10. Member Bank Reserves and Related Items

THE PRINCIPAL TASK of the Federal Reserve System is to foster a flow of credit and money that will facilitate sustained high levels of employment, orderly economic growth, and a stable dollar. In carrying out this responsibility the System relies primarily on its ability to increase or decrease the volume and cost of bank reserves. The statistics described here relate to factors that supply or absorb reserve funds of banks that are members of the Federal Reserve System; they were developed by the Federal Reserve for use in helping to determine credit policy.

The availability of reserves to member banks and the method by which banks obtain these reserves influence their ability to make loans or investments and their attitude in the matter. For example, because of the cost and liability involved, banks look with less favor on reserves obtained through their own borrowing than they do on reserves obtained as a result of other factors in the market, such as open market operations by the Federal Reserve, the inflow of gold from abroad, or by Federal Reserve purchases of foreign exchange.[1]

To show both the volume and the sources of member bank reserve funds, the Board of Governors of the Federal Reserve System publishes a balanced statement each week which shows the various currency and credit elements that influence member bank reserves.[2] This statement—sometimes referred to as the bank reserve equation—combines the "Statement of Condition of All Federal Reserve Banks" with such items in the Treasury "Circulation Statement of United States Money" as have a direct relationship to the supply or absorption of reserve funds. It is necessary to combine the two statements because the Treasury has important monetary and currency functions that have a direct effect on the volume of member bank reserves.

Figures for the two basic statements for November 30, 1960, are given in slightly condensed form in Tables A and B at the end of this text, as are tables showing the methods by which the two statements are consolidated. All the items except required and excess reserves and currency and coin counted as reserves are derived from these two statements. The table on page 2 gives the various items that make up the combined statement, with figures as of November 30, 1960.

Table 1 (pages 14-49) shows figures for the consolidated statement. Parts A, B, and C of this table provide averages of daily figures—annual, monthly, and weekly, in that order; Part D provides Wednesday figures. Parts A, B, and D are similar to tables that appeared in *Banking and Monetary Statistics*. Part C is new and contains weekly averages, which are available only for the period beginning with 1951. Current statistics are available in the Board's weekly release (H.4.1), "Factors Affecting Bank Reserves and Condition State-

[1] For further discussion see: (1) Board of Governors of the Federal Reserve System, *The Federal Reserve System—Purposes and Functions* (Washington, 1961). (2) The following articles published in the *Federal Reserve Bulletin:* "The Monetary System of the United States" (February 1953, pp. 98-109); "Influence of Credit and Monetary Measures on Economic Stability" (March 1953, pp. 219-34); and "Federal Financial Measures for Economic Stability" (May 1953, pp. 456-62). And (3) the following papers published by the Board of Governors of the Federal Reserve System in *Banking Studies* (Washington, 1941): "Money System of United States," "Instruments of Federal Reserve Policy," "System Organization: Determination of Credit Policy," "Currency System of United States," and "Monetary Controls."

[2] The balanced statement in which statistics of member bank reserves, Reserve Bank credit, and related items are now published is the result of developments over a period of many years. References to the basic materials published on the subject appeared in note 2, p. 360, of *Banking and Monetary Statistics*, published in 1943 by the Board of Governors of the Federal Reserve System.

FACTORS AFFECTING MEMBER BANK RESERVE FUNDS

[In millions of dollars]

Factors supplying reserve funds		
Reserve Bank credit — total		28,731
U.S. Government securities:		
Bought outright	27,486	
Held under repurchase agreement	2	
Acceptances:		
Bought outright	48	
Held under repurchase agreement	.....	
Discounts and advances:		
Member bank borrowings	95	
Other	6	
Federal Reserve float	1,095	
Gold stock		17,910
Treasury currency outstanding		5,393
Total		52,035
Factors absorbing reserve funds		
Currency in circulation		32,632
Treasury cash holdings		410
Deposits with Federal Reserve Banks:		
Treasury		512
Foreign		252
Other		390
Other Federal Reserve accounts (net)		1,069
Total		35,265
Member bank reserves:		
With Federal Reserve Banks	16,770	
Currency and coin (vault cash)	[1] 2,669	
Total reserves held		19,439
Required reserves		*18,559*
Excess reserves		*880*

[1] During the period Dec. 1, 1959-Nov. 23, 1960, member banks were permitted to count a part, and thereafter to count all, of their holdings of currency and coin in meeting reserve requirements. This currency is a part of the total currency in circulation as published in the Treasury's "Circulation Statement of United States Money" and as shown above.

ment of Federal Reserve Banks" and are published each month in the *Federal Reserve Bulletin*. Supplementary data on member bank borrowings, reserves, and reserve requirements are shown in Tables 2 and 3.

The following paragraphs discuss the relationship of the different items of the consolidated statement and their shifting importance over long periods and describe briefly the source and nature of each item, classified by "Factors Supplying Reserve Funds" and "Factors Absorbing Reserve Funds."

RELATIONSHIP OF ITEMS

The sum of the three items—total Reserve Bank credit, gold stock, and Treasury currency—equals the sum of the other seven—currency in circulation, Treasury cash, Treasury deposits with Federal Reserve Banks, foreign deposits, other deposits, other Federal Reserve accounts (net), and member bank reserves with Federal Reserve Banks. Increases in the first three items supply reserve funds and decreases in them absorb reserve funds. On the other hand, increases in the other items absorb reserve funds, while decreases supply such funds.

Each item, however, represents factors that may result from different influences and that may affect different forces. Changes in some of them are caused primarily and directly by actions of the member banks or the Federal Reserve Banks. Federal Reserve Banks are the active element in changes in reserves that arise from purchases or sales of securities in the open market. Member banks are an active element when they expand loans and investments. These actions cause increases in their deposits and hence in their required reserves, which have to be met through temporary borrowing at Federal Reserve Banks if the reserves are not otherwise available. Changes in other factors are primarily the result of influences not controlled by either member banks or Reserve Banks. Gold movements, currency in circulation, Treasury cash, and Treasury deposits with Reserve Banks belong in the latter category.

Federal Reserve credit is the balance wheel between these more or less independent factors and member bank reserves. The extent to which the Federal Reserve System uses its credit powers depends on current Federal Reserve policy and on changes in bank reserves caused by gold movements, currency movements, and other factors.

Effect on reserves. Reserve Bank open market purchases of U.S. Government securities or of bankers' acceptances supply member banks with reserve funds and enable them to increase their reserves or, when they are in debt, to reduce their borrowings. Conversely, Reserve Bank sales of Government securities and acceptances absorb member bank reserves. Such operations may be accompanied by additional borrowing by member banks from the Reserve Banks as the member banks seek to obtain, on a temporary basis, reserve funds needed to cover required reserves. An increase in gold