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AND FISCAL AGENT

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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

October 5, 1917.

Dear Sirs:

The Board wishes again to bring to the attention of the Federal Reserve banks the desirability of their arranging the proportions of gold and commercial paper held by the Federal Reserve agent in such a way as to keep the lawful money reserve against deposit liabilities and the gold reserve against Federal Reserve notes approximately equal, and your cooperation in carrying out this policy is earnestly requested. Details appear to be simple if Federal Reserve banks will compute the total reserve against net deposit and Federal Reserve note liabilities combined, and then make the necessary adjustment. The figures as now given by the various banks are entirely misleading and are calculated to produce a harmful impression; as an illustration, the total reserves against net deposit and Federal Reserve note liabilities combined for all the banks on September 28th were 77.1%; the reserve against net deposits was 74.5%; while the gold reserve against Federal Reserve notes in actual circulation was 81.1%. To illustrate the point more clearly, reference is made to the statement of the Federal Reserve Bank of Richmond of September 28th, which showed reserve against net deposits of 83.8%; against Federal Reserve notes 57.4%; while its reserve against the combined liabilities was 73.1%. The Federal Reserve Bank of Atlanta on the same date showed a reserve against deposits of 44.5%; against Federal Reserve notes 54.5%, and its reserve against the combined liabilities was 73.9%.

The public, which does not see the combined reserve percentages, but only the separate reserve percentages against each item, is not properly informed by such statements. The true index to the banks' position is the total reserve against combined deposit and note liabilities, and the Board believes that the two separate reserve percentages should be equalized as nearly as possible.

Very truly yours,

Governor.