

FEDERAL RESERVE BOARD

WASHINGTON

X-3351

March 9, 1922.

SUBJECT: Payments of Gold Certificates.

Dear Sir:

In connection with the letter of the Secretary of the Treasury to the Treasurer of the United States, dated March 6, 1922, a copy of which has been sent you today, it seems to be proper to advise you that the suggestion has been made that Federal Reserve Banks adopt the general policy outlined therein with respect to all payments, making such modifications as may be necessary as to payments for their own account.

The question of resuming payments of gold certificates was, as you will doubtless recall, considered at the Joint Conference of Governors and Chairmen of Federal Reserve Banks, held in Washington in October, 1921. The conference did not at the time favor the resumption of payments of gold certificates. The point has been made that the objections to gold payments which were then raised have been met by developments which have occurred since.

The total gold holdings of the Federal Reserve Banks have increased nearly \$800,000,000 since March 4, 1921, and the combined reserve ratio has risen from 50.8 to 76.7 per cent. The lower discount rates which now prevail at all Federal Reserve Banks give an answer, it is argued, to any criticism which might be raised against the payment of gold certificates on the theory that these payments were intended to reduce the reserves of the Federal Reserve System and furnish an excuse for high discount rates. At the same time, it is feared by some that the great accumulation of gold in the Federal Reserve System, though it may not yet have caused any inflation, offers a constant temptation to the adoption of unsound credit policies and unless some corrective action is taken may lead the country into another period of inflation and speculation.

There seems to be little prospect that there will, in the near future, be any effective demand from the rest of the world for large amounts of the gold accumulated in this country, for it seems that for the present at least the proceeds of any loans which European governments may be able to place in this country will have to be used for reconstruction and for the

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purchase of commodities, rather than for the accumulation of gold reserves.

The Federal Reserve Board is not unmindful of the fact that it is important to take into consideration not only the present reserve position of the several Federal Reserve Banks, but their prospective position in view of demands which may be made upon them for credit accommodation as the season advances. While some of the Federal Reserve Banks might feel justified in paying out gold certificates freely, at least until their reserves were reduced to a certain point, others may feel that in view of requirements ahead of them they would not be justified in changing the existing policy. The question then arises - what effect would the adoption of a new policy with respect to gold payments by one Federal Reserve Bank or by a group of Federal Reserve Banks have upon others which feel that their reserve position at the present time is none too high? The Board would be pleased to have, as early as convenient, an official expression of the views of your own Federal Reserve Bank as to the policy which it should adopt, all the circumstances being taken into consideration.

Very truly yours,

G o v e r n o r .

CHAIRMEN ALL F. R. BANKS
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