

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDJanuary 10, 1930
St. 6452

SUBJECT: Excess Reserves and "Free Gold."

Dear Sir:

For some time past the Board's Division of Bank Operations has been compiling figures of excess reserves and of "free gold" for each Federal reserve bank and for the System as a whole. Excess reserves, as you know, are determined by deducting from total cash reserves the 35 per cent reserve required against deposits plus the 40 per cent reserve required against Federal reserve notes in circulation. "Free gold," as distinguished from excess reserves, is obtained by deducting from excess reserves the amount (if any) by which gold required as collateral against outstanding notes and for the gold redemption fund exceeds the required 40 per cent note reserve.

Inasmuch as practically all of the Federal reserve banks now find it necessary to deposit more gold as collateral against Federal reserve notes issued to them than is required as reserve against notes in circulation, it is apparent that any change in the amount of Federal reserve notes which the banks carry in their cash will ordinarily result in a similar change in the amount of gold collateral required and will affect the free gold figure correspondingly. As an example of such changes, on October 30 the Federal reserve banks and branches held \$449,000,000 of Federal reserve notes, whereas on December 18 they held \$575,000,000, an increase for the period of \$126,000,000 which resulted in a corresponding reduction in the amount of free gold. The fluctuation in the amount of Federal reserve notes held by the Federal reserve banks is at times quite material even from week to week, the amount held on December 24 being \$58,000,000 less than the week before.

For statistical purposes, therefore, the Board would like to have you estimate the average minimum amount of Federal reserve notes which would have to be carried in the cash holdings of your head office and each branch to insure the efficient operation of the cash department. In furnishing such figures please state separately: (1) the amount of notes needed to meet currency shipments and over the counter payments, and (2) the average amount of

notes you are compelled to carry temporarily while they are being counted and sorted. Do not include in these estimates either unfit notes in transit to the Treasury from your bank or notes of your bank in transit from other Federal reserve banks to the Treasury or to your bank.

In furnishing the Board with the above figures, will you also be good enough to state whether in your opinion it would be practicable, if for any reason the System's gold holdings should decline materially, for the Federal reserve banks and branches to operate without carrying any Federal reserve notes in their own cash, apart from notes being sorted or in transit. This would mean, of course, that a Federal reserve bank would have to obtain currency from the agent whenever it made payments of Federal reserve notes. This would be a radical departure from present practice, but the Board is interested in knowing whether such a plan would seriously interfere with the smooth operation of the cash department.

Very truly yours,

Roy A. Young,
Governor.

TO GOVERNOR OF EACH FEDERAL RESERVE BANK*