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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 18, 1917.

S i r :

Telegrams have been received from a majority of the Governors of the Federal reserve banks calling attention to the fact that the bill which recently passed the House authorizing the United States to issue and sell 3½ per cent bonds, contains no provision for the conversion of the three per cent bonds held by the several Federal reserve banks.

The Board had already given consideration to this matter, realizing that the issuance of five billion dollars worth of 3½ per cent bonds would naturally have a tendency to depreciate the market value of the three per cent bonds held by the Federal reserve banks. The amount now held by such banks, namely, about seven million dollars, is, however, relatively small and the Board is undecided whether it would be justified at this time in asking for an amendment to Section 18 authorizing the conversion of the three per cent bonds now held and the two per cent bonds subsequently acquired by the Federal reserve banks into bonds paying a higher rate of interest. The Board no doubt will ultimately ask for such an amendment.

From the best information obtainable it is unlikely that Congress will at this session pass any legislation except that coming within the classification of war measures. It is fully understood that unless such an amendment is obtained, Federal reserve banks will not be disposed to purchase two per cent bonds and to offer them for conversion into three per cent bonds and notes and the Board would not require such purchase if the three per cent bonds are below par and a conversion could not be made without a loss to the Federal reserve banks.

Before determining whether an effort should be made at this time to obtain the desired amendment, or whether this action should be deferred until Congress reconvenes in December, the Board will be glad to have the views of the Governors on the following questions:

- (1) Will the probable demands for currency during the period of the war make it advisable to discourage curtailment of national bank note circulation by discontinuing all conversion of two per cent bonds having the circulating privilege for bonds or notes without the circulating privilege? In other words, is it probable that Federal reserve notes can be issued in sufficient volume to take care of current needs or will it probably be necessary for Federal reserve banks to use any two per cent bonds acquired as a basis of issue for Federal reserve bank notes in order to supplement circulation outstanding?
- (2) Assuming that there will be no redundancy of circulation if retirement of national bank notes is not encouraged, would it not be advisable to defer any effort to obtain an amendment to Section 18, which might have a tendency to encourage the conversion of bonds having the circulating privilege for bonds without this privilege?

Respectfully,

Governor.