

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO

FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD FILE

332

~~332~~ 1

January 19, 1917.

Memo #1982

Carded

*All Agents
Copies to Banks*

Dear Sir:

In view of the fact that the rate for bankers' acceptances recently maintained by Federal reserve banks has been somewhat higher than the open market rate, the holdings of acceptances by the Federal reserve banks have been materially reduced during the past weeks.

In consequence the Board has received letters from some of the Federal reserve banks expressing apprehension that their earning assets might be reduced too drastically, and some of the banks have shown some inclination to invest in warrants, even at low rates, and for the full period permitted by law.

The Board therefore has thought it advisable to direct me to address a letter to all Federal reserve agents in order to secure a better understanding of the policy which in its opinion, should be pursued at this time.

During the month of December, and up to January 12, the net gold imports into the United States amounted to about \$169,000,000. Excess reserves have materially increased in consequence. It may be assumed that this plethora of gold is not entirely a natural one and that much of it will be absorbed by impending flotations of new securities, after which we shall probably witness again the same development that has been characteristic of similar periods in the past - that the deposit and loan structure will again expand so as to absorb large portions of the new gold.

There is general agreement that this continuous and rapid growth of deposits and loans is not without danger. With the present ease of money, it would appear, therefore, in the opinion of the Board, to be a wise policy to permit the earning assets of the Federal reserve banks - which combined amount to about \$206,000,000 - to be reduced by from forty to fifty millions,

and thereby to absorb, temporarily at least, an equivalent amount of the newly imported gold. Of course, such a policy must be carried out in a careful and tactful way, and no definite amount can be fixed at this time to which the investments of the Federal reserve banks should be reduced. Changes in conditions may occur at any moment, which may render it necessary to reverse this policy, or to apply it even more radically than is now contemplated. During the past few weeks Federal reserve banks have operated along these lines with very good results, and acceptances and rediscounts have been reduced by about \$40,000,000 since they reached their highest point, early in December. So long as the present ease continues, there should not be any difficulty in continuing the present policy. By permitting the open market to absorb the bankers' acceptances, the additional object is gained of training the member banks to deal in acceptances and to become accustomed to investing in them.

In expressing to you these thoughts the Board wishes me to add that it hopes that the banks will not become unduly restive because of a temporary reduction of their earning assets. The Board has no doubt that before the year just begun is past, many occasions will arise which will enable the Federal reserve banks to employ their funds actively, but the Board considers it the primary duty of the Federal reserve banks to be mindful of their obligation to do their full part in preventing just now a rapid expansion of credit and in accumulating resources to be used when active demands are made upon them for ordinary commercial credit facilities.

Very truly yours,

Governor.