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ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

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October 4, 1920.

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Dear Sir:

At the direction of the New Currency Committee, appointed at the last Conference of Governors with the Federal Reserve Board in Washington, April 7-10, 1920, I am sending you herewith, for your information, mimeographed copy of the "Report of New Currency Committee with Reference to Increase in the Facilities of the Bureau of Engraving and Printing" which the New Currency Committee has submitted to Governor Morss, Chairman of the Program Committee of the Governors' Conference to be held in Washington on October 13, 1920.

Very truly yours,

Enclosure.

Member, New Currency Committee,
 Governors' Conference.

To Governors of all F.R. Banks.

REPORT OF NEW CURRENCY COMMITTEE WITH REFERENCE TO INCREASE
IN THE FACILITIES OF THE BUREAU OF ENGRAVING AND PRINTING.

The report of the Currency Committee appointed at the last Governor's Conference held in Washington, April 7th - 10th, 1920, which was submitted to Governor McDougal June 21, 1920, dealt particularly with a plan for the equitable distribution of the available supply of new currency and provided for increasing the reserve stocks of new currency on hand. The Committee has, however, in accordance with its instructions, followed the progress of its previous recommendations and now offers this supplementary report of its conclusions as to the changes necessary to effect a return to normal conditions of supply, distribution, reserve and cleanliness of our paper currency.

At the time of the previous Conference of Governors it was the general belief that within a short time the current production of new currency by the Bureau of Engraving and Printing would be ample for ordinary needs and that the chief problems at that time were the equitable distribution of currency and the equitable replenishment of reserve stocks. After careful consideration and analysis of statistics covering operations in all kinds of paper currency of the United States during the past five years, and after securing from the Director of the Bureau of Engraving and Printing a statement of the capacity of his plant, the Committee has reached the following conclusions:

FIRST: That the current supply of new currency is inadequate to meet the demands, and that reserve stocks have been seriously diminished.

-2-

SECOND: That unless the production of new currency is increased promptly the situation will shortly become dangerous in that it will result in an insufficient supply of new currency with which to do business.

FINALLY: That if the entire capacity of the Bureau should be devoted to the printing of currency the production would be inadequate to meet current demands.

FIRST: According to figures compiled by the Federal Reserve Board there has been an average of approximately 800,000,000 pieces of currency in circulation during the past eighteen months. The best information available at the present time is that the average life of all denominations of currency, using paper made of new cotton cuttings, is approximately eight months. In order to adequately meet the present demand for new currency, the Bureau of Engraving and Printing should, therefore, print and deliver 1,200,000,000 pieces of currency per annum. Against this requirement the Bureau delivered 727,000,000 pieces for the year 1919, while the output for 1920, based upon figures for the first six months of this year will be only 638,000,000 pieces for 1920, and 562,000,000 pieces less than is necessary to provide an adequate supply of currency for the country.

For considerable more than a year the Federal Reserve Banks have been limiting new currency paid out to amounts far below that required for reasonable replacement. In spite of this, the number of pieces of new currency (of all kinds) shipped from Washington for the twelve months ending June 30, 1920, greatly exceeded the number of pieces printed as shown in the following extract from Tables prepared by the Federal Reserve Board; and has resulted in seriously reducing the reserve stocks:

-3-

Number of notes shipped from Washington July 1, 1919 to June 30, 1920	744,118,371
Number of pieces printed during period	<u>649,360,132</u>

Difference	94,758,239 or
Approximately . . .	\$.450,000,000

SECOND: While the Federal Reserve Banks have been gradually drawing upon their reserve stocks of new currency to meet the business demands of their Districts, the standard of cleanliness of all currency in circulation has been gradually falling. In the opinion of the Committee, this condition of the currency has already resulted in general dissatisfaction because of the necessity for continuing it in circulation until it is worn out. This condition has already become a subject for comment by the newspapers throughout the country and the following extract from one of the leading newspapers of New York City is typical:

" A FLOOD OF DIRTY MONEY.

What is the reason for the flood of filthy and tattered money with which this city is now afflicted? Of new bills of any denomination there seem to be none; decently clean one and two dollar bills are almost as scarce as hen's teeth. Much of the currency in circulation is so soiled that people of hygienic tendencies handle it with fear and trembling. Some of it is so ragged that it seems in danger of crumbling to pieces as it passes from hand to hand.

If this overworking of old money is due to an economical freak, the sooner it ends the better. The handling of excessively soiled paper must be unhealthy as well as intensely disagreeable. The amount saved to the Government or the Federal Reserve Banks or whoever is responsible is not worth the risk and the offensiveness involved.

Fully half of all the smaller sized bills from \$1 to \$10 or even \$20 now in circulation ought to be retired in short order and fresh ones put out in their stead."

-4-

The poor condition of the currency in circulation is conclusively shown by the fact that in the year 1915 when the currency was printed on paper made from new linen cuttings the number of notes redeemed amounted to 85% of the number of notes in circulation, whereas, in the year ending December 31, 1919, when the currency was printed on the much shorter-lived paper made from new cotton cuttings, the number of notes redeemed amounted to only 78.85% of the number of notes in circulation. It was possible also when using paper made from linen cuttings to launder the notes when they became dirty adding materially to the length of time they could be kept in circulation. This lessening of the percentage of redemptions is concrete evidence of the fact that all the Federal Reserve Banks have been obliged to continue their notes in circulation far beyond the time when they should have in decency been destroyed. Should this policy be continued for any considerable period there is the danger of large proportions of notes in circulation becoming so worn out that they could no longer be continued in circulation and on account of the insufficient supply of new notes printed by the Bureau to replace them, there would result an actual shortage of paper currency with which to conduct the business of the country.

In 1915, the number of pieces of currency in circulation was approximately 435,000,000. This number increased to approximately 820,000,000 or by 90% during the year ending June 30, 1920. For this same period the Bureau of Engraving and Printing increased its annual output of currency from 394,000,000 pieces in 1915 to 638,000,000 pieces, or by 61% in 1920. While the total circulation of the country increased 90%, the Bureau was

-5-

only able to increase its output 61%, after assigning approximately one-fourth of its men and equipment to printing of bonds and working the entire plant capacity three shifts of eight hours each. It has been stated that at least one-fourth of the Bureau's capacity must be devoted to the printing of bonds until June 1921, when it is anticipated the bond program will be completed and the output of new currency increased in proportion..

The foregoing relates to the bond printing program in hand, but it is by no means assured that the printing of bonds will end July 1921. On the other hand, it seems very probable that so long as the Government has outstanding bonds to the amount of \$20,000,000,000 representing 70,000,000 pieces and a floating debt of around \$3,000,000,000 there will always continue the possibility of financial operations with the resultant necessity for printing bonds in volume.

FINALLY: There are approximately 800,000,000 pieces of currency in circulation. The best information available to the Committee estimates the average life of all denominations of currency to be approximately eight months. On this basis it is evident that the Bureau of Engraving and Printing should print and deliver 1,200,000,000 pieces of currency per annum to provide for replacements under normal conditions. In making this estimate no consideration has been given to the fact that the present condition of the currency is below normal, and that a higher rate would have to be maintained for a considerable period to restore the currency to a clean standard. Against our estimated requirements of 1,200,000,000 pieces of currency a year, the Bureau of Engraving and Printing has printed

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-6-

so far this year at a rate of 638,000,000 pieces per annum. Even if the Bureau's output of new currency should be increased to the maximum of the plant or 900,000,000 pieces per annum, there would be a deficit of 300,000,000 pieces per annum necessary to meet the current demands as estimated above.

It is obvious from the foregoing that the Bureau cannot adequately meet the demands for new currency without increasing the size of its plant, and this Committee is unanimously of the opinion that the necessary steps should immediately be taken to increase the facilities of the Bureau of Engraving and Printing.

J.D. HIGGINS

Chairman - New York

F.W. CHASE

Boston

O.J. NETTERSTROM

Chicago

R.G. EMERSON

Federal Reserve Board.

September 21, 1920.