

October 22, 1929.

Dear Mr. Secretary:

I am addressing this letter to you, at your request, with reference to the discussion we had in your office several days ago, in order to set out my understanding of the situation which was explained to me, and the proposals which you made to meet that situation.

Briefly, the situation, as I understand it, is that due to the condition of the appropriations of the Bureau of Engraving and Printing for the current fiscal year, ending June 30, 1930, it has been found necessary to furlough a number of employees of the Bureau, and unless increased orders for Federal reserve notes, to be delivered and paid for during the remainder of the current fiscal year, are received, it will be necessary to materially increase the present periods of furlough, which you regard as wholly undesirable.

This situation, I understand, is due in part to the fact that the estimates upon which the Bureau's appropriations for the current fiscal year were based, were prepared with the thought that the Federal Reserve Board would order for the Federal reserve banks, the printing and delivery of 22,000,000 sheets of Federal reserve notes during the year; whereas, in line with the practice of building up a year's reserve stock of Federal reserve notes of the various denominations, and based upon estimates as to the amount of that reserve stock made by the Federal reserve agents of the various banks, the Board's order for the current fiscal year was but 17,000,000 sheets of completed notes.

As the Department was advised in a letter dated July 2, 1929, the Federal reserve banks began the fiscal year 1930 with new size Federal reserve notes on hand or under order, amounting to something over 22,000,000 sheets, which was their estimate of the maximum amount of the new size notes which they would require to meet demands during the currency turnover, as against a normal year's requirements of approximately 17,000,000 sheets. The Bureau's estimate of an order of 22,000,000 sheets for the fiscal year 1930, made in 1928, it is understood, was based upon the fact that the order for turnover purposes aggregated this amount and no definite information as to the probable requirements for the year had been furnished by the Board, due to our inability to determine so far in advance, a suitable basis for estimating.

The proposition first suggested by you during the course of our conference was an order for the printing and delivery during the current fiscal year of 5,000,000 sheets of Federal reserve notes, in addition to the order for 17,000,000 sheets already filed. It is understood that such special order, at a total cost of \$447,500 to the Federal reserve banks, would provide additions to the appropriations of the Bureau which are necessary to continue operations for the balance of the fiscal year without a furlough increase.

During the discussion, however, it was brought out that it would be highly desirable for the Federal reserve banks to have, say, a three months' supply of Federal reserve notes in process at the Bureau, which would provide the necessary seasoning before delivery to meet orders placed at the beginning of a new fiscal year.

On the basis of a normal year's requirements of 17,000,000 sheets, a three months' reserve in process would amount to 4,250,000 sheets. The Bureau submits that of this amount 2,125,000 sheets should be worked up in the form of backs and 2,125,000 sheets as backs and faces (in trimmed form). This would involve a total investment by Federal reserve banks of \$241,738.75, necessitating, in order to increase the appropriations to the amounts needed to prevent further furloughs, the placing of an order for 2,950,000 sheets of completed notes during the fiscal year, in addition to the order for 17,000,000 sheets already filed. The latter item represents a cost to the Federal reserve banks of \$264,025.00.

The total expenditure by the Federal reserve banks in the alternative last mentioned would be \$505,763.75, against \$447,500, involved in an additional order for 5,000,000 sheets of completed work. However, the alternative would seem to be preferable in that it would provide a revolving fund for the Bureau which would be replaced each year as the notes in process were delivered in completed form against current orders. Detailed figures, furnished by the Director of the Bureau of Engraving and Printing, which have been used in this letter, are attached.

It is understood that with the establishment of the revolving fund referred to and an undertaking on the part of the Board to estimate aggregate Federal reserve note printings a year in advance, the Bureau will be able to adjust its operations that in the future special orders similar to the one under discussion will not be requested.

An estimate of 17,000,000 sheets of Federal reserve notes for the fiscal year ending June 30, 1931, has already been furnished and it is understood that the Bureau, during the fiscal year ending June 30, 1932, and thereafter, will be in a position to adjust itself to whatever advance printing estimates may be made by the Board, based upon minimum requirements as estimated by the Federal reserve banks.

Before submitting this matter to the Federal Reserve Board and the Federal reserve banks, it is requested that you confirm my understanding of the situation which exists and the proposals which have been made.

Yours respectfully,

R. A. Young,  
Governor.

Honorable Ogden L. Mills,  
Undersecretary of the Treasury,  
Washington, D. C.

Data Relative to Federal Reserve Notes

Showing cost (A) of finishing 5,000,000 sheets and (B) of a reserve stock of three months' supply (based on a year's supply being 17,000,000 sheets) or 4,250,000 sheets, 2,125,000 sheets being backs and 2,125,000 sheets faces in trimmed form and of finishing 2,950,000 sheets.

	<u>Compensation</u>	<u>Plate Printing</u>	<u>Materials, etc.</u>	<u>Total</u>
(A)				
Cost of 5,000,000 finished sheets.....	\$236,000.00	\$101,900.00	\$109,600.00	\$447,500.00
(B)				
Cost for 4,250,000 sheets in process -				
2,125,000 backs....	\$19,656.25	\$20,187.50	\$ 36,357.50	\$ 76,201.25
2,125,000 backs and faces (in trimmed form)	<u>76,925.00</u> 96,581.25	<u>42,818.75</u> 63,006.25	<u>45,793.75</u> 82,151.25	<u>165,537.50</u> 241,738.75
Cost for 2,950,000 finished sheets.....	<u>139,240.00</u>	<u>60,121.00</u>	<u>64,664.00</u>	<u>264,025.00</u>
	<u>\$235,821.25</u>	<u>\$123,127.25</u>	<u>\$146,815.25</u>	<u>\$505,763.75</u>

## THE UNDERSECRETARY OF THE TREASURY

WASHINGTON

October 23, 1929.

My dear Governor Young:

I have your letter of October 22d, with reference to the situation of the Bureau of Engraving and Printing as affected by the orders for Federal Reserve notes received and to be received from the Federal Reserve Banks. Your understanding of the situation and of the propositions submitted to you by the Treasury Department is entirely correct.

In so far as requests in the future for special orders are concerned, we are quite willing to undertake to discontinue the practice. I believe, however, that Federal Reserve Banks should submit their orders for the ensuing year in final form prior to the submission of the Bureau of Engraving and Printing estimates to the Bureau of the Budget, and that in return for our undertaking not to request additional orders, the Federal Reserve Banks should endeavor not to change theirs once our estimates have been submitted to Congress.

You will readily appreciate how difficult a situation is created when the estimates for the Bureau of Engraving and Printing have been based on an order for a certain number of notes from the Federal Reserve Banks and subsequently, after the appropriations have actually been made, this order is reduced.

Very sincerely yours,

Hon. Roy A. Young,  
Federal Reserve Board,  
Washington, D. C.

(S) Ogdon L. Mills,  
Undersecretary of the Treasury.