CIRCULAR No. 44. 

CONCENTRATION OF GOLD.

TO THE MEMBER BANK ADDRESSED:

Some days ago we forwarded you a copy of the address of Hon. Paul M. Warburg before the American Bankers' Association at Kansas City, in which he advocates and urges the concentration of gold in the Federal Reserve Banks and explains the reason for the position he has taken. As the principal function of commercial bank is to accumulate the scattered funds of its depositors in order to be able to use the aggregate in extending credit accomodation where needed and thereby keep the wheels of commerce moving, so is it one of the principal functions of a reserve bank or system to accumulate the scattered reserves of the banks of the country and hold the aggregate in readiness to meet and supply the demands of any section or of the Nation.

The few gold certificates which each of our member banks has in its own vault would not go far toward taking care of an emergency or sudden strain which may be put on it during the readjustment which must necessarily take place after the war, but the concentration of all of these in your Federal Reserve Bank will prove to be an effective bulwark against possible storms, and such concentration should receive the active support of all banks, both member and non-member.

To assist in bringing about this concentration of gold certificates in the Federal Reserve Bank of Dallas and to enable us to assume a position of preparedness we will pay the transportation cost of all gold certificates sent us from their vaults by our member banks when such shipments are made by registered mail and insured under our policy according to the method explained in our Circular No. 43, dated November 1, 1916.

Under the provisions of the recent amendment to the Federal Reserve Act and the ruling of the Federal Reserve Board relative thereto, deposits with the Federal Reserve Bank in excess of the required amount may be counted as a part of your vault reserve, and as currency may be ordered from us by wire at any time, it should work no hardship on any member bank to thus deposit its holdings of gold certificates with us.

A few banks have given as a reason for not depositing their vault reserves with us the fact that their published statements would show such a small percentage of actual cash on hand, but this objection has now been overcome, as on the blanks which you have just received from the Comptroller of the Currency you will find, under Item 8, that your vault reserve and your balance with the Federal Reserve Bank are to be combined and published as one item.

Some of our larger member banks have already availed themselves of the privilege of carrying a substantial portion of their required vault reserve on deposit with us, and we are anxious to have each and every member in the same class.

May we not count upon your cooperation and assistance along these lines?

Very respectfully,

R. L. VAN ZANDT

Governor.