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Deposit Insurance Corporation, and could be conducted only by someone versed in their technical procedure. This person should be intimately acquainted with banking statistics and should be well grounded in banking and credit theory.

EFFECT OF BROKERS' LOAN LIQUIDATION IN THE FINAL QUARTER OF 1929 ON CONSUMERS' BALANCES OR INCOME DEPOSITS

General Background

Although speculative phenomena exhibit a close correlation with fluctuations in business activity, their causal interrelationships are still highly obscure. In general, economists have been content to hold that speculative activity primarily reflects business conditions and is not a causal influence of any appreciable magnitude in the volume and activity of business itself. The extent to which such causal relationships do exist, however, requires thorough exploration.

Specific Problem

Among the various problems in this field that might be selected as a point of departure, the relationship of the collapse in security values in the final quarter of 1929 to the volume of *consumers' deposit balances* appears by far the most promising. We know that the aggregate borrowings of brokers who were members of the New York Stock Exchange declined from $8,549,000,000 on September 30, 1929, to $3,990,000,000 on December 31—a decrease of $4,559,000,000 in three months. We know, furthermore, that this decline occurred largely because the collapse in stock prices initiated an automatic calling

of margins which forced persons holding stocks on margin to transfer their available cash to New York to prevent liquidation of their securities. Consumers' balances at that time must therefore have been deflated throughout the country in great volume.

Although many economists ascribe major importance in business fluctuations to changes of this character in consumers' balances, relatively little analysis has been devoted to the effects of this particular episode where, from surface indications, these changes probably occurred on a wider scale than at any other time in modern financial history. Mr. Hawtrey, for example, who treats business fluctuations primarily as a credit phenomenon and who traces its effects largely in terms of the effects that changes in consumers' balances exert on consumers' outlays for commodities, discusses this particular episode as not constituting a case in point because practically the entire decrease in brokers' borrowings was reflected in a decline of loans from non-banking lenders, and had little effect upon the aggregate of bank deposits. Mr. Keynes, who views changes in *income deposits* as an extremely important factor in business fluctuations, likewise treats this episode, not as a deflation of *income deposits,* but rather as an example of the liquidation of a speculative 'bear' position against a speculative 'bull' position.

To determine the facts we must ascertain the location and distribution of deposits during the final quarter of 1929. If the liquidation of brokers' loans was entirely at the expense of consumers' balances or income deposits, the investigation would show: (1) no great change in the general ownership of securities, (2) a decrease of some 4½ billion dollars in consumers' deposits during the period offset by a growth of approximately the same amount in the deposit balances of corporations previously lend-