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FEDERAL RESERVE BOARD
WASHINGTON

Y-3368

March 24, 1922.

SUBJECT: Gold Payments.

Dear Sir:

I enclose herewith, for your information, copies of letters from the Secretary of the Treasury, one dated March 21 and the other March 24, 1922, which relate to gold payments by Federal Reserve Banks.

Very truly yours,

Governor.

Enclosure.

GOVERNORS ALL F. R. BANKS EXCEPT N. Y.
COPIES CHAIRMEN ALL F. R. BANKS (including N. Y.)

C O P Y

THE SECRETARY OF THE TREASURY

Washington

X-3368a

March 21, 1922.

My dear Governor:

I have received and noted your letter of March 14, 1922, with the enclosed copy of a letter from Governor Seay of the Federal Reserve Bank of Richmond, with reference to payments of gold certificates. I assume that notwithstanding the position taken by Governor Seay with respect to gold payments by the Federal reserve banks, the Federal Reserve Bank of Richmond will nevertheless be guided by the instructions contained in my letter of March 6th to the Treasurer in making payments for account of the United States. I assume that the Federal reserve banks will also keep in mind that under the law the issue and distribution of United States paper currency is under the supervision of the Secretary of the Treasury and that the Secretary of the Treasury, under the act of March 14, 1900, as amended, is charged with the duty of maintaining the parity of all forms of money with gold. The currency system of the United States is squarely established on a gold basis, and it is a well-recognized attribute of an unrestricted gold standard that gold be not only held in reserve and available for issue in settlement of foreign balances but also circulate freely and without restriction in domestic transactions. This can be done without dissipation of the country's gold supply, and without loss by abrasion, through the internal circulation of gold certificates, and the result should be not the loss of gold, as feared by the Federal Reserve Bank of Richmond, but rather the building up of a secondary gold reserve which will be available again for accumulation in the Federal reserve banks in case of need. So far from encouraging hoarding, this should make it clear to all that all the currency is on the same gold basis, without discrimination in favor of gold, unless the Federal reserve banks themselves should by maintaining an artificial position with respect to gold indicate nervousness about their gold reserves.

I notice that the Federal Reserve Bank of Richmond states that in its opinion the Federal reserve banks should continue, as a "consistent, unalterable policy * * * to accumulate all the current gold of the country." This extreme view apparently arises from the fact that ever since their organization the Federal reserve banks have been accumulating gold and have now come to believe that it is the normal process. I have indicated, in my letters of March 6, 1922, to the Treasurer of the United States and the Federal Reserve Board why I believe that there is no longer any occasion to follow this artificial practice and have stated that the Treasury will follow a different policy. I need hardly add that if the Federal reserve banks should all adopt the policy advocated by the Federal Reserve Bank of Richmond,

the result would be to nullify the gold policy adopted by the Treasury unless the Treasury should itself resume direct issues and redemptions of United States paper currency for the banks of the country, and restore the system of currency distribution which prevailed before the currency regulations of August 30, 1920, were put into effect.

Very truly yours,

(Signed) A. W. Mellon

Secretary.

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

X-3368b

COPY

THE SECRETARY OF THE TREASURY

Washington.

March 24, 1922.

My dear Governor:

I received your letter of March 16, 1922, and have noted the enclosed copy of the letter of March 14th from the Federal Reserve Bank of Chicago, on the subject of gold payments. The Federal Reserve Bank seems to be under some misapprehension as to the payments it makes for Government account. These payments are not, of course, limited to operations connected with the so-called "Fiscal Agency Functions" of the bank. As depositaries and fiscal agents of the United States, the Federal Reserve Banks handle United States paper currency and coin received for redemption and replacement, and make payments in new currency received from the Treasury. Both redemptions and issues are handled through the Treasurer's account with the Federal Reserve Banks. Under this procedure perhaps 90 per cent of the United States paper currency issued and redeemed goes through the Federal Reserve Banks, and it was intended that in these operations the Federal Reserve Banks would be guided by the instructions given to the Treasurer of the United States in the Secretary's letter of March 6, 1922. To some extent the same is true of other currency payments charged to the Treasurer's account, as upon redemption of Treasury certificates, interest coupons and Treasurer's warrants and checks. In these circumstances it is not clear what the Federal Reserve Bank of Chicago means by the statement that it can comply with the request of the Secretary of the Treasury without changing its present policy.

Very truly yours,

(Signed) A. W. Mellon

Secretary.

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