

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 25, 1939.

Dear Sir:

In reply to the Board's circular letter of February 15, 1939, R-408, the banks have reported a wide variety of experiences with the radio broadcast given in cooperation with local representatives of the National Emergency Council.

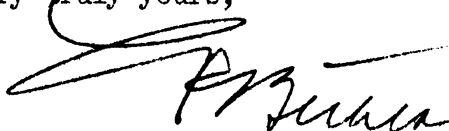
In practically every case the script was found to be too long; in several instances there was no opportunity for rehearsal; the timing was generally bad; and the newspapers, except in a few special instances, billed the broadcast as "Government reports" without mentioning the Federal Reserve System.

In general the public response was not very encouraging, and while most of the banks indicated that they wish to improve their public relations by every available means, including the radio, only four expressed a desire to undertake further broadcasts in cooperation with the National Emergency Council, the remainder being either undecided or opposed. However, the Board has prepared a second script which is believed to be an improvement over the first one in several respects. It is considerably shorter, for one thing, and for another it deals principally with routine operations. Each bank should decide for itself whether to broadcast the script or not, and if so, whether to do it in cooperation with NEC or under some other auspices that for special reasons might be considered more suitable. The script may be rearranged in any way that will in your opinion make it more effective.

The Board is advised that little, if anything, can be done about the timing, and since "Government reports" is a term necessarily broad enough to cover a wide variety of subjects, it is suggested that the Reserve banks could in many instances have supplementary notices published in the local papers merely by distributing to them a short announcement of their own.

There are enclosed copies of the new script and a copy of a letter under which the Board has today released the script to the National Emergency Council.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'L. P. Bethea', written over a horizontal line.

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

C O P Y

R-472a

May 25, 1939.

National Emergency Council,
14th and G Streets, N. W.,
Washington, D. C.

Gentlemen:

This is to notify you of the official release of a second radio script, prepared at the suggestion of the Council, three hundred copies of which are being forwarded to you by messenger.

For your information, there is attached a copy of a letter which the Board is today sending to the Presidents of all Federal Reserve banks. It will be appreciated if you will send the Board copies of your instructions to your local representatives throughout the country in regard to the broadcasting of this program.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Enclosure

NEC STATE BROADCASTTHE FEDERAL RESERVE SYSTEMNUMBER TWO

ANNOUNCER: (OPENING ANNOUNCEMENT)

NEC DIRECTOR: Mr. _____, we hear a lot about the Federal Reserve Bank of _____. Tell me, just what does a Federal Reserve bank do?

FEDERAL RESERVE: Well, Mr. _____, let me ask you a question. Have you got a five-dollar bill in your pocket?

NEC DIRECTOR: What's that? After all, you're the banker!

FEDERAL RESERVE: I am not just trying to beat you to the draw, Mr. _____. You asked me what a Federal Reserve bank does, and I might explain one of their many services by telling you how that five-dollar bill got into circulation.

NEC DIRECTOR: That's something I've always wanted to know.

FEDERAL RESERVE: Roughly speaking, there are two kinds of money in circulation -- the money that is issued directly by the United States Government, which we call Treasury currency, and the money that is issued by the Federal Reserve banks, known

as Federal Reserve notes. (Treasury currency consists mainly of silver certificates, subsidiary coins, and United States notes, which by the way are a carry-over from the greenbacks of Civil War days. Federal Reserve notes consist entirely of paper currency, mostly in ten-dollar and larger denominations, and make up about two-thirds of all the money in circulation.) Both Treasury currency and Federal Reserve notes go into circulation through the Federal Reserve banks, which as you know, act as fiscal agents for the United States Government.

NEC DIRECTOR

Don't spare the details, Mr. _____. I want to know exactly how it's done. If all I have to do is to step into a Federal Reserve bank and ask for a roll of 5's, 10's, or 20's -- well, why hasn't someone told me?

FEDERAL RESERVE:

It's not so easy as that, Mr. _____. Federal Reserve banks serve the public mainly through their member banks, and every member bank is required to maintain a deposit with its Federal Reserve bank equal to a stipulated proportion of its net deposit liabilities. This deposit is called a reserve account.

NEC DIRECTOR: I suppose this reserve account is in many ways similar to my checking account with my own bank.

FEDERAL RESERVE: That's right. And when a member bank wants currency, it writes a check on this account in precisely the same way that you draw a check payable to cash and present it to the teller at your own bank.

NEC DIRECTOR: And if a member's reserve account is too low at the moment to permit cash withdrawals, I suppose the balance can be built up in just about the same way that I might build up the balance in my checking account.

FEDERAL RESERVE: Yes. A member bank may send us cash, or it may send checks drawn on other banks. As a rule, numerous transactions affecting a particular member's balance come through every day; some add to its balance, while others reduce it. And if the need arises, a member bank that keeps its house in order can always borrow from the Federal Reserve bank. (As a matter of fact, Federal Reserve banks are known as lenders of last resort, which means that in almost any emergency that might arise, a member can go to its Federal Reserve bank and within reason

get whatever aid it requires.) And may I add that in lending to a member the Federal Reserve bank, in effect, converts a portion of that member's earning assets into ready funds.

NEC DIRECTOR: Do you mean cash?

FEDERAL RESERVE: Well, yes, if that is what the member bank wants. But what I really mean is that the Federal Reserve bank adds the proceeds of the loan to the member bank's reserve account, from which funds may then be withdrawn in cash, or by checks drawn in favor of third parties; and of course the member may decide for reasons of its own to carry a larger balance in its reserve account. That's up to the member bank.

NEC DIRECTOR: I suppose there is never any doubt about the Reserve banks' ability to pay out cash if the member banks demand it.

FEDERAL RESERVE: No, not the slightest. (They always keep on hand large supplies of unissued money, which they get from the Bureau of Printing and Engraving, in Washington. In one sense, of course, this unissued money is not money at all. However, when properly

secured and issued by a Federal Reserve bank, it becomes real money that can be paid out to the member banks, and then into general circulation.)

NEC DIRECTOR: Have you any idea how much currency the Federal Reserve Bank of _____ paid out last year?

FEDERAL RESERVE: Exactly \$_____.

NEC DIRECTOR: Is all of it still in circulation?

FEDERAL RESERVE: Oh, no. The truth of the matter is that we usually receive from our member banks during the course of a year just about as much money as we pay out. During the Christmas season, or at harvest time, or just before holiday weekends, the public demand for cash is always heavy, and the banks anticipate this demand by securing large quantities of currency and coin from the Federal Reserve banks. As the public spends, money finds its way into stores, hotels, theaters, and filling stations, and then flows back to the commercial banks. And a bank, again, is pretty much like an individual. It wants to keep on hand enough currency to meet all the demands of its customers, but any excess above this amount is promptly deposited with its Federal Reserve bank.

NEC DIRECTOR: And then what happens to the money?

FEDERAL RESERVE: It is sorted as to kind and condition. Fit money is retained and paid out again, while the unfit is baled up, punched full of holes, and cut in two, lengthwise; the "uppers", as we say, are then shipped off to Washington, to be followed by the "lowers" when we are informed that the first shipment has reached its destination.

NEC DIRECTOR: Since money is issued and retired through the Federal Reserve banks, is it correct to say that Federal Reserve authorities regulate the volume of currency in circulation?

FEDERAL RESERVE: No, that is not correct.

NEC DIRECTOR: But if the Federal Reserve doesn't regulate the volume of currency-- and I mean pocket money-- who does?

FEDERAL RESERVE: The public.

NEC DIRECTOR: How so?

FEDERAL RESERVE: I'll explain. About 65 or 70 million people have bank accounts. It is primarily the combined decisions of these people, as they choose to hold

their spendable funds in one form or the other -- that is, in bank balances or in cash -- that determines the total volume of currency in actual circulation.

NEC DIRECTOR: I see. And I suppose you could add a few more million in order to include all the people who hold money, or goods that could be converted into money, but who for various reasons do not own bank accounts.

FEDERAL RESERVE: That's probably right.

NEC DIRECTOR: If I may push this point just one step further, I should like to ask about the poor people who not only do not have bank accounts, but who do not even have jobs. I have heard it said that these conditions are largely due to a faulty money system.

FEDERAL RESERVE: Yes, I know. And there have undoubtedly been times when that view was more or less justified. But nowadays, as I see it, the individual bears about the same relation to the money mechanism that Farmer Jones used to bear to the local grist mill. If the farmer had corn, he could always get it ground into meal. An individual who has goods, or claims to

goods through his income, can usually convert those goods or claims into cash through our money and banking system, if he happens to prefer cash to some other form of wealth.

NEC DIRECTOR: And if Farmer Jones had no corn, that was not the miller's fault.

FEDERAL RESERVE: That's right. And what an unemployed mechanic, or a bricklayer, or spinner really wants is a job that will bring him an income, just as the modern farmer wants a market in which he can sell his cotton, dairy products, pork, or apples. If they had jobs and markets, they could get money. The lack of jobs and the lack of markets are probably part of the same big problem. At any rate, I agree that there is something -- or perhaps many things -- fundamentally wrong when idle men, eager for work, are surrounded by rich natural resources, unused plant capacity, and a great accumulation of capital seeking profitable investment. However, I hadn't intended to make a speech. Let's get back to some of the other services the Federal Reserve Bank of _____ performs for this district.

NEC DIRECTOR: Very good. And geographically speaking, just what do you mean by "this district"?

FEDERAL RESERVE: The _____ district takes in _____. (And as you know, the _____ Bank has branches located at _____.)

NEC DIRECTOR: How many member banks are there in this district?

FEDERAL RESERVE: _____. And perhaps I should point out that in connection with some of their work for the Treasury, as in the sale and redemption of Government securities, Federal Reserve banks serve nonmember banks and the general public as well as member banks. (Also, they clear and collect checks for nonmember banks, under special arrangements.)

NEC DIRECTOR: I see. And now that you remind me of it, would you describe the Federal Reserve System's nation-wide collecting and clearing facilities?

FEDERAL RESERVE: Take any bank here in _____. During the course of the day it receives from its depositors checks drawn on banks in all parts of the country, but principally on local banks. Now let's divide those checks into three groups: (1) those drawn on other

banks in _____; (2) those drawn on out-of-town banks that are located in this Federal Reserve district; and (3) those drawn on banks located in, let us say, the district served by the Federal Reserve Bank of _____. Checks in the first group -- those drawn on local banks -- are cleared through the local clearing house, where messengers from all the banks gather every weekday at _____. Each messenger presents to every other messenger a bundle of checks for which his bank expects payment. This means, of course, that each messenger receives from every other messenger a bundle of checks for which his bank is expected to pay. Each bank pays, or gets paid, for the difference between the checks it delivers and the checks it receives, by appropriate debits and credits, finally, to reserve balances held with the _____ Federal Reserve Bank. Now take the second group of checks, those drawn on banks located out of town, but within our own Federal Reserve district. The bank will send those to the Federal Reserve where all the checks going to, say, a bank in _____, or _____, are assembled in one package. Collections are made again, in effect, through reserve balances held with us.

NEC DIRECTOR: I think I follow you so far, Mr. _____. But what about the checks drawn on banks in other Federal Reserve districts?

FEDERAL RESERVE: Oh, that's easy. When a local bank gets checks drawn on banks in, say, the _____ district, as it probably does every day, it sends those checks to us for collection, or, depending on the volume, it may send them directly to the Federal Reserve Bank of _____, which of course is able to effect collection right away.

NEC DIRECTOR: But how are the local banks here in _____ going to collect from the Federal Reserve Bank of _____? That's what I want to know.

FEDERAL RESERVE: The Board of Governors of the Federal Reserve System operates in Washington a device known as the Inter-district Settlement Fund. Each Federal Reserve bank owns a share in this Fund. Therefore the Federal Reserve Bank of _____ pays the Federal Reserve Bank of _____ merely by advising the Board of Governors, over a leased-wire system, to transfer a given sum from its account with the Fund to the account of the Federal Reserve Bank of _____.

The proceeds are then credited to the reserve balance of the local member bank.

NEC DIRECTOR:

So that's the modern way. Thank you very much, Mr. _____. This has been most instructive.

ANNOUNCER:

(CLOSING ANNOUNCEMENT TO INCLUDE)

The Federal Reserve Bank of _____ provides currency, holds bank reserves, is prepared to make advances to its member banks, and affords a link with nation-wide check clearing, collecting and fund-transfer machinery. The twelve Federal Reserve banks together with the Board of Governors of the Federal Reserve System, in Washington, are responsible for the formation and execution of broad central banking policies that concern every American citizen. On request, the Federal Reserve Bank of _____ will be glad to furnish further information about the Federal Reserve System and the functions it performs.