

## FEDERAL RESERVE BOARD

WASHINGTON

October 3, 1921.  
X-3219

SUBJECT: Letter from Treasury Department Regarding Circulation of Silver Certificates and Legal Tender Notes Now Held in Reserve.

Dear Sir:

I enclose herewith, for your information, copy of letter received from the Undersecretary of the Treasury, commenting on the volume of silver certificates and United States Notes held by the various Federal Reserve Banks as reserve and suggesting that it would be good policy to pay out these certificates and notes. The Board would be glad to have an expression of your views on the subject of Mr. Gilbert's letter and I would call your attention to the fact that some time ago the Board expressed the hope that Federal Reserve Banks could pay out their legals and silver certificates in order to reduce the reserves of the system to purely a gold basis.

Very truly yours,

Enclosure.

G o v e r n o r .

GOVERNORS OF ALL F.R.BANKS.

THE UNDERSECRETARY OF THE TREASURY  
Washington

October 1, 1921.

X-3219a

Dear Governor Harding:

I notice that according to the Federal Reserve Board's statement of the condition of the Federal Reserve Banks as at the close of business September 28, 1921, the Federal Reserve Banks still hold silver certificates and United States notes to the amount of \$152,719,000, of which over \$61,000,000 appear to be held by the Federal Reserve Bank of New York, over \$15,000,000 by the Federal Reserve Bank of Boston, over \$20,000,000 by the Federal Reserve Bank of Chicago, and almost \$15,000,000 by the Federal Reserve Bank of St. Louis. It is my understanding that these holdings of silver certificates and United States notes are largely in the form of new currency. With the combined reserve ratio of the Federal Reserve Banks at 69 per cent there would seem to be no longer any occasion for holding such a great amount of lawful money in the reserves of the Federal Reserve System. As a matter of fact, it would be a helpful thing to eliminate these silver certificates and legals from the reserves and put the system on a straight out gold basis. It would also be helpful from the point of view of the condition of the currency to pay out these new notes which are now impounded by the Federal Reserve Banks.

You will doubtless recall that this question has arisen in previous correspondence between the Treasury and the Federal Reserve Board and that it was brought to your attention in my memorandum of March 30th and the attached letter of that date to Deputy Governor Case of the Federal Reserve Bank of New York. There has been a marked improvement in the situation since that date, particularly in the holdings of the Federal Reserve Bank of New York which then amounted to over \$151,000,000 as compared to \$61,000,000 at the present time. Even the reduced amount, however, would seem to be excessive for one Federal Reserve Bank. In the other Federal Reserve districts the tendency seems to have been to accumulate silver certificates and legal tender notes in the past six months, for their combined holdings now aggregate about \$90,000,000 as compared with about \$60,000,000 six months ago.

I think it would be helpful in developing the currency program of the Treasury and at the same time good policy from the point of view of the Federal Reserve System to take definite steps to see that Federal Reserve Banks pay out the silver certificates and legal tender notes which they are now hoarding.

Very truly yours,

(Signed) S. P. Gilbert, Jr.

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D. C.