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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date May 12, 1943

**To** Miss Egbert

**Subject:** Revised statement on

**From** Mr. Robinson

Expansion possibilities for deposits

and currency

In accordance with my phone call, there is attached a revised statement on the limits of expansion for deposits and currency to replace the earlier estimates transmitted to Messrs. Steagall and Wagner in answer to a question raised while Chairman Eccles was testifying before the House Committee. The offices of both Mr. Steagall and Mr. Wagner, and the clerk of the committee, have been informed that the revised statement will be transmitted to them immediately and are holding the earlier version for replacement.

## Limits of Expansion for Deposits and Currency

On the basis of existing laws and Federal Reserve Bank reserves, sufficient credit could be extended to permit the expansion of bank deposits from about 94 billion to around 200 billion dollars and currency from 16.7 billion to around 42 billion. This would involve an increase in Federal Reserve credit from 6.8 billion to about 32 billion, the bulk of which might be provided through purchases of Government securities. If a less drastic increase in currency occurred, the volume of deposits possible would be greatly increased.

These estimates rest on the following assumptions:

1. That there are no changes in the total reserves of the Federal Reserve Banks;
2. That member bank reserve requirements are reduced to their legal minima (making an 8 per cent average ratio of required reserves to total commercial bank deposits), and deposits at various classes of member and non-member banks continue in their present proportions;
3. That the ratio of growth in deposits and Federal Reserve notes continues as in 1942, and the entire increase in currency is in Federal Reserve notes--no use is made of the expansion powers under the Thomas Amendment;
4. That Federal Reserve notes or Federal Reserve Bank notes are not used to meet any part of the 35% reserve requirement against member bank balances at the Reserve Banks;
5. That all member bank excess reserves are used up.

\* \* \* \* \*

### (Special Alternative Assumptions)

- A. If reserve requirements should be maintained at present levels (all other assumptions as above asterisks), the limits would be 35 billion of currency and 170 billion of deposits, with Reserve Bank credit increased to 36 billion.
- B. If Federal Reserve notes should be used as lawful money to meet the 35% requirement against member bank reserve balances (other assumptions as above asterisks), the limits would be 240 billion of deposits and 49 billion of currency, with Reserve Bank credit increased to 39 billion.
- C. If the 3 billion of greenbacks authorized by the Thomas Amendment were issued and substituted for Federal Reserve notes (all other assumptions as above asterisks), the limits would be 210 billion of deposits and 45 billion of currency, with Reserve Bank credit increased to 34 billion.

- D. If Federal Reserve Bank notes are used to meet the 35% requirement behind member balances and all such notes are immediately made Treasury liabilities (all other assumptions as above asterisks), no gold reserve whatsoever is required and the expansion of deposits and currency is limited only by the desire and ability of the Treasury to spend the funds provided.

**FEDERAL RESERVE NOTES OUTSTANDING, COLLATERAL PLEDGED  
AS SECURITY THEREFOR, RESERVES, AND  
DEPOSIT AND FEDERAL RESERVE NOTE LIABILITY OF THE FEDERAL RESERVE BANKS  
ON APRIL 30 FOR THE YEARS 1939 TO 1943.**

	<u>April 30, 1939</u>	<u>April 30, 1940</u>	<u>April 30, 1941</u>	<u>April 30, 1942</u>	<u>April 30, 1943</u>
	(In thousands of dollars)				
Federal Reserve notes outstanding	4,736,362	5,250,016	6,409,594	9,239,843	13,646,063
Collateral security for Federal Reserve notes outstanding					
Gold certificates	4,872,500	5,374,500	6,514,000	9,365,000	13,294,000
Eligible paper	3,106	1,065	2,792	6,693	9,988
Government secur- ities	-	-	-	-	550,000
<b>Total</b>	<b>4,875,606</b>	<b>5,375,565</b>	<b>6,516,792</b>	<b>9,371,693</b>	<b>13,853,988</b>
<b>Total gold certifi- cates held by Federal Reserve Banks and Federal Reserve Agents</b>	<b>13,103,064</b>	<b>16,427,615</b>	<b>20,112,111</b>	<b>20,509,962</b>	<b>20,303,213</b>
<b>Total cash reserves</b>	<b>13,475,578</b>	<b>16,808,808</b>	<b>20,436,220</b>	<b>20,824,092</b>	<b>20,656,476</b>
<b>Total deposits of Federal Reserve Banks</b>	<b>11,375,575</b>	<b>14,152,433</b>	<b>16,272,115</b>	<b>14,204,002</b>	<b>14,130,643</b>
<b>Federal Reserve notes in actual circulation*</b>	<b>4,457,868</b>	<b>4,941,165</b>	<b>6,143,059</b>	<b>8,821,063</b>	<b>13,127,755</b>

**\*Federal Reserve notes outstanding less notes held  
by the issuing Federal Reserve Bank.**

A B I L L

To extend the period during which direct obligations  
of the United States may be used as collateral se-  
curity for Federal Reserve notes.

Be it enacted by the Senate and the House of Representa-  
tives of the United States of America in Congress assembled, That  
the second paragraph of section 16 of the Federal Reserve Act, as  
amended, is hereby amended by striking therefrom the words "until  
June 30, 1943" and by inserting in lieu thereof the words "until  
June 30, 1945."