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SECRETARY

*Mr. Langford*

COMMITTEES:  
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**Congress of the United States**  
**House of Representatives**  
Washington, D. C.

July 14, 1936

Honorable Marriner S. Eccles, Chairman  
Board of Governors of the Federal Reserve System  
Washington, D. C.

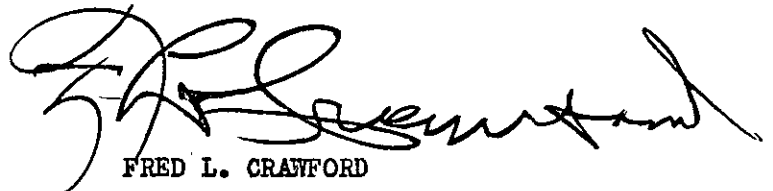
My dear Mr. Chairman:

If not asking too much of you, I should very much appreciate a statement setting forth in as much detail as you think necessary as to how the purchase of Government Bonds by a Federal Reserve Bank creates additional reserves for the member banks.

If it is true such transactions result in creating additional reserves, can it also be reasonably said that reserves so created form the base for an increase in deposit money in the form of apparently ten times the amount of the purchase of bonds?

Any information which you can give me dealing with this subject will be very helpful, as I desire to have good practical facts in preference to a lot of hokum.

Yours very truly,

  
FRED L. CRAWFORD

FLC:MC

July 21, 1936.

Honorable Fred L. Crawford  
House of Representatives  
Washington, D. C.

Dear Mr. Crawford:

Reference is made to your letter of July 14 with regard to the effect on member bank reserves of the purchase of Government securities by the Federal Reserve System.

When a Federal Reserve Bank buys a United States Government security in the open market it pays for it by a cashier's check. When this check is deposited with a member bank by the seller of the security, the member bank deposits it with the Federal Reserve bank where it is credited to the member bank's reserve account. It is in this way that security purchases by the Reserve banks increase member bank reserves.

When the member bank finds that it has more reserves than is required by law, it may use the excess to repay its debt to the Reserve bank if it is in debt. In that case no increase in member bank credit results, or, if it is not in debt, it may use these idle funds to make additional loans or investments. In that case the volume of member bank credit does expand, and as the reserves are passed on from one member bank to another - it may increase ten-fold or more. This process is explained in detail in the attached mimeographed statement.

I hope that this information meets your requirements.

Very truly yours,

M. S. Eccles,  
Chairman

W.  
EAG DD  
*[Handwritten signature]*

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