal Reserve Board:	
Assessment for expenses of.....	63, 112, 210
Baumann, John C., appointed assistant counsel.....	63
Black, Eugene R., Governor, resignation of.....	62
Boatwright, H. Lee, assistant counsel, resignation of.....	63
Building for.....	43, 52
Clayton Act, administration of.....	2, 57
Clayton, Lawrence L., appointed assistant to Governor.....	63
Conferences with advisory council.....	62
Currie, Lauchlin, appointed assistant director of Division of Research and Statistics.....	63
Directory.....	206
Division of Security Loans created.....	63
Eccles, Marriner S., appointed Governor.....	62
Employees, number and salaries.....	206-209
Expenses of.....	63, 112, 210
Martin, H. Warner, assistant to Governor, resignation of.....	63
Members of.....	206
Miller, Adolph C., reappointed member.....	63
Morgenthau, Henry, Jr., appointed ex-officio chairman.....	62
Owens, Joseph T., appointed assistant counsel.....	63
Parry, Carl E., appointed chief of Division of Security Loans.....	63
Receipts and disbursements.....	210, 211
Regulations of.....	52
Salaries of officers and employees.....	206-209
Terms of members.....	206
Thomas, J. J., designated vice governor.....	62
Thomas, Woodlief, appointed assistant director of Division of Research and Statistics.....	63
Williams, Gray:	
Appointed assistant counsel.....	63
Resignation of.....	63
Woodin, William H., ex-officio chairman, retirement of.....	62
Federal Reserve branch banks:	
Bank premises.....	109
Clearing operations.....	44, 105
Counties comprising territory.....	262, 263
Directors of.....	212-215
Expenses of.....	44
Managers of.....	212-215
Number of.....	43
Territory.....	262, 263
Volume of operations.....	44, 105
Federal Reserve districts:	
Area, square miles.....	256-261
Counties comprising branch territory.....	262-263

	Page
Federal Reserve districts—Continued.	
Counties in divided States.....	256-261
Map showing outline.....	264
Population.....	256-261
Federal Reserve interdistrict collection system. (See Check clearing and collection.)	
Federal Reserve notes:	
Amendment to section 16 of Federal Reserve Act relative to.....	46
Circulation.....	84, 89, 91, 93, 95, 124
Cost of.....	112, 210
Eligible paper held as collateral against.....	115
Federal Reserve agents' accounts.....	115
Gold certificates held as collateral against.....	93, 95, 115
Held by Federal Reserve banks.....	88, 90, 92, 94
Obligations of United States as security for, extension of time limit.....	48
Fiduciary powers of national banks:	
List of national banks authorized to exercise.....	236-255
Number of permits issued.....	56
Fiscal agency operations of Federal Reserve banks.....	114
Float, Reserve bank.....	83, 90
Food products:	
Factory employment index.....	194
Factory pay-roll index.....	193
Production index.....	192
Food prices, wholesale, index of.....	196
Foreign bank deposits held by Federal Reserve banks.....	84, 89, 91, 93, 95
Foreign banking, corporations engaged in, examination of.....	55
Foreign banks:	
Deposits of, held by Federal Reserve banks.....	84, 89, 91, 93, 95
Due to Federal Reserve banks from.....	83, 88, 90, 92, 94
Foreign capital issues.....	183
Foreign central banks:	
Agreement with Reserve banks to purchase commercial bills.....	53
Money rates:	
Changes in.....	138
Open-market rates.....	138
Foreign currency, acceptances payable in, holdings of Reserve banks.....	88, 90
Foreign deposits, member banks.....	148
Foreign trade.....	8
France:	
Discount rates of Bank of.....	138
Gold reserves, chart showing.....	10
Open-market money rates.....	138
Franchise tax paid by Federal Reserve banks to Government.....	111
Freight-car loadings, index of.....	28, 186
Fuel, index of wholesale prices.....	196
Germany:	
Discount rates of Reichsbank.....	138
Gold reserves, chart showing.....	10
Open-market money rates.....	138
Gold:	
Certificates:	
Held as collateral against Federal Reserve notes.....	93, 95, 115
Held by Federal Reserve banks.....	88, 90, 92, 94
Circulation.....	7, 124
Revision of figures.....	67
Earmarked for foreign account.....	119, 120
Federal Reserve agents' fund.....	107
Imports and exports.....	5, 7, 121, 122
By countries.....	121
By months.....	122
Output of mines.....	9
Proclamation of President fixing weight of dollar.....	3, 5, 47
Purchases.....	5
Reserve Act of 1934, provisions of, affecting Federal Reserve Act.....	3, 5, 46
Reserves of Federal Reserve banks.....	5-7, 9, 88, 90, 92, 94
Chart showing.....	10

	Page
Gold—Continued.	
Reserves of foreign central banks.....	11
Chart showing.....	11
Settlement fund.....	106
Stock, monetary, in United States.....	3, 5-7, 67-82, 119, 120
Analysis of changes in.....	120
Chart showing.....	18
Years 1914-34.....	119
Weight of dollar.....	3, 5, 47
World stock of.....	3, 5, 47
Government bonds. (See United States Government securities.)	
Government deposits:	
Held by Federal Reserve banks.....	67-82, 84, 89, 91, 98
Held by member banks.....	143, 144, 146, 148, 159, 161, 163
In 91 cities.....	159
In New York City.....	161
On call dates.....	146
Outside New York City.....	163
Government securities. (See United States Government securities.)	
Governor of Federal Reserve Board:	
Black, Eugene R., resignation of.....	62
Eccles, Marriner S., appointed.....	62
Woodin, William H., retirement of.....	62
Governors of Federal Reserve banks:	
Conferences of, expenses of.....	112
Black, Eugene R.:	
Reappointment of.....	62
Death of.....	62
List of.....	212-215
Salaries of.....	216
Great Britain. (See England.)	
Guardian of estates, national banks authorized to act as.....	236
Imports and exports:	
Bankers' acceptances based on, held by Federal Reserve banks.....	100
Gold.....	5, 7, 121, 122
By countries.....	121
By months.....	122
Index numbers:	
Factory employment.....	194
Factory pay rolls.....	193
Manufactures.....	192
Minerals.....	192
Production, employment and trade.....	186
Security prices.....	194
Individuals, partnerships, and corporations:	
Discounts for.....	98, 99
Rates of discount.....	130, 131
Industries, loans to, by Federal Reserve banks.....	2, 33-35, 83, 85, 86, 88, 90, 92, 94
By Federal Reserve districts.....	85
Discount rates.....	131
Earnings on.....	112
Outstanding, by weeks.....	86
Provisions of act relating to.....	50
Provisions of Regulation S relating to.....	52
Volume of.....	103, 104
Insurance:	
Federal deposit.....	27
Examination of banks under.....	2, 55
Provisions of act extending time limit.....	50
Recommendations of Advisory Council relative to.....	205
Federal Reserve banks.....	112
Federal Reserve banks.....	138
Interbank loans, discount rates.....	138
Interest earned by member banks.....	178, 179
Interest on deposits, payment of:	
Recommendations of Advisory Council relative to.....	203
Rate of interest fixed by Board.....	1
Regulation Q, amendment to.....	52
Investments and loans. (See Loans and investments.)	

INDEX

277
47

	Page
Iron and steel:	
Factory employment index.....	194
Factory pay-roll index.....	193
Production index.....	186
Iron-ore shipments.....	192
Italy:	
Discount rates of Bank of.....	138
Open-market money rates.....	138
Japan:	
Discount rates of Bank of.....	138
Open-market money rates.....	138
Land area of Federal Reserve districts.....	256-261
Lead production, index of.....	192
Leased-wire system, cost of.....	210
Leather:	
Factory employment index.....	194
Factory pay-roll index.....	193
Production index.....	186
Products, wholesale prices.....	196
Legal fees, Federal Reserve banks.....	112
Liberty Loan bonds held by Federal Reserve banks.....	88, 102
Loans:	
Secured by stocks and bonds:	
Made by member banks on call dates.....	150
Money rates in New York City.....	136
To banks by Reconstruction Finance Corporation.....	26
To brokers:	
As reported by New York Stock exchange.....	165
By member banks:	
In 91 cities.....	158
In New York City.....	160, 164
By weeks.....	164
On call dates.....	150
Outside New York City.....	162
To individuals, partnerships, and corporations.....	98, 99
Discount rates on.....	130, 131
To industries, by Reserve banks.....	2, 33-35, 83, 85, 86, 88, 90, 92, 94
By Federal Reserve districts.....	85
Discount rates.....	131
Earnings on.....	112
Outstanding, by weeks.....	86
Provisions of act relating to.....	50
Provisions of Regulation S relating to.....	52
Volume of.....	103, 104
To member banks in exceptional and exigent circumstances.....	98, 99
Extension of time limit.....	53
Discount rates.....	129
Loans and investments:	
All banks in the United States.....	141
Member banks:	
All banks.....	17, 142, 144, 146, 150
By classes of banks.....	144
Chart showing.....	18
On call dates.....	150
Reporting banks:	
In 91 cities.....	158
In New York City.....	160
Outside New York City.....	162
State bank members of Federal Reserve System.....	216-232
Losses, reserve for, at Federal Reserve banks.....	113
Lumber:	
Factory employment index.....	194
Factory pay-roll index.....	193
Production index.....	192
Machinery:	
Factory employment index.....	194
Factory pay-roll index.....	193
Managers of branches of Federal Reserve banks, list of.....	212-215

	Page
Manufactures:	
Chart showing.....	29
Index of production.....	186, 192
Map outlining Federal Reserve districts.....	264
Martin, H. Warner, assistant to Governor, resignation of.....	63
Maturities, bills discounted and bought by Reserve banks.....	99, 101
Member and nonmember bank credit.....	139
Member banks:	
Acceptances held.....	166, 150
Advances to, under section 10 (b) of act.....	98, 99
Extension of time limit.....	53
Rates on.....	129
Affiliates of.....	2, 58-60
Voting permits, applications for.....	2, 60
Assets and liabilities:	
All banks.....	146
Reporting banks.....	158-162
Bank suspensions.....	3, 25, 26, 167-176
Bankers' balances.....	142, 146, 148, 159, 161, 163
Borrowings at Federal Reserve banks:	
All banks.....	152, 155
Banks in New York City, Chicago, and other reserve cities.....	155-157
Reporting banks:	
In 91 cities.....	159
In New York City.....	161
Outside New York City.....	163
Brokers' loans:	
In 91 cities.....	158
In New York City.....	160, 164
By weeks.....	164
On call dates.....	150
Outside New York City.....	162
Capital.....	142, 146
Changes in membership.....	45, 177
Consolidations.....	45, 177
Deposits:	
All banks.....	4, 17-22, 142, 144, 146, 148, 152, 153, 154, 155
Chart showing.....	18
Classification of time and demand on call dates.....	148
Government.....	148, 159, 161, 163
Net demand and time.....	153, 154, 155
Subject to reserve, reserves required, reserves held, and borrowings at Federal Reserve banks.....	152, 155-157
Reporting banks.....	159, 161, 163
Dividends declared.....	178
Dividends paid to, by Federal Reserve banks.....	40, 111
Earnings, expenses, and dividends.....	178
Excess reserves.....	1, 4, 12, 14, 15, 23, 152, 155-157
Chart showing.....	15
Failures.....	3, 25, 26, 167-176
List of, with loans, investments, deposits, capital, and surplus.....	216-231
Loans and investments:	
All banks.....	17, 142, 144, 148, 150
By classes of banks.....	144
Chart showing.....	18
On call dates.....	150
Reporting banks.....	158, 160, 162
Loans to brokers.....	150, 158, 160, 162, 164
Reporting banks in New York City, by weeks.....	164
Mergers.....	45, 177
National banks:	
Additions to and withdrawals from System.....	45, 177
Condition of.....	142
Deposits.....	140
Earnings, expenses, and dividends.....	178
Loans and investments.....	141
Number.....	45, 140, 177

Member banks—Continued.	
National banks—Continued.	Page
Suspensions	25, 167-173
Trust powers:	
List of banks authorized to exercise	235-255
Number of permits issued	56
Number of	45, 140, 177
Number of, discounting paper at Federal Reserve banks	96, 97
Number of, on par list	44, 108
Reserve balances..... 1, 4, 12, 13, 14, 22, 67-81, 86, 89, 91, 93, 95, 146, 158, 161	
All banks	86, 142, 146, 152
By Federal Reserve districts	86
Chart showing	13
Factors influencing volume of	12
On call dates	146
Reporting banks	159, 161, 163
Reserves required, reserves held, deposits subject to reserve, and borrowings at Federal Reserve banks	152, 155-157
Robbery of, law providing penalty for	48
State banks:	
Changes in membership	45, 177
Classification according to capital stock	233-234
Condition of	142
Earnings, expenses, and dividends	178
List of, with loans, investments, deposits, capital, and surplus	216-231
Number of	45, 140, 177, 216
Suspensions	3, 25, 26, 167-176
Stock ownership by directors, provisions of law relating to	50
Withdrawals from System	45, 177
Membership in Federal Reserve System:	
Changes in	45, 177
State banks and trust companies, list of	216-231
Membership in par collection system	44, 108
Mergers, bank	45, 177
Metals, wholesale price index of	198, 197
Miller, Adolph C., reapointed member of Board	63
Mineral production, index of	192
Monetary gold stock of United States	3, 5-7, 67-82, 119, 120
Analysis of changes in	120
Chart showing	13
Years 1914-34	119
Money in circulation	7, 12, 16, 67-82, 84, 123, 124, 125
By kinds	124
By months	123
Chart showing	13
Paper	16, 125
Revised to exclude gold coin	67
Money rates:	
In foreign countries	138
In New York City	
In principal cities	137
Morgenthau, Henry, Jr., appointed Secretary of the Treasury	62
Municipal warrants held by Federal Reserve banks	91
Mutual savings banks:	
Deposits	140
Loans and investments	141
Number of	140
National bank notes:	
Circulation	124
Held by Federal Reserve banks	88
National banks:	
Additions to and withdrawals from System	45, 177
Condition of	142
Deposits	140
Earnings, expenses, and dividends	178
Loans and investments	141
Number	45, 140, 177
Suspensions	25, 167-176

National banks—Continued.	
Trust powers:	Page
List of banks authorized to exercise.....	235-255
Number of permits issued.....	56
Netherlands:	
Discount rates of Bank of.....	138
Gold reserves, chart showing.....	10
Open-market money rates.....	138
New York City, member banks in:	
Condition of.....	142
Deposits.....	148, 152
Deposits, reserves, and borrowings at Federal Reserve banks.....	152, 155
Loans and investments.....	144, 150
New York Stock Exchange:	
Act regulating, provisions of.....	3, 35
Borrowings of brokers as reported by.....	165
Regulations prescribed by Board.....	35-39, 52
Nonferrous metals:	
Factory employment index.....	194
Factory pay-roll index.....	193
Production index.....	192
Nonmember banks:	
Bank suspensions.....	25, 167-176
Bills discounted for.....	88, 90, 98
Deposits.....	67-82, 140
Loans and investments.....	141
Number of.....	140
Number on par list.....	44, 108
Number of banks in the United States.....	140
Number of member banks.....	140, 177
Number of member banks discounting paper at Federal Reserve banks.....	96, 97
Officers and directors of Federal Reserve banks, list of.....	212-215
Officers and employees:	
Federal Reserve banks, number and salaries.....	41, 216
Federal Reserve Board, number and salaries.....	206-209
Open Market Committee, Federal, meeting of.....	62
Open-market operations. (See Discount and open-market operations.)	
Open-market rates. (See Discount and open-market rates.)	
Owens, Joseph T., appointed assistant counsel of Board.....	63
Par collections. (See Check clearing and collection.)	
Par list, number of banks on.....	44, 108
Parry, Carl E., appointed chief of Division of Security Loans.....	63
Pay rolls, factory, index of.....	44, 108
Penalties for deficient reserves.....	110, 112
Permits under Clayton Act.....	57
Permits under section 32 of Banking Act of 1933.....	57
Permits, voting, by holding company affiliates.....	59
Petroleum refining:	
Factory employment index.....	194
Factory pay-roll index.....	193
Production index.....	192
Postal savings deposits.....	146
Population of Federal Reserve districts.....	256-261
Postage, Federal Reserve banks, cost of.....	112
Premises, Federal Reserve banks.....	42, 89, 91, 92, 109, 112, 113
Book value.....	109
Cost of.....	109
Date occupied.....	109
Depreciation charges.....	113
Repairs, cost of.....	112
Prices:	
Retail.....	33
Security.....	184
Wholesale commodity.....	28, 31, 196,
Chart showing.....	32
Printing and stationery, Federal Reserve banks, cost of.....	112
Private banks, examination of.....	60

	Page
Proclamation of President fixing weight of gold dollar.....	3, 5
Production, index of.....	28, 29, 186
Profit and loss account of Federal Reserve banks.....	113
Public-utility stocks, prices of.....	184
Railroad car loadings, index of.....	186
Railroad stocks, prices of.....	184
Rates, discount. (See Discount rates.)	
Real estate, loans on:	
Applicability of restrictions under Housing Act.....	48
Made by member banks.....	150, 158, 160, 162
Receipts and disbursements by the Federal Reserve Board.....	210, 211
Receiver, list of national banks authorized to act as.....	236
Recommendations of Federal Advisory Council.....	201-205
Reconstruction Finance Corporation, loans to banks by.....	26
Registrar of stocks and bonds, list of national banks authorized to act as.....	236
Regulations of the Federal Reserve Board:	
Regulation Q—Payment of interest on deposits:	
Amendment to.....	52
Recommendations of Federal Advisory Council relative to.....	203
Regulation S—Loans to industries.....	52
Regulation T—Stock exchange.....	35-39, 52
Recommendations of Federal Advisory Council relative to.....	202, 205
Rent paid by Federal Reserve banks.....	112
Reporting member banks. (See Member banks.)	
Reserve balances of member banks.....	1,
4, 12, 13, 14, 22, 67-81, 86, 89, 91, 93, 95, 146, 158, 161	
All banks.....	86, 142, 146, 152
By Federal Reserve districts.....	86
Chart showing.....	13
Factors influencing volume of.....	12
On call dates.....	146
Reporting banks.....	159, 161, 163
In 91 cities.....	159
In New York City.....	161
Outside New York City.....	163
Reserve bank float.....	83, 90
Reserve city member banks:	
Condition of.....	142
Demand and time deposits.....	149
Deposits, reserves required, reserves held, and borrowings at Federal	
Reserve banks.....	152, 157
Loans and investments.....	144, 151
Reserves:	
Deficiencies in, penalties for.....	110, 112
Federal Reserve banks.....	84, 88, 90, 92, 94
Cash.....	88, 90, 92, 94
Excess.....	4, 12, 14, 84
Gold.....	5-7, 9, 88, 90, 92, 94
Member banks:	
All banks.....	1, 4, 12, 13, 14, 22, 67-81, 86, 142, 146, 152
Excess.....	1, 4, 12, 14, 15, 22, 152, 155-157
Chart showing.....	15
Deposits subject to reserve, reserves required, reserves held and	
borrowings at reserve banks.....	152, 155-157
On call dates.....	146
Reporting banks.....	159, 161, 163
Resources and liabilities:	
Federal Reserve banks:	
At the end of each month.....	90
At the end of 1933 and 1934.....	92, 95
Weekly statement and balance-sheet items.....	88
Member banks:	
Country banks.....	142
National and State banks.....	142
On call dates.....	146

Resources and liabilities—Continued.	
Member banks—Continued.	
Reporting banks:	Page
In 91 cities.....	158
In New York City.....	160
Outside New York City.....	162
National banks.....	142
Reserve city national banks.....	142
State member banks.....	142
Robbery of member bank, law providing penalty for.....	48
Rubber products:	
Factory employment index.....	194
Factory pay-roll index.....	193
Production index.....	192
Salaries:	
Federal Reserve banks.....	112, 216
Federal Reserve Board.....	206-209
Savings deposits, rate of interest fixed by Board.....	1
Secretary of the Treasury:	
Morgenthau, Henry, Jr., appointed.....	62
Woodin, William H., retirement of.....	62
Securities Exchange Act of 1934:	
Provisions of.....	3, 49
Rules and regulations prescribed by Board under.....	35-39
Regulation T, provisions of.....	62
Security prices.....	184
Silver:	
Circulation.....	124
Held by Federal Reserve banks.....	88
Monetary stock.....	11
Price of.....	11
Purchase of, under Silver Purchase Act.....	11
Silver Purchase Act of 1934, provisions of.....	8, 11
State banks:	
Affiliates of member banks. (<i>See</i> <i>Affiliates.</i>).....	
Capital.....	216
Changes in membership.....	45, 177
Classification according to capital stock.....	233-235
Condition of.....	142
Deposits.....	140
Earnings, expenses, and dividends.....	178
List of, with loans, investments, deposits, capital, and surplus.....	216-232
Loans and investments.....	141, 142, 144
Number of.....	45, 140, 177, 216
Number of applications for reduction in capital stock approved by.....	
Board.....	56
Suspensions.....	25, 167-176
Unlicensed banks, number and deposits.....	25, 170, 171
State, county, and municipal deposits in member banks.....	146
Stocks and bonds:	
Issues of.....	183
Loans secured by, made by member banks:	
In New York City.....	164
On call dates.....	150
Money rates on loans secured by.....	136
Prices of.....	184
Stock exchange:	
Act regulating, provisions of.....	3, 35
Borrowings of brokers as reported by.....	165
Recommendations of Federal Advisory Council relative to.....	202, 205
Regulations prescribed by Board.....	35-39, 52
Stock ownership by director of member banks, provisions of act regarding.....	50
Surplus:	
Federal Reserve banks.....	89, 91, 93, 95, 111, 113
Member banks.....	142, 148
State bank members of Federal Reserve System.....	216
Suspensions, bank. (<i>See</i> <i>Bank suspensions.</i>).....	
Sweden, Bank of, discount rates.....	138

	Page
Switzerland:	
Discount rates of Bank of.....	138
Open-market money rates.....	138
Tax, franchise, paid by Federal Reserve banks to Government.....	111
Tax on premises, Federal Reserve banks.....	112
Telephone and telegraph expenses:	
Federal Reserve banks.....	112
Federal Reserve Board.....	210
Textiles:	
Factory employment index.....	194
Factory pay-roll index.....	193
Prices, wholesale.....	196, 197
Production index.....	192
Thomas, J. J., designated Vice Governor of Federal Reserve Board.....	62
Thomas, Woodlief, appointed assistant director of Division of Research and Statistics.....	63
Time and demand deposits. (See Deposits.)	
Tobacco manufactures:	
Factory employment index.....	194
Factory pay-roll index.....	193
Production index.....	192
Trade acceptances held by Federal Reserve banks.....	100
Trade, wholesale.....	29, 186
Traveling expenses, Federal Reserve banks.....	112
Treasury bills held by Federal Reserve banks.....	88, 102
Treasury bonds:	
Held by Federal Reserve banks.....	102
Yield on.....	134, 185
Treasury certificates of indebtedness:	
Held by Federal Reserve banks.....	92, 94, 102
Yield on.....	134
Treasury notes:	
Circulation.....	124
Held by Federal Reserve banks.....	88, 92, 94, 102
Yield on.....	134
Trust companies. (See State banks.)	
Trust powers of national banks:	
List of banks authorized to exercise.....	236-255
Number of permits issued.....	56
United States Government deposits:	
Held by Federal Reserve banks.....	84, 89, 91, 93, 95
Held by member banks.....	143, 148, 159, 161, 163
In 91 cities.....	159
In New York City.....	161
On call dates.....	148
Outside New York City.....	163
United States Government securities:	
As collateral against Federal Reserve bank notes.....	116
As collateral against Federal Reserve notes.....	115
Provisions of act extending time limit.....	48
Average yield on.....	134, 135, 185
Bills discounted secured by, held by Federal Reserve banks.....	88, 92, 94, 95, 99
Bonds:	
Held by Federal Reserve banks.....	88, 92, 94, 102
Prices of.....	185
Yield on.....	4, 185
Certificates of indebtedness:	
Held by Federal Reserve banks.....	92, 94, 102
Yield on.....	134
Earnings and rates of earnings on purchases by Reserve banks.....	40,
110, 112, 133	
Held by Federal Reserve banks.....	67-83, 88-95, 102
By classes.....	102
Bought outright.....	88, 90, 102
Bought under resale agreement.....	90, 102
Chart showing.....	18

	Page
United States Government securities—Continued.	
Held by member banks.....	4, 17, 142, 144, 148, 150, 158, 160, 162
Issues of.....	4
Issues, redemptions, and exchanges handled by fiscal agency departments of banks.....	41, 103, 104
Liberty bonds held by Federal Reserve banks.....	88, 102
Paper secured by, held by Federal Reserve banks.....	88, 92, 94, 98
Rates of earnings on purchases by Federal Reserve banks.....	40, 133
Treasury bills held by Federal Reserve banks.....	99, 92, 94, 102
Treasury bonds:	
Held by Federal Reserve banks.....	92, 94, 102
Yield on.....	185
Treasury notes:	
Held by Federal Reserve banks.....	88, 92
Yield on.....	134
Volume handled by Federal Reserve banks.....	41, 103, 104, 105
United States notes in circulation.....	124
Volume of operations of Federal Reserve banks:	
All banks.....	41, 103, 104
Branches.....	44, 105
Each bank.....	104
Warehouse receipts, loans secured by, money rates on.....	136
Warrants, municipal, held by Federal Reserve banks.....	90
Wholesale commodity prices, index of.....	186
Williams, Gray:	
Appointed assistant counsel.....	63
Resignation of.....	63
Wholesale commodity prices.....	28, 31, 196, 197
Chart showing.....	32
Wholesale trade, index of.....	186
Withdrawals from Federal Reserve System.....	45, 177
Woodin, William H., Secretary of the Treasury, retirement of.....	62
Yields on bonds.....	185

**THE LABOUR PARTY
Policy Report No. 1**

20

**CURRENCY
BANKING
FINANCE**

**PRICE
ONE PENNY**

Currency, Banking and Finance

FOLLOWING the discussion upon Banking and Finance at the 1931 Annual Conference of the Labour Party at Scarborough, the National Executive Committee of the Party has examined the problems involved in greater detail, and will submit the following Resolution for consideration at the forthcoming Annual Conference at Leicester.

The Draft Report set forth in the following pages is explanatory of the proposals put forward in the Resolution and is circulated for the information of delegates, members of affiliated Societies and general supporters of the Party.

Other Policy Reports will deal with "The National Planning of Transport," "The Re-organisation of the Electricity Supply Industry" and "The Land and Agriculture."

TRANSPORT HOUSE,
Smith Square, London, S.W.1.

July, 1932.

X6.3.N3

G2

Resolution on Currency, Banking and Finance

This 1932 Annual Conference of the Labour Party, believing that the British trade depression and its resulting unemployment have been considerably aggravated by the deflationary monetary policy pursued in recent years, that the enormous power exercised by the financial system cannot continue to be left in private control, and that the public control of that system is essential for carrying out a policy of planned National Development, and to prevent Socialist policy from being defeated either by active opposition or by passive obstruction from private financial interests, proposes:—

(1) That, in view of the breakdown of the gold standard, the aim of British monetary policy should be to stabilise wholesale prices at a suitable level in this country, and to seek by international agreement the largest practicable measure of stability in the rates of foreign exchange.

(2) That the Bank of England should be brought under public ownership and control; and that the Governor of the Bank should be appointed by the Government and be subject to the general direction of a Minister of Cabinet rank, who should in turn be responsible to the House of Commons for banking policy, the day-to-day business of the Bank being carried on by the Governor and his subordinates.

(3) That a National Investment Board, appointed by the Government on suitable grounds of ability, should be set up under the general direction of the appropriate Minister and working in close co-operation with the publicly-owned Bank of England; that with the object of preventing waste and mis-direction in the use of long-term capital, the Board should exercise control over all new public issues on the capital market, and its permission should be required before any such new issue could be made; that the Board should be able to refuse "leave to deal" on the Stock Exchange in any issue which, having been rejected as a public issue, had then been placed privately; and that it might be found necessary to give a Government guarantee, on the lines of the Trade Facilities Acts, in order to secure priority for approved schemes of industrial reorganisation, subject, however, to the acceptance of public control by the industries concerned.

(4) That all necessary emergency powers should be taken to deal with any attempt by private financial institutions to obstruct a Labour Government, damage national credit, or create a financial panic.

POLICY REPORT

CURRENCY, BANKING AND FINANCE

(1) The control of finance stands to-day in the forefront of Labour policy. Bitter experience, in this and other countries, has taught us what disastrous effects monetary disturbances and instability may have upon trade and employment and upon the purchasing power of the people. Since the War, the workers have suffered first from inflation, and then from deflation, both of which were brought about by financial powers and forces completely outside their control. To establish control over this department of our economic life will not, by itself, bring about Socialism, nor raise the workers' standard of life to a proper level. But such control is a necessary foundation of Socialist reconstruction, and without such control, the achievement of the Labour Party's aims will be impossible.

I.—CONTROL OF CURRENCY

(2) Until recently, currency has been neglected as a subject of popular attention, owing to the belief that it is both too remote and too complicated. As a result, financial experts have had the field to themselves, and such a muddle have they made of it that a Conservative ex-Chancellor of the Exchequer, Sir Robert Horne, speaking in the House of Commons in May, 1932, said that in consequence it was "a damned close thing whether civilisation would survive." In reality, a sound currency policy is vital to the well-being of every individual in the community, and the general principles underlying it are not difficult to understand in a broad way.

Functions of Currency

(3) Currency has two main functions. It forms a means of exchange and a basis of contracts. Barter, the primitive method of exchange, is a cumbersome business, and becomes well-nigh impossible under the complicated conditions of modern life; it has, therefore, been most conveniently replaced by the use of currency, and trading transactions consist not in exchanging goods for goods or services, but in buying and selling things for money. Even to-day, when currency is in such a muddle, it adequately fulfils its functions as a medium of exchange, provided the transactions are all within one country and are done on the basis of immediate cash payments.

(4) But transactions are not all of this character. Sometimes buyer and seller are not citizens of the same country. The buyer, for instance, may be an Englishman who is paying in pounds sterling, while the seller may be an American selling for dollars. Currency policy, therefore, also concerns itself with the number of dollars and cents which are equivalent to a pound sterling. Sometimes, again, the transaction takes the form of a contract in which the price is not paid at once, but at some future date, perhaps many years hence. Long-term loans, leases, mortgages and a number of commercial transactions are of this character; while wage agreements expressed in terms of money often run for a long period. What concerns the contracting parties in these cases is the purchasing power of money over the period during which the contract runs. If it is fairly constant, in other words if the pound sterling will buy roughly the same basketful of goods when the contract is made and when it is fulfilled, the intentions of the parties will be realised. If it does not do this, if the purchasing power of money substantially changes so that the pound buys either a great deal more or a great deal less as time goes on, then one of the parties makes a gain at the expense of the other.

Recent History of World Currencies

41

(5) Since the War, the currencies of the world have failed to provide either stable exchanges between different countries or stable purchasing power within them. The exchange between Britain and America, which was 4.86 dollars to the pound in 1914, was as low as 3.20 in February, 1920; was put back to 4.86 in 1925 when the British gold standard was restored; went down below 4 dollars when Britain went off gold in September, 1931; and thereafter continued to fluctuate. In 1914, twenty-five French francs bought a pound; in July, 1926, when Britain had gone back to gold and France had not, it took about 200 francs to buy a pound; then later, when France went back to a gold basis, it took 124 francs; and after September, 1931, the rate was below 100 francs. The exchanges of the pound with the currencies of Germany, Austria and other countries have been still more chaotic during the post-War period.

(6) At the same time, not one of the chief world currencies has preserved an even purchasing power. Measured in terms of a selected average of wholesale commodities, the British pound in 1920 was able to buy less than one-third of what it bought in 1914, and in August, 1931, it had risen again until it actually bought 10 per cent. more than in 1914, and about three-and-a-half times what it bought in 1920. That is to say, between 1920 and 1931, wholesale commodities lost, on the average, over two-thirds of their value in terms of money. Similarly, according to the cost-of-living figures, what would have cost 100 shillings in 1914, cost 276 shillings in November, 1920, and 143 shillings in May, 1932. Many foreign currencies have exhibited far greater fluctuations even than these.

(7) These figures exhibit the dual nature of the currency malady from which the world is suffering—the instability of the exchanges and the instability of the price level. When the financial experts of the world met in various international conferences in the years following the War, as, for example, at the Genoa Conference in 1922, they recommended a general return to a gold standard as a means of stabilising the exchanges, and talked about some action to stabilise prices. The first recommendation was generally adopted, but nothing was done about the latter question. Most countries went back to gold; and as the pound, the dollar, the franc, the mark, the lira, etc., each exchanged for a fixed weight of gold, they naturally had a fixed ratio of exchange with one another. But the price level was at the mercy of all sorts of influences, and the financiers took no adequate steps to control it. When prices continually fell, disorganising industry and creating widespread unemployment, the advice given by the bankers was that the peoples must make the necessary "adjustments" to the altered conditions. This was equivalent to saying that man and his affairs were to be the servant of money, and not money the servant of man. Further, as the bankers did not propose to scale down national and international debts, rents, mortgages, or debenture interest, the real meaning of their advice was simply that wages and social services should be cut.

Stable Price Level

(8) So long as Great Britain was on the gold standard she was clamped to the world system of gold-using countries, and no independent action was possible. Now that she is off the gold standard there is freedom to adopt any currency policy which commends itself. What ought that policy to be? In the first place, should main attention be paid to prices or to exchanges?

(9) The Labour Party resolution carried at the Annual Conference, 1931, definitely declared in favour of the former, and this declaration should be adhered to. The reason for this is that, whereas trade may be handicapped by fluctuating exchanges, it risks being substantially destroyed if prices continue to fall as they have been doing during the last few years. The havoc worked by such a fall in prices covers every field of life. It checks manufacture, because

the manufacturer hesitates to produce on a falling market; it creates unemployment; it ruins the producers of food and raw materials; it increases the burden of the national debt; it enriches the rentier class at the expense of the rest of the community; and it drives the debtor nations towards bankruptcy.

(10) It is right, therefore, to direct main attention to the effect of currency policy on the price level. What should be the aim in this? Rapid inflationary or deflationary methods, such as have been disastrously experienced in many countries since the War, are, of course, ruled out; but there are various other possibilities. Should prices go gradually down? Should they go gradually up? Or should average prices, when once they have reached a reasonable level, remain roughly fixed? Each of these schools of thought has its advocates.

(11) Those who want prices to go gradually down, say that this is the proper way to extend to the community as a whole the benefits of man's greater power over nature and production; and that, in particular, if the cost of living is gradually falling, the workers are gradually gaining increases in real wages, even when their money wages remain the same. The obvious objection is that at the same time the rentiers, whether they hold national debt, debentures, mortgages or other fixed charges upon industry, will take a larger and larger share of the national income; while falling prices provide a powerful weapon for wage reductions and against wage increases, so that, on balance, the workers are likely to lose.

(12) The advocates of a gradually rising price level argue that their policy stimulates production, secures good employment, and gradually reduces the share which the rentier class takes from the national income. But a gradual rise in the price level, and therefore in the cost of living, means a gradual fall in the purchasing power of wages, health benefits, old-age pensions and the like, and large surplus profits to the employers. The workers are, therefore, constantly engaged in an uphill struggle to secure increases in wages, benefits and pensions to catch up with rising prices. Moreover, if the rate of increase of prices is rapid, stocks of unused manufactures may be put into storage in anticipation of a further rise; and this may go on until at last a halt is called, prices are broken, and widespread unemployment results.

(13) The third policy is to secure that the average level of prices shall remain as nearly as possible constant, so that the pound shall buy roughly the same basketful of goods to-day, next month, next year and ten years hence. This is to enable money to fulfil its natural function of being a standard of value, just as the yard stick is a standard of length. The workers will know then that if they secure an increase in wages or benefits, they are securing a real increase in the standard of life. At the same time, trade and industry will have reasonable security for the future, instead of being as at present at the mercy of financial gerrymandering. In other words, industry and not the speculators will reap the reward. This is the policy recommended by the Labour Party.

(14) Against this policy it is sometimes argued that it assumes the continuance of a capitalist organisation of industry. It does nothing of the kind. What it does is to say that so long as any capitalist industry exists, a steady level of average prices is an essential step towards steady production, towards setting the workers free from unemployment, and towards restricting anti-social speculation.

(15) Other critics argue that the policy might be a good one, but that it is not possible of achievement.* These critics appear to acknowledge that by contraction of credit, by putting up the bank rate, and by similar means the general price level may be brought down, but they deny that monetary measures of an opposite kind will necessarily be able to put it up. In this

* Of course, it is not possible to secure, by monetary means alone, stability in the prices of particular articles. It is the average, or index number, of prices which it is proposed to stabilise.

contention they forget that a Government has various means at its disposal for attaining its purpose. If it were really true that by no Government action could prices be made to rise, then a Government could win universal popularity by remitting all taxation and spending lavishly out of borrowed money and printing notes. There can really be no doubt at all, as competent economists in many different countries agree, that a Government controlling the monetary system can lower or raise the general level of prices at will. If, therefore, prices are falling it can take action to raise them, and if they rise it can take action to lower them. It can, therefore, continually bring them back to the proper level.

(16) It will be noticed that nothing has so far been said as to the level at which prices should be stabilised. This omission is deliberate, for much will depend upon the circumstances prevailing at the time when Labour policy is put into effect, and upon the movement of prices, wages, etc., in the meantime. The best method of carrying out the policy of stabilisation will be to aim at stabilising the index number of wholesale prices. If this is done, any large fluctuation in retail prices will be prevented; and by appropriate measures for the prevention of profiteering by middlemen, and for the better organisation of retail trade, the present excessive gap between wholesale and retail prices should be narrowed, to the general advantage of the consumers. The consideration of such measures falls outside the scope of this report; but it is clear that in this field the Co-operative Movement can play a very important part, and that every increase in its share of the retail trade of the country will make the problem easier of solution.

Stable Foreign Exchanges

(17) Assuming that price stabilisation be accepted as the object of currency management, it follows that there must be no return to any gold standard of a kind hitherto experienced. There remains, therefore, the question of the foreign exchanges. Can anything be done to prevent fluctuations in these which are liable to cause grave inconvenience to trade? Two separate problems have to be considered. First, day-to-day fluctuations, brought about largely by speculation, should as far as possible be "ironed out" by Governmental action. Secondly, long-term changes in the rates of exchange cannot be prevented by the British Government alone, if its monetary policy is to be directed towards keeping the price level steady;* for if the purchasing power of the pound remains steady while the purchasing power of the dollar goes up, this is bound to be reflected sooner or later in the exchange, by reducing the number of dollars and cents which the pound will buy.

(18) It follows that stable exchanges can only be brought about by international action. Already many nations in practice relate their currencies to the British pound, and others may come into this group. But the policy suggested by the Labour Party is an attempt to secure agreement among all nations to arrive at a common basis by which exchanges may be stabilised at the same time as prices are kept steady. If gold is to enter at all into this, it must be on an entirely different footing from before. And in the view of the Labour Party this country should not give up its freedom of action to keep its own price level constant, until it is completely satisfied that by international action the same result will be achieved.

Control of Financial Machinery

(19) But control of finance, as the Labour Party understands it, is by no means limited to the control, in the social interest, of the purchasing power

* The attitude of the Labour Party towards the Exchange Equalisation Fund, set up under the Finance Act, 1932, is that while the Fund should be used to prevent undesirable day-to-day fluctuations in the exchanges, it should not be used to fix definite rates over a long period, which would be equivalent to returning to the gold standard at a new ratio; the long-term object should be to preserve a steady internal purchasing power for the pound.

of money or of the rates of foreign exchange. The Labour Party also demands such control of the banking and financial institutions of this country as may be necessary for the carrying out of a policy of planned development of the national resources on Socialist lines, for securing sufficient funds for such development, and for preventing Socialist policy from being defeated either by active opposition or by passive obstruction from private financial interests.

II.—THE BANK OF ENGLAND

(20) At the centre of the financial system stands the Bank of England. The capital of this Bank is privately owned; in actual practice its Governor and Deputy Governor are appointed by the directors of the Bank, while the directors are, in effect, appointed by themselves, re-electing each other from year to year and filling casual vacancies in their own ranks according to their own fancy. Most of the directors are connected with financial houses in the City of London. They are private individuals, responsible to no public authority; and the Bank of England is a private institution, possessing its own Charter and subject to Act of Parliament only as regards currency issues, certain obligations relating to gold, and one or two lesser matters. Except in the most general terms, the Bank's policy may not be debated in Parliament, nor may Parliamentary questions be asked of any Minister of the Crown regarding its actions.

(21) Yet the powers of the Bank of England are enormous. It is the Government's banker, holds the Government balances, makes advances to the Government from time to time, issues Government loans, and administers the service of the National Debt. It also holds the balances of the joint stock banks and likewise the nation's gold reserves. By varying its bank rate, and by its so-called "open market operations" (*i.e.*, by its purchase or sale of securities on a large scale), it can expand or restrict credit and thus increase or diminish employment and bring a strong pressure to bear on rates of wages and the standard of life. The Governor of the Bank is in constant touch with Ministers and with the Treasury; he not only gives advice to the Government on financial questions, but is even understood sometimes to have exercised what amounts, in practice, to a veto on the policy proposed by Ministers. He also exercises a great authority over other powerful financial institutions in the City. The Governor, moreover, through his frequent contacts with the governors of central banks in other countries, and through his nominees on the governing body of the Bank of International Settlements, has great influence on the policy of international finance and indirectly on international politics.

(22) It must be added that both the policy pursued by the Bank of England, and the advice which it has given, have on several important occasions since the War been disastrous to the best interests of the country. Thus, it advised the return to the gold standard in 1925, which Mr. Churchill, who as Chancellor of the Exchequer carried the policy into effect, now admits to have been disastrous;* it has advised and practised both before and since 1925, a policy of deflation which has gone far towards ruining industry and has unduly benefited bondholders and others who live on fixed interest-bearing securities; while it took no effective steps to check the reckless over-lending at high rates of interest by City financiers which was the forerunner of the financial crisis in Europe in 1931. Moreover, it was Lord Cunliffe, then Governor of the Bank of England, who encouraged in 1919 by his expert advice the making of those fantastic claims for reparations against Germany which have been the

* "When I was moved by many arguments and forces in 1925 to return to the gold standard, I was assured by the highest experts that we were anchoring ourselves to reality and stability, and I accepted their advice. But what has happened? We have had no reality, no stability. The price of gold has risen since then by more than 70 per cent. . . . Look at the enormously increased volume of commodities which have to be created in order to pay off the same mortgage debt or loan. This monetary convulsion has now reached a pitch where I am persuaded that the producers of new wealth will not tolerate indefinitely so hideous an oppression. — *House of Commons, April 21, 1932.*

source of so much suffering and ill-will in Europe. The Labour Party is entitled to claim, looking back upon these incidents, that its unheeded warnings have been justified by subsequent events.

(23) Those in authority at the Bank of England have, indeed, much expert knowledge and long practical experience in finance, of which a Labour Government should make full use. But they are not infallible supermen, and they should not be permitted either to dictate policy to the Government, or to pursue a policy of their own which, while it may bring distress to countless working-class homes, is outside the control of the Government of the day and shielded from any effective Parliamentary criticism. The declared policy of the Labour Party, that the Bank of England should be publicly owned and controlled, must once more be affirmed.

(24) To give effect to this policy, the Governor of the Bank of England should be appointed by the Government and made subject to the general direction of a Minister of Cabinet rank, who should, in turn, be responsible to the House of Commons for banking policy. Within the broad lines laid down by the Minister, the day-to-day business of the Bank would continue to be carried out by the Governor and his subordinates. The Minister and the Department who would naturally be responsible for controlling the policy of the Bank would be the Chancellor of the Exchequer and the Treasury; but the question of the distribution of duties between Ministers, and the possibility of the need of creating new Ministries or amalgamating existing Ministries, in order that Socialist policy may be carried out with speed and efficiency, will require careful consideration. The existing shareholders would lose whatever nominal powers of control they still possess and be given, in exchange for their shares, stock bearing a fixed rate of interest. Power should be taken to pay off the stockholders as and when desired.

(25) The Bank of England, thus reorganised on a basis of public ownership and control, should be made, to an even greater degree than it is now, the pivot of the British financial system. It is through the Bank of England that control of other financial institutions can most effectively be operated. Such control is already exercised to a considerable extent, both through financial pressure and through tacit agreement; it should be strengthened and regularised. The practice whereby banks, acceptance houses and other financial institutions look to the Bank of England for assistance when they find themselves in trouble, but are subject to no supervision or control in normal times, must be terminated. Moreover, as the Macmillan Committee on Finance and Industry very properly recommended in 1931, much more statistical and other information regarding their financial activities should be furnished to the Bank of England by the joint stock banks, the acceptance houses, British banks doing business mainly abroad, foreign banks with branch offices in this country, and financial institutions generally, and a large part of this information should be published in an appropriate form by the Bank of England.

III.—CONTROL OF LONG-TERM CREDIT

(26) The Bank of England is not directly concerned with the supply of capital in the form of long-term credit for industry. But it is essential to the success of the Labour Party's policy of industrial reorganisation that effective control of new capital issues should be established. For this purpose, a National Investment Board should be set up, working under general instructions from the Government and in close touch with the Bank of England, but exercising its discretion in regard to particular cases which come before it. It might have a status somewhat similar to that of the Import Duties Advisory Committee under the Import Duties Act, 1932, though Parliamentary approval of its detailed decisions would not be required. Its members would be appointed by the Government on appropriate grounds of ability.

(27) The Board would not deal with the private investment of savings in private businesses, nor with the reinvestment of undistributed profits by public companies in their own businesses, nor with the operations of municipal banks, building societies, co-operative societies or other bodies operating under the Industrial and Provident Societies Acts. But it would exercise control over all new public issues on the capital market, and its permission would be required before any such new issue could be made. It would act, in short, as a licensing authority for new issues, both for home and foreign investment. It would also exercise control over the Stock Exchange to the extent of refusing "leave to deal" in any issue which, having been refused a licence by the Board as a public issue, had then been placed privately.

(28) In deciding whether or not to license a proposed new foreign issue, the Board would be guided by official advice as to the total amount which could be lent abroad without undue disturbance to the foreign exchanges, and by other relevant considerations. The whole question of foreign lending raises large issues of world policy and of international co-operation, and the Board would need to be furnished with a general indication of the Government's policy on these matters. Loans to foreign governments raise special problems, and the Board should be satisfied before agreeing to any such loan that the proceeds would not be spent in undesirable directions, *e.g.*, on armaments. Since such loans raise questions concerning the domestic policy of debtor states, as well as the security of creditors and the development of international trade, they should be the subject of international consultation, and for this purpose some suitable machinery, under the League of Nations, should be set up.

(29) At the present time, the British financial system is better organised for foreign than for home issues, and it would be one of the duties of the National Investment Board to correct this tendency for an excessive proportion of new capital to go abroad, while British industry is starved of resources. It may be advisable for the Treasury to retain the right to control, in case of necessity, the sale and purchase of foreign exchange, in order to strengthen the Board's control over foreign-lending.

(30) In deciding whether or not to license a proposed new home issue, the Board would aim at preventing the unnecessary addition of capital to industries that were already over-equipped or the floating of enterprises which were anti-social or otherwise contrary to the interests of the community. Here it would need general guidance from the Government. It would aim at smoothing out undue fluctuations in the demand for capital. It would also aim at checking new issues which seemed likely to compete, for the savings available at any particular time, with the capital requirements of any programme of planned development and industrial reorganisation approved by the Government.

(31) Such a programme must have priority secured to it in the capital market over all less urgent claims. For example, housing schemes should come before dog-racing tracks, new plant for the scientific treatment of coal before new plant for the luxury trades, the establishment of a new industry in a depressed industrial area before the establishment of a new industry in the heart of the countryside. It would be made clear that the fact that the National Investment Board had licensed an application for a new issue, either home or foreign, must not be interpreted as an official invitation to the public to subscribe, still less as a Government guarantee of the interest.

(32) The giving of a Government guarantee in suitable cases, on the lines of the Trade Facilities Acts, may, however, be found to be necessary in order to secure priority for approved projects. Such a guarantee might be given, on the advice either of the National Investment Board or of some body set up to deal specially with the reorganisation of the basic industries, but only on

condition of acceptance by the industry concerned of public control. The principle, moreover, is already accepted, in such cases as road construction, which is largely financed by the motor vehicle duties, and afforestation, which is financed from general taxation, that national development may, under appropriate conditions, be paid for out of revenue rather than by loan. This principle may be capable of further extension, and in so far as it is extended, the need for long-term borrowing will be correspondingly diminished.

IV.—CONTROL OF SHORT-TERM CREDIT

(33) It is clear that an effective policy for the control of finance must extend also to the control of short-term credit so far as the Government's own requirements, and also those of approved schemes of industrial reorganisation and development, are concerned. The possibility cannot be tolerated of the refusal of the necessary short-term credits by private financial institutions, which for political reasons might desire to obstruct the carrying out of plans which the Government and the House of Commons had approved, or to damage the national credit, or deliberately to create a financial panic. Opinions may differ as to the probability of such tactics being attempted against a Government resolutely pursuing a constructive Socialist policy for which it had received a clear mandate from the electors. But the next Labour Government should arm itself with strong and comprehensive powers of control, to be brought into operation in the event of any serious attempt being made by its political opponents to defeat the will of the electors by any such misuse of the financial machine.

(34) Apart from the taking of such emergency powers, which might or might not need to be used, the question arises whether, as an essential part of a programme designed to cover the lifetime of one Parliament, any further steps should be taken in addition to those already indicated, to control the supply of short-term credit. There are some who would answer this question in the negative, especially in view of the fact that with the Bank of England under public ownership and control, and exercising increasing supervision over the rest of the financial system, a very important change would have taken place in the whole situation. Others, however, argue that some of the existing institutions concerned with the supply of short-term credit, such as the joint stock banks or the discount houses, should forthwith be brought more directly under public control, or, on the other hand, that some new institution should be created, perhaps as a subsidiary of the Bank of England, to supply short-term credit to those basic industries, the reorganisation of which will be an essential part of a Labour Government's policy. A further study of this particular question of short-term credit is now being made, in close conjunction with the elaboration of plans for the reorganisation of the various basic industries.

(35) It should, however, be emphasised at this stage that when a bank has made large short-term advances, which have become frozen, to depressed industries such as coal, cotton or iron and steel, it must not be allowed to hold up schemes of reorganisation, even if these involve a modification of its favoured creditor position. No dictatorship of a private financial interest, in opposition to the common good, can be permitted by a Labour Government.

ON
MONEY

By
THE LORD DESBOROUGH, K.G.

(Hon. Fellow of Balliol College, Oxford)

PRINTERS:
WILLIAMS, LEA & CO., LTD.,
CLIFTON HOUSE, WORSHIP STREET, LONDON, E.C.2.

X61
G3

CONTENTS.

	PAGE
Preface	5
Part 1. The Importance of Money	7
Part 2. What is Money ?	9
Part 3. Silver	19
Points	23
Appendices	24

PREFACE.

Having taken some part in the controversy which was carried on for many years after the demonetisation of silver, I think that no apology is necessary for repeating some of the arguments then used. The fundamental questions are, "What is money?" and "How does money measure value?" and any contribution founded on a long study of these questions may possibly be of some service.

The world is admittedly suffering from a catastrophic fall in the level of commodity prices, followed by contraction of credit, widespread bank failures, financial crashes, state defaults, and repudiation of debts, which have diminished the available money of the world, and caused serious economists to state in an official document (see the Report of the Gold Delegation of the Financial Committee of the League of Nations, June, 1932) that it is doubtful if this process continues whether our present civilisation can survive.

The remedy suggested in these pages is to revert to the long-established system of using both the precious metals, linked together by a ratio, as one metallic money for the world, and as the foundation for the great structure of credit which will be raised upon it.

Silver was demonetised in 1873 by the Western Nations, and lost its power as money, and became to a great extent only a commodity. If gold had been demonetised the same thing would have happened to gold. At the time of the Californian and Australian gold discoveries there was a serious agitation to demonetise gold, as creditors thought it was getting too plentiful, and that they were not getting the value of what they were owed.

What is wanted is a stable measure of value for the whole world, East as well as West, which can be secured by having one standard founded on the two precious metals linked together by a ratio.

Part 1.—The Importance of Money.

It has been wisely said that it is impossible to exaggerate the importance of money. Next after spoken language money is the great instrument of association in the world, and there are indications in history that money preceded the invention of letters, and that without money men would have found difficulty in achieving such a degree of association as to demand the invention of letters. Money not only exercises an all-powerful influence over the trade relations of the great countries of the world, but enters into the hourly transactions of every individual in the land, from the King on his throne to the beggar in the gutter.

But although a great writer has compared the operation of money upon Society to the circulation of the blood in the human body, and yet another has declared that without money organised society was inconceivable, yet it is doubtful whether historical writers, though they have given race, religion, climate, natural resources, laws and customs their due weight in recording the rise and fall of nations, and the progress or retardation of civilisation, have attributed the prominence it deserves in history to the contractions and expansions, the scarcity or abundance of the currency medium of society. One great exception there is, and that is the historian Alison, who does not hesitate to attribute the two greatest events in the history of mankind—the fall of the Roman Empire and the resurrection of mankind from the disintegration of society which is known as the Dark Ages—as directly due to monetary causes. The Roman Empire fell because it was bankrupt, owing to the decline in the produce of the gold and silver mines of Spain and Greece and elsewhere.

Her home agriculture ceased as it no longer paid to till the ground, and her hardy agricultural population had been driven from the soil to swell the needy rabble of Rome; Italy was a husk through which the invader marched almost without opposition, and the empire being bankrupt could no longer put armies in the field. Following the fall of the Roman Empire we have the **Dark Ages**, when money practically disappeared, and society was broken up and the arts of civilisation were lost. "Everything," as a well-known writer has said, "of a joint ownership, as a public road, an aqueduct, or a water ditch, everything of a composite structure, from a sailing ship to a piece of paper; every art which depended upon the association of labour, from the representation of a drama down to the blowing of glass, disappeared." Then Alison goes on to say that, as if Providence had intended to reveal in the clearest manner the influence of this mighty agent on human affairs, the **resurrection of mankind** from the ruin which had been caused by the contraction and almost disappearance of the monetary medium, was brought about by the same causes acting in an opposite direction, namely, the **fresh supplies of the precious metals** which the New World poured in to redress the balance of the Old.

The fluctuations in the abundance or scarcity of the monetary medium provide a key to the solution of many problems in history which otherwise appear inexplicable.

Part 2.—WHAT IS MONEY, and how does it perform its function?

Money, we are told, among other things, is a measure of value and a medium of exchange. How does money measure value? That is the most important point.

The ancients, whose monetary dealings were of a less complex character than ours, had a truer insight into the real nature of money than is current at the present time. Aristotle, who lived in the fourth century before our era, showed this insight when he said, "Money, then, has been made by agreement, as it were, a substitute for demand, and is so called because it exists, not by Nature, but by Law, and it is within our power to change it and make it useless for the purpose. But money itself is not always of the same value . . . Money makes all things commensurable, for all things are measured by money."

Before passing to another and even more important quotation, we may note that Aristotle makes three important statements with regard to money:—

- (1) That money exists by Law and not by Nature;
- (2) That money derives its power, not from the (miscalled) "intrinsic value" of the substance of which it is made, but from the law which can give or take away that power; and
- (3) That money is not always of the same value.

These statements are, as I conceive, of the most fundamental importance in arriving at any true conception of the Science of Money, and are in direct opposition and contradiction to the tenets of the school which talks of the "intrinsic" value of gold, and upholds the theory that money is a mere commodity.

result

The second quotation is from the Jurisconsult Paulus, and was incorporated 300 years later into the "Pandects of Justinian," and is as true now as when it was first written :—

"The origin of buying and selling goes back to barter. Primitively there was no money. One thing was not called 'merchandise' and another 'price,' but everyone according to his needs, and according to his circumstances, bartered things useless to him for those which would be useful to him; for it often happens that what one has too much of another lacks. But as it would not always or easily happen that you had what I should wish for, and that, conversely, I had what you wished to obtain, choice was made of a material, which being for ever legal value, would obviate the difficulties of barter, by means of a quantitative equation; and this material, stamped in the corner by the State, circulates with a power which it derives, not from the substance, but from the quantity. Since that time, of the things thus exchanged, one is called merchandise and the other is called price."

In this description of money we are carried a most important step further in the study of the Science of Money. Money is not only a legal institution, as Aristotle pointed out, a creation of the law, but it derives its power, not from the substance of which it is made, but from its quantity.

This is the first official declaration of what is known as the **QUANTITY THEORY of MONEY**, and the Quantity Theory of Money has had

distinguished supporters in modern as well as in ancient times, among those whose names carry the greatest weight in the sphere of Political Economy.

Thus **JOHN LOCKE** says: "The value of money in general is the quantity of all the money in the world in proportion to all the trade." John:

RICARDO says: "The value of money in any country is determined by the amount existing. That commodities would rise or fall in price in proportion to the increase or diminution of money, I assume as a fact that is uncontrovertible"; and elsewhere he says: "The demand for money is regulated entirely by its value, and its value by its quantity." Ricard:

JAMES MILLS says: "And again, in whatever degree, therefore, the quantity of money is increased or diminished, other things remaining the same, in that same proportion the value of the whole, and of every part, is reciprocally diminished or increased." James:

SIR J. GRAHAM says: "The value of money is in the inverse ratio of its quantity, the supply of commodities remaining the same." Sir J. Graham:

JOHN LOCKE ("Considerations," published 1690) says: "Money, while the same quantity of it is passing up and down the kingdom in trade, is really a standing measure of the falling and rising value of other things in reference to one another, and the alteration in price is truly in them only. But if you increase or lessen the quantity of money current in traffic in any place, then the alteration of value is in the money." John:

JOHN S. MILL says: "The value of money—other things being the same—varies inversely as its quantity, every increase of quantity lowering" John:

the value, and every diminution raising it in a ratio exactly equivalent."

And again he says: "That an increase of the quantity of money raises prices, and a diminution lowers them, is the most elementary proposition in the theory of currency, and without it we should have no key to any of the others."

These quotations might be largely increased in number from the writings of the most eminent of economists, but perhaps the question of the QUANTITY THEORY of MONEY may be fittingly summed up in the words of Professor Nicholson, namely, that it is admitted by every economist of repute.

son.
son.

But although the Quantity Theory of Money may be admitted by every economist of repute, it is far from being admitted by the ordinary person who supports Gold Mono-metallism. Gold, we are told by them, is the best standard, and the least variable standard, because gold possesses "intrinsic" value, and they hold that gold measures values not by numerical relation, but by its "intrinsic value" as a commodity. Of all the erroneous theories which have tended to confuse the study of Political Economy, none are, I believe, responsible for so much misapprehension as this theory of "Intrinsic Value." As Professor Jevons has remarked, "There is no such thing as intrinsic value," and until the idea of intrinsic value is disposed of once and for all, it is impossible to grasp any true theory of the Science of Money.

Value to be "intrinsic" must reside in the object. If it resides in the object, it must always be present where the object it resides in is present. Take gold for instance. Gold is said to have intrinsic value, but what is the intrinsic value of a ton of gold to a Robinson Crusoe on a desert island? He would prefer a cocoanut. If value

were intrinsic in the same way that qualities may be said to be intrinsic, the value would have to be there, but it is gone. The qualities of the gold are still there; the gold is still yellow, still ductile, still malleable, still heavy, but its value, not being intrinsic in the same way that these qualities may be said to be intrinsic, has vanished and disappeared. Again taking the case of gold, and putting its intrinsic value at 100 per cent. previous to 1789, we find that Professor Jevons has stated that "The value of gold fell between the years 1788 and 1809 46 per cent."; are we to understand that during these years gold lost 46 per cent. of "intrinsic value"? The same Professor has also stated that between 1809 and 1849 gold rose in value 145 per cent.; are we to understand that it gained 145 per cent.; over its own "intrinsic value"? If value is intrinsic and resides in the thing, how can the same thing have 145 per cent. more value at one time than another? The fact is, as Professor Jevons states in his work on "Money and the Mechanism of Exchange," "Value like utility, is no intrinsic quality of a thing, it is an extrinsic accident or relation"; and "a Student of Political Economy has no hope of ever being clear or correct in his ideas of the Science if he thinks of value as at all a thing or object or even as anything which lies in a thing or object." So there is no such thing as "intrinsic value," and the Monetary School which pin their faith on gold as the most stable standard of value because it has "intrinsic" value, have laid the foundations of their belief on the quicksands of an economic heresy.

Valu
Intri

Money then, measures values, and it measures values not by the value of the substance of which it is made, but by its volume, the number of its units. There are, of course, many other measures besides measures of value—thus, a yardstick measures length, an ounce measures weight, a gallon measures liquid. These measures, however,

Othe
Meas

differ from money in the manner in which they measure.

If we take the gallon, for instance, as the unit of measure for liquids, we find that in 1825 it was enacted that the standard measure of capacity for all liquids should be a gallon containing 10 lbs. av. of distilled water weighed in air, the barometer being at 30 inches, and the thermometer at 62° F. Here then is a unit of measure which does not vary. Copies of the vessel may be obtained in any number, and providing that they correspond in capacity with this vessel, can be made of any material. The number of vessels will not interfere with their measuring powers; if there is only one gallon measure or a hundred million gallon measures it will make no difference.

In the case of money, however, it makes all the difference. The pound, instead of being a stable measure of value as the gallon is a stable measure of liquid, varies in accordance with the number of pounds and the equivalents of pounds which are in circulation, other things remaining the same. In considering money as a measure of value we are brought face to face with the fact that its essence consists in its numerical relation to the commodities and services which it measures. The value of each unit depends upon the number of units which are out; in short **THE UNIT OF MONEY IS ALL MONEY**, and it is impossible to take any one coin and say that it is a stable unit of measure in the same sense that it can be said of the yardstick, the ounce or the gallon.

What then is money? Money, as Aristotle said, is a creation of the Law which can make it and unmake it, and it is not always of the same value, and as was laid down by the Jurisconsult Paulus it derives its power not from its **Substance**, but from its **Quantity**. From these two dicta can be drawn the postulate of a well-known writer on

Money, "The essence of Money is **QUANTITY** and **LIMITATION.**"

Esser
Mone
Quan
and
Limit

If the power of money consists in its quantity, other things being the same, and not in its so-called intrinsic value, it is obvious that money must be limited; an unlimited money would have no value. In countries where legal tender money consists of gold and silver, the contraction or expansion is limited by the amount of gold and silver available for use as money which has come down from past times, and is procured from mines, etc. This system is known as the automatic principle, and might equally well be called the fortuitous or accidental system.

In past history we have seen this automatic principle in operation, and periods of great sterility in the production of gold and silver have been periods of monetary contraction with all its attendant evils, and periods of great increase in the production of gold and silver have been periods of monetary expansion, which have been accompanied by great commercial activity and enterprise.

This automatic principle of monetary supply has also been called the Natural, because the quantity and limitation of money has been left in the hands of Nature, and if we have rightly laid down the primary laws of money the limitations provided by nature can hardly, from a scientific view, be considered satisfactory as a basis, for an ideal system of money. However, it is not my purpose to propose any ideal system of currency, but to examine certain primary laws of money and certain currency problems of the present day. I may merely say in passing that so typical and successful a City man as Ricardo had such an insight into the true nature of money, and was so far superior to the prevailing ideas of money owing its power to its intrinsic or commodity value, that he did not hesitate to say that paper money, which would possess no commodity value, would perform the

Ric

functions of money and maintain its value, provided its issues were strictly limited. I have no desire to bring forward arguments in support of paper money; the objections to it are obvious; the difficulties of foreign exchanges with countries which had a different system, and the enormous temptations Governments would have to make over-issues, are no doubt serious; I only wish to place it on record in illustration of what I have been contending for as the true principles underlying the science of money, that this practical City man has stated that "A currency is in its most perfect state when it consists wholly of paper money," and fully subscribes to the doctrine that the essence of money is Quantity and Limitation, and does not depend upon the commodity value of the substance of which it is made.

I am now considering metallic money, the money made of the two precious metals, gold and silver, gold for the West and silver for the East, on which there has been raised a great volume of credit on a very insecure basis. There never was enough gold to pay debts in gold or to carry on the business of gold standard countries; indeed, if all the monetary gold in the world were collected it would only pay about one-third of our National Debt. The pyramid of credit reared on the narrow gold basis has toppled over, and for various reasons has collapsed. Bank failures all over the world, defaults of Governments, non-payment of dividends, financial crashes of great speculative concerns, following on the fall in prices, have reduced the composite money of the world, and impeded the velocity of its circulation, and so reduced its effective power. Writers and speakers on the present deplorable condition of trade, commerce and industry, while attributing it to the general fall in commodity prices, give various reasons for it such as War debts, the maldistribution of gold, and more especially overproduction, but none of these causes give a satisfactory explanation. They

do not attribute it to the real reason which is the failure of our present monetary system. **Over-production** is the favourite cry, and people talk of production as if it were an evil, and as if the masses of the people were so well off that it would be a good thing to stop the production of things necessary and useful. What is wanted is for the people to have more of everything, more of the necessities and comforts of this life. A table at the end of this paper shows that prices can rise in a period of a great increase of production, providing that money increases at the same time, as it did in the time of the Californian and Australian gold discoveries.

Over
prod

It is said that supposing gold has appreciated and prices have fallen, what does it matter, because if a man's receipts go down his expenses go down as well, and he is practically as well off as he was before. The answer to this is that if this adjustment did take place, if all debts and obligations automatically fell with the fall in prices, there would not be much to complain of, but this adjustment does not take place, and it is not possible that it should take place simultaneously with the fall in prices.

The
PriceDiffi
Adju

One of the chief characteristics of the age is the time contract; money is borrowed for a long period of time, and this debt remains fixed, with the interest, and must be repaid no matter how prices may fall, and it must be remembered that retail prices have not fallen in the same degree as wholesale prices. Trade, industry and commerce are carried on on money borrowed under one form or another, debentures, shares, mortgages and charges of various kinds, and as prices fall it becomes more and more difficult to meet these charges. Wages too would have to be adjusted, which would cause great industrial unrest. What is wanted is a stable monetary measure of value, not indeed, to stabilise prices at their present level, which the

Stab
Meas
Valu
Req

MacMillan report said would be disastrous, but at the level of 1928, and to keep them at that level. Objections are raised to what is called a manipulated currency, but our currency is manipulated now in various ways, more especially by the raising of the Bank Rate for the purpose of attracting gold, and contracting credit. The ordinary man wants a metallic backing to notes, and silver at a ratio can serve this purpose equally as well as gold, and did so in civilised times down to the year 1873, when it was demonetised by half the nations of the world. That some remedy must be found, and found soon, is, I think, very generally admitted, and a grave warning is to be found in the note to the Report of the Gold Delegation of the Financial Committee of the League of Nations, June, 1932. It is signed by M. Albert Janssen, Sir Reginald Mant, and Sir Henry Strakosch, and concludes with these words :—

“ It may be truly said that international trade is being gradually strangled to death ; if the process continues, millions of people in this economically interlocked world must inevitably die of starvation, and it is indeed doubtful whether our present civilisation can survive.”

Part 3.—SILVER.

Ever since Abraham bought the cave of Macpelah for 400 shekels of silver, current money with the merchant (Genesis XXIII), and even before that time, silver has been one of the most important monies of the world, and up to quite recent times has been legal tender in the chief countries of the world, and is still the money of the East.

In England, in 1696, John Locke, Sir Isaac Newton and Lord Somers were appointed to deal with the reformation of the currency. They fixed a ratio of 16 to 1 between silver and gold, which unfortunately, undervalued silver, and silver went to France where it possessed a higher purchasing value. Sir Isaac Newton subsequently recommended that the ratio should be made the same, but this was not done. In 1816, Lord Liverpool, seeing that the Mint was little employed in coining silver, came to the conclusion that England was "naturally a gold country," and that "gold was the natural currency of England," and closed the mints to the free coinage of silver, and adopted the Gold Standard. This did not so much matter, as the example of England was not then followed. The United States were on silver, and so was Germany and India, and France and the Latin Union, which consisted of Italy, Switzerland, Belgium and Greece in addition, kept their mints open to the free coinage of gold and silver at the ratio of $15\frac{1}{2}$ to 1, which kept the ratio steady till Germany began the general demonetisation of silver in 1873.

John
Sir I
New
Lon

Lon
Livi

Geo
187

That the ratio remained steady notwithstanding great fluctuations in the annual production of gold and silver is shown by the table of the ratio at the end of this paper. Germany demonetised silver because she was paid a large indemnity in gold by France, and decided to follow the example of England, and adopt the gold standard. This move, whether intentionally or unintentionally, further embarrassed France, and she, together with the Latin Union closed her mints to the free coinage of silver. The United States followed suit, and the mints of India were closed to the free coinage of silver in 1893, and the scramble for gold began. The change was not made without various protests being made at the time.

M. ROLAND, Governor of the Bank of France, said before a French Monetary Convention :—

“ We have not to do with idle theories. The two monies have actually co-existed since the origin of human society.”

“ They co-exist because the two together are necessary by their **Quantity** to meet the needs of circulation.”

The controversy was carried on for years, and many attempts both National and International were made to restore silver to its old place in the currencies of the world. Many International Conferences were held, the United States Republicans and Democrats were in favour of International Bimetallism, and England, while willing to keep the Indian Mints open to the free coinage of silver, did not see its way to reverse the policy of 1816, and the negotiations came to an end.

The results of this policy of the monetary revolution of which the eminent American Economist, Professor F. A. Walker, said, “ The history of the century would be searched in vain for a political

blunder of equal enormity," were soon felt, and there took place:—

- (1) a fall in prices in gold-standard countries ;
- (2) the loss of the par of exchange between the gold-standard West, and the silver-standard East.

The prophecies of the Bimetallists unfortunately came true. Owing to the diminution in the volume of legal tender money, prices fell to the lowest level of the century, and the burden of all fixed debts was increased, and a period of general depression was suffered very similar to the one we are experiencing at the present time. Relief came when the gold discoveries in South Africa and cyanide process largely augmented the stock of gold, and prices improved, but owing to the increase of trade and population the stock of gold is quite insufficient at the present time to form the basis of the great volume of credit on which the business of the world has to be carried on. More legal tender money is required to stop the catastrophic fall in commodity prices ; confidence is not enough, the more confidence you have when prices are falling the more money you lose. Deflation should be cured by Reflation, and a return to the old Bimetallic system of one money founded on the two metals, linked together by a ratio, would seem to provide the best method of Reflation where a metallic basis is required for a currency.

The relative production of silver to gold has remained curiously steady throughout the ages at about 14 ounces of silver to 1 ounce of gold, though it has fallen off of late years, and there are no good reasons for fearing a glut of silver. If Bimetallism were enacted to-morrow, the ordinary man would probably not know that we had abandoned gold mono-metallism, and that our reserves were held in silver as well as gold, and if prices rose too high

be the unsecured note issue could be curtailed. The ratio to be adopted would be a matter for serious consideration, but there are many good reasons in support of a ratio of 20 to 1.

The ideal solution would be an agreement between the leading countries of the world to establish an identical ratio, but the British Empire with India and the countries on sterling might well be able to establish and maintain a ratio. The rise in the price of silver would no doubt benefit the producers of silver, and in so far as the rise was due to Legislation, the Governments concerned might well take a share of the profits.

cy. Faced as we are by the most deplorable conditions of general bankruptcy, not only of individuals, but of States which cannot meet their obligations, of unremunerative trade, of unemployment, and of crushing taxation, it is our duty to study the causes, and if possible find a remedy. The chief cause seems to be admitted to be the great drop in the price of staple commodities. This is not due to over-production, as can be shown in the figures of the production of such leading commodities as wheat, copper, silver and cotton, the production of which has fallen off rather than increased during the last three years, so if there is any truth in the Quantity Theory of Money, the crisis may well be a monetary one, and the cause of our misfortunes be not the over-production of commodities, but the under-production of money. This may be cured in various ways, but in the present circumstances the restoration of silver to its old place in the monetary system would seem to be the soundest.

POINTS.

- (1) "Money is the mightiest engine for which mankind can lend an intelligent guidance."
- (2) "Silver and Gold have co-existed as money since the origin of human Society."
(Roland.)
- (3) The pound sterling was originally a pound of silver, and the modern penny was a pennyweight of silver, and 240 pennyweights made the pound.
- (4) Bimetallism means one standard of metallic money founded on the two precious metals linked together by a ratio.
- (5) In a few years the value of gold has risen no less than 50 per cent. (Professor Gustav Cassel.)
- (6) The **Unit of Money** is all money, and the pound dollar, franc, etc., are only fractions of that unit.
- (7) The essence of money is **QUANTITY** and **LIMITATION**, and not the substance of which it is made.
- (8) There is no greater disturber of social order than an ill-regulated money. (Del Mar.)

APPENDICES.

APPENDIX A.—Consists of extracts from the final report of the Royal Commission on Gold and Silver, and deals with the practicability of a ratio between silver and gold.

APPENDIX B.—Shows that in the period 1849-72, which included the gold discoveries in California and Australia, production increased very rapidly, and prices rose considerably, while in the years 1872-1894, which included the demonetisation of silver, prices fell off very sharply while production diminished. Prices continued to fall till the great influx took place of gold from South Africa.

APPENDIX C.—Shows the ratio between silver and gold from the year 1687 to the demonetisation of silver, when silver fell sharply, and the fall has been continued.

APPENDIX D.—Is a remarkable prediction by Mr. Ernest Seyd in 1871.

APPENDIX E.—Shows the production of gold and silver in the world since 1895 in fine ounces.

APPENDIX F.—Is an extract from a speech of the late Lord Balfour, the wisest man I have known.

APPENDIX A.

EXTRACTS FROM THE FINAL REPORT OF THE ROYAL
COMMISSION ON GOLD AND SILVER, 1888:—

FROM PART I.

Sec. 192.—“ Now, undoubtedly, the date which forms the dividing line between an epoch of approximate fixity in the relative value of gold and silver and one of marked instability, is the year when the Bimetallic system, which had previously been in force in the Latin Union, ceased to be in full operation; and we are irresistibly led to the conclusion that the operation of that system, established as it was in countries the population and commerce of which were considerable, exerted a material influence upon the relative value of the two metals.

“ So long as that system was in force, we think that, notwithstanding the changes in the production and the use of the precious metals, it kept the market price of silver approximately steady at the ratio fixed by law between them, namely, $15\frac{1}{2}$ to 1.

Sec. 193.—“ Nor does it appear to us *a priori* unreasonable to suppose that the existence in the Latin Union of a Bimetallic system, with a ratio of $15\frac{1}{2}$ to 1 fixed between the two metals, should have been capable of keeping the market price of silver steady at approximately that ratio.

“ The view that it could only affect the market price to the extent to which there was a demand for it for currency purposes in the Latin Union, or to which it was actually taken to the mints of those countries, is, we think, fallacious.

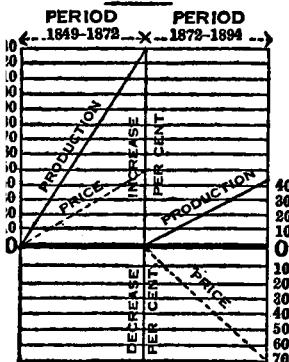
“ The fact that the owner of silver could, in the last resort, take it to those mints and have it converted into coin which would purchase commodities at the ratio of $15\frac{1}{2}$ of silver to one of gold, would, in our opinion, be likely to affect the price of silver in the market generally, whoever the purchaser and for whatever country it was destined. It would enable the seller to stand out for a price approximately to the legal ratio, and would tend to keep the market steady at about that point.”

APPENDIX B.

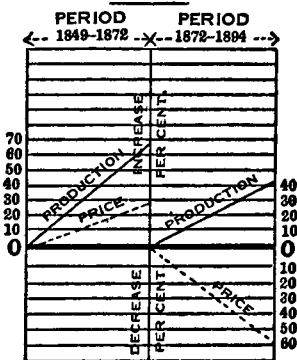
"PRICES AND PRODUCTION," BY SIR GUILDFORD
MOLESWORTH, K.C.I.E.

It is said that the fall in prices since 1872 is mainly due to increased production, but if that is the case how is it that in a corresponding period of time previous to 1872 a much greater increase in production did not only not produce a fall in prices but was actually accompanied with a rise in prices? The answer to this question is to be found in the fact that "during the first period there was a large expansion in the volume of the metallic basis of international money tending to raise prices, while during the latter period there was a great contraction of it, consequent on the closing of the mints in Europe to the free coinage of Silver in 1873."

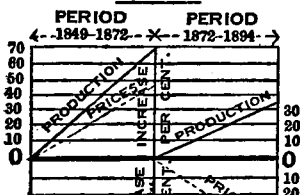
COTTON.



WHEAT.



GENERAL COMMODITIES.



MONEY

27

APPENDIX C.

COMMERCIAL RATIO OF SILVER TO GOLD EACH YEAR FROM 1687 TO 1894, BASED UPON THE PRICE OF SILVER IN THE LONDON MARKET.

(From 1687 to 1833 the ratios are taken from Dr. A. Seeböer; from 1833 to 1878 from Pizley and Abell's tables; and from 1878 to 1894 from daily cablegrams from London to the Bureau of the United States Mint.)

Year.	Ratio.	Year.	Ratio.	Year.	Ratio.	Year.	Ratio.
1687	14.94	1739	14.91	1791	15.05	1843	15.93
1688	14.94	1740	14.94	1792	15.17	1844	15.85
1689	15.02	1741	14.92	1793	15.00	1845	15.92
1690	15.02	1742	14.85	1794	15.37	1846	15.90
1691	14.96	1743	14.85	1795	15.55	1847	15.80
1692	14.92	1744	14.87	1796	15.65	1848	15.85
1693	14.83	1745	14.98	1797	15.41	1849	15.78
1694	14.87	1746	15.13	1798	15.59	1850	15.70
1695	15.02	1747	15.26	1799	15.74	1851	15.46
1696	15.00	1748	15.11	1800	15.68	1852	15.59
1697	15.20	1749	14.80	1801	15.46	1853	15.33
1698	15.07	1750	14.52	1802	15.26	1854	15.33
1699	14.94	1751	14.39	1803	15.41	1855	15.38
1700	14.81	1752	14.54	1804	15.41	1856	15.38
1701	15.07	1753	14.54	1805	15.79	1857	15.27
1702	15.52	1754	14.48	1806	15.52	1858	15.38
1703	15.17	1755	14.68	1807	15.43	1859	15.19
1704	15.22	1756	14.94	1808	15.08	1860	15.29
1705	15.11	1757	14.87	1809	15.96	1861	15.50
1706	15.27	1758	14.85	1810	15.77	1862	15.35
1707	15.44	1759	14.15	1811	15.53	1863	15.37
1708	15.41	1760	14.14	1812	16.11	1864	15.37
1709	15.31	1761	14.54	1813	16.25	1865	15.44
1710	15.22	1762	15.27	1814	15.04	1866	15.43
1711	15.29	1763	14.99	1815	15.28	1867	15.57
1712	15.31	1764	14.70	1816	15.28	1868	15.59
1713	15.24	1765	14.93	1817	15.11	1869	15.90
1714	15.13	1766	14.80	1818	15.35	1870	15.57
1715	15.11	1767	14.85	1819	15.33	1871	15.57
1716	15.09	1768	14.80	1820	15.62	1872	15.63
1717	15.13	1769	14.72	1821	15.95	1873	15.9
1718	15.11	1770	14.62	1822	15.80	1874	15.17
1719	15.09	1771	14.66	1823	15.84	1875	15.59
1720	15.04	1772	14.52	1824	15.82	1876	17.88
1721	15.05	1773	14.62	1825	15.79	1877	17.52
1722	15.17	1774	14.62	1826	15.76	1878	17.52
1723	15.20	1775	14.72	1827	15.74	1879	18.40
1724	15.11	1776	14.55	1828	15.78	1880	18.05
1725	15.11	1777	14.54	1829	15.78	1881	18.16
1726	15.15	1778	14.68	1830	15.82	1882	18.19
1727	15.24	1779	14.80	1831	15.72	1883	18.64
1728	15.11	1780	14.72	1832	15.73	1884	18.57
1729	14.92	1781	14.78	1833	15.98	1885	18.72
1730	14.81	1782	14.42	1834	15.73	1886	20.78
1731	14.94	1783	14.48	1835	15.80	1887	21.13
1732	15.09	1784	14.70	1836	15.72	1888	21.99
1733	15.18	1785	14.82	1837	15.83	1889	22.10
1734	15.39	1786	14.96	1838	15.85	1890	19.76
1735	15.41	1787	14.92	1839	16.82	1891	20.32
1736	15.18	1788	14.65	1840	15.62	1892	23.72
1737	15.02	1789	14.75	1841	15.70	1893	25.49
1738	14.91	1790	15.04	1842	15.87	1894	32.56

DEMONETISATION
 Western Mints closed to free coinage of silver and bimetallicism abandoned for the first time in the history of the World.

APPENDIX D.

The evils which have followed the closing of the Mints to Silver in Christendom were foretold in the following remarkable prediction by the late Mr. Ernest Seyd in 1871 :—

“ It is a great mistake to suppose that the adoption of the gold valuation by other States besides England will be beneficial. It will only lead to the destruction of the monetary equilibrium hitherto existing, and cause a fall in the value of Silver, from which England's trade and the Indian Silver valuation will suffer more than all other interests, grievous as the general decline of prosperity all over the world will be.”

“ The strong doctrinism existing in England as regards the gold valuation is so blind that, when the time of depression sets in, there will be this special feature :—The economical authorities of the country will refuse to listen to the cause here fore-shadowed ; every possible attempt will be made to prove that the decline of commerce is due to all sorts of causes and irreconcilable matters. The workman and his strikes will be the first convenient target ; then speculation and over-trading will have their turn. Later on, when foreign nations, unable to pay in silver, have recourse to protection, when a number of other secondary causes develop themselves ; then many would-be wise men will have the opportunity of pointing to specific reasons which in their eyes account for the falling off in every branch of trade. Many other allegations will be made totally irrelevant to the real issue, but satisfactory to the moralising tendency of financial writers. The great danger of the time will then be that, among all this confusion and strife, England's supremacy in commerce and manufactures may go backwards to an extent which cannot be redressed, when the real cause becomes recognized, and the natural remedy is applied.”

APPENDIX E.

PRODUCTION OF GOLD AND SILVER IN THE WORLD SINCE 1895.

(The estimates are those of the Bureau of the Mint.)

Calendar Year.	GOLD. Fine Ounces.	SILVER. Fine Ounces.	Ratio of Silver production (weight) to Gold production (weight).
1895	9,615,190	167,500,960	17.4
1896	9,783,914	157,081,370	16.1
1897	11,420,068	160,421,082	14.0
1898	13,877,806	169,055,253	12.2
1899	14,837,775	166,337,452	11.3
1900	12,315,135	173,591,364	14.1
1901	12,625,527	173,011,283	13.7
1902	14,354,680	162,763,483	11.3
1903	15,852,620	167,689,322	10.6
1904	16,804,372	164,195,266	9.8
1905	18,396,451	172,317,688	9.4
1906	19,471,080	165,054,497	8.5
1907	19,977,260	184,206,984	9.2
1908	21,422,244	203,131,404	9.5
1909	21,965,111	212,146,023	9.7
1910	22,022,180	221,715,673	10.1
1911	22,397,136	226,192,923	10.1
1912	22,605,068	230,904,241	10.2
1913	22,254,983	210,013,423	9.4
1914	21,301,836	172,263,596	8.1
1915	22,737,520	173,000,507	7.6
1916	22,031,094	160,801,919	8.2
1917	20,345,528	186,125,017	9.1
1918	18,614,039	203,159,431	10.9
1919	17,698,184	179,849,940	10.2
1920	16,130,110	173,296,382	10.7
1921	15,974,962	171,285,542	10.7
1922	15,451,945	209,815,448	13.9
1923	17,790,597	246,009,534	13.8
1924	19,031,001	239,484,703	12.6
1925	19,025,942	245,213,993	12.9
1926	19,349,118	253,795,166	13.1
1927	19,431,194	253,981,085	13.1
1928	19,765,622	267,925,154	13.1
1929	19,496,721	261,716,021	13.4

APPENDIX F.

INTERNATIONAL BIMETALLISM POSSIBLE AND ADEQUATE.

The Right Hon. A. J. Balfour concluded his speech at the Town Hall, Manchester, on October 27th, 1892, with these words:—"But while I hold all these convictions I also believe that the bimetallic solution is possible and is adequate. (Applause.) I don't give it you as a cure for every industrial evil. I don't come forward as a quack with a universal remedy. I don't tell you that it will drive bad trade for ever from these shores and give every man who desires to work a chance of working for a good day's wages, and every man who desires to invest the certainty of a profitable investment. (Hear, hear.) I paint no such visions before you. I put no such promise before your gaze. But I do say that for a great commercial country a sound instrument of exchange is a matter of the first necessity. (Applause.) I do say that the instrument of exchange which you actually have is a bad instrument, and I offer you for your acceptance an instrument which, if not perfect, is at all events practicable, and is incomparably better than any which you are likely to obtain by any other means of which I have any knowledge." (Loud applause.)
