World Finance—A Month's Survey

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THANKS to the existence of the Federal Reserve System, the series of transactions resulting from the Treasury financing of March 15 was handled with scarcely a ripple of disturbance to the New York money market, a noteworthy accomplishment when consideration is given to the fact that as a result of these transactions the volume of operations of the Federal Reserve Bank of New York on March 15 was one of the largest for any day in its history. The total turnover of funds on that day, according to the monthly bulletin of the New York Reserve Bank, including both transactions for Treasury account and for ordinary banking operations, was nearly two billion dollars. Treasury transactions for the country as a whole included: The redemption of $660,000,000 of Treasury notes, the largest maturity in some years; the issuance of two new series of certificates of indebtedness, $170,000,000 at 3⅛ per cent. for six months, and $314,000,000 of Treasury 3½ per cent. three to five-year notes in exchange for Second Converted 4¼ per cent. Liberty Loan bonds, redeemed with interest to May 15, 1927; the payment of $90,000,000 of interest; the withdrawal of $192,000,000 of Government deposits from depository banks, and the collection of over $500,000,000 of income taxes.

The immediate effect of Treasury operations on March 15 was to pour into the money market about $265,000,000 of funds, because payments by the Treasury to redeem maturing notes and to pay interet were immediately available, whereas the actual collection of income tax checks by the Treasury was spread over a number of days. So carefully were the effects of these operations anticipated, however, by the Federal Reserve bank in cooperation with the New York member banks, that the only result to the money market was a slight temporary decline in the call loan rate on the New York Stock Exchange. With allowance for normal seasonal changes in the demand for short-term credit from month to month, average interest rates were slightly firmer in March than in February and the easier tendency which was characteristic of the Winter months was checked, for the time being at least. An important factor in making money rates firmer, as well as in facilitating the huge volume of Treasury operations without disturbance to the money market, was a marked falling off in the volume of gold imports, which in March, judging by preliminary figures, amounted to little more than $6,000,000, as against about $62,000,000 in January (the largest amount reported for any single month since September, 1921), and about $22,000,000 in February.

The stock market in March was characterized by heavy trading and violent price fluctuations in certain individual issues, notably United States Steel and General Motors. On March 23 heavy short-selling drove a few stocks down so spectacularly that most financial reports gave the impression that there had been a "wide-open" break in the general market; but the movement of the averages of twenty-five representative rails and twenty-five representative industrials shows that the general market for securities was well supported throughout the month at a high level. Early in April, indeed, *The Annalist* averages for both twenty-five industrials and twenty-five rails established new high records for all time, and the average of forty bonds reached the highest figure since 1913.

High Business Activity

The rate of business activity continues high, but the continued decline in commodity prices is a disturbing factor. In the last three or four years the Federal Reserve System, through its purchase and sale of Government securities, has been able to exercise a considerable degree of control over commodity prices through the effect of these operations on commercial paper and rediscount rates. Undoubtedly the System, through its Open Market Investments Committee, could bring about still easier credit conditions which might stimulate the flagging price level; but under present conditions such action would be fraught with danger because speculation in securities and in real estate, which in some instances are already selling at inflated values, would be still further stimulated. The agitation for farm relief, on the other hand, exerts an opposite influence. Agricultural products have suffered most from the decline in commodity prices and the farm interests would, of course, welcome any action which would prevent a further fall or would bring about an increase of the price level.

The financial situation in this country, therefore, to those who care to look below the surface, presents, to say the least, some rather unusual problems. Most writers dispose of the whole subject by referring to our huge stock of gold. But the fact remains that despite the abundance of credit for industry, trade and

Continued on Page xx.