FEDERAL RESERVE BOARD

WASHINGTON

X-3955
January 24, 1924.

SUBJECT: Distribution of One Dollar Bills.

Dear Sir:

At the recent Governors' Conference, consideration was given to the plan proposed by the Treasury Department in a letter dated September 27, 1923, addressed to the Governor of the Federal Reserve Board, providing a new method of distributing "new" and "fit" one dollar bills among the Federal Reserve Banks and Branches. The Conference voted to urge the Federal Reserve Board to approve the plan suggested by the Treasury Department and to request the Board to determine how the expense of inter-bank shipments of "fit" one dollar bills shall be provided for. (See pages 158 to 164 of the Stenographic Record of the Governors' Conference, and also the enclosed copy of the Treasury Department's letter to the Board above referred to.)

The Board approves of the Treasury's proposed plan and rules that the expense of shipping "fit" one dollar bills between Federal Reserve Banks and Branches shall be borne by the receiving banks.

The Treasury Department will advise you direct of the date upon which the proposed plan will become effective.

By direction of the Federal Reserve Board.

Yours very truly,

Walter L. Eddy,
Secretary.

(Enclosure)

TO THE CHAIRMEN OF ALL F. R. BANKS

TREASURY DEPARTMENT
Washington

September 27, 1923.

My dear Governor:

The question of supply and distribution of $1 notes has received the Department's consideration as a result of representations made by yourself and several of the Federal Reserve Banks. It appears that there are two sources of complaint, first, that in some districts a sufficient number of notes is not available to meet requirements or the balance is so low as to be embarrassing, and, second, that the ratio of payment between fit and new bills differs among the several districts.

As regards supply, the Department is now printing 1,700,000 $1 notes daily; this rate approximates 42,500,000 each month; a total of approximately 510,000,000 for the year. The Bureau of Engraving and Printing is operating to approximate capacity and at a rate that will incur a considerable deficiency, which later must be presented to the new Congress. From all the evidence at hand it appears that this rate of production will be sufficient to provide the new 1's required and at the same time to establish in the course of a year a reserve stock ample to meet seasonal demands.

Different ratios of payments in fit and new notes, as shown among several of the Federal Reserve Banks, is accounted for almost entirely through the disparity in the proportion of fit and unfit notes paid into the banks; for example, during the fiscal year 1923 the payments into the Cleveland bank were 24 per cent fit and 76 per cent unfit, while during the same period similar figures for Boston were 48 per cent fit and 52 per cent unfit. To provide the Cleveland district with sufficient notes to meet its payment requirements the Treasury has heretofore sent new notes to Cleveland. Boston, on the other hand, having a larger supply of fit notes available, has received a relatively small number of new notes from the Treasury. As a result, on the face of these figures, Cleveland has been able to supply its customers with four new bills to one fit, while Boston has been obliged to issue one fit bill for each new bill. It is not possible to equalize the situation as between the various districts solely by the shipment from the Treasury of new bills since, for example, if the Boston ratio were established at Cleveland, Cleveland would not have enough fit notes to meet its requirements. The situation could have been equalized, however, if Boston were to ship to Cleveland some of its fit notes, the Treasury supplying Boston with a larger percentage of new bills, reducing shipments to Cleveland in a like amount. During the fiscal year 1923, stocks of notes available in all the banks for payment purposes approximated 60 per cent new and 40 per cent fit. Aggregated payments by all the banks throughout the year show that 61.4 per cent new and 38.6 per cent fit notes were paid out. It appears, however, that at the close of the fiscal year the balance of notes on hand shows the presence of an undue proportion of fit as compared to new notes. This would not have occurred had the percentage of payment of new notes been slightly reduced and the fit notes increased.

To meet the complaints in the matter of currency distribution and to provide that the distribution of new notes and fit notes throughout the country shall be as equitable as possible and that the currency shall be maintained in a fair condition, the following plan is suggested:

1. For the present, adopt a ratio of payment at each Federal Reserve Bank of 60 new to 40 fit.

2. Where, as a result of the adoption of this ratio of payment, a bank's supply of bills, both fit and new, is excessive or short, that there should be transfers as between banks to equalize the supply of fits, the cost of transportation to be at the expense of the banks.

3. The Treasury will apportion its supply of available new bills among the Federal Reserve Banks so that each bank will have an available stock in the ratio of 60 new to 40 fit (after transfers of other fits have been made).

The Treasury, of course, will be free to withdraw from this plan or to change the ratio at any time.

I shall be glad to have your Board consider these suggestions and advise me as to its attitude.

Very truly yours,

(signed) GARRARD B. WINSTON,
Assistant Secretary
of the Treasury.

Honorable D. R. Crissinger,

Governor, Federal Reserve Board.