banks are required to hold 12 1/2 per that as some discretion is left to the balances which would be for the recent of their deposits in lawful money banks about their reserves the exact and 12 1/2 per cent in balances with other banks in central reserve cities: central reserve city banks are required to hold 25 per cent of their however, be fixed. This is done as deposits (including those of other follows: banks with them) in lawful money in their own vaults.

The aim of this measure is to transfer these reserves away from banks other than those to which they belong, so that ultimately bank reserves will be held partly in the vaults of the banks to which they belong, and partly in the regional reserve banks, the reserve banks taking the place of existing reserve city and central reserve city banks in their relation to member banks.

PROPOSED RESERVE REQUIRE-MENTS

Carrying out this plan, it is provided (a) that 5 per cent of the outstanding deposits of all banks shall be carried in the new reserve banks; the actual release of cash as com-(b) 5 per cent of the deposits of pared with the present plan would present country banks to be carried be the difference between the total in cash in their own vaults: (c) 2 per cent of the deposits of present while if the reserve balances were country banks to be carried either in created by rediscounting the cash recash in their own vaults or as a bal- leased under the new p'an would be ance with new reserve banks; (d) 9 per cent of the deposits of present quired to be held under the new plan reserve city and central reserve city banks to be carried in cash in their own vaults; (e) 4 per cent of the deposits of present reserve city and central reserve city banks to be carried either in cash in their own vaults or as balances with the new reserve banks.

It may be here explained that the "balances" spoken of can be obtained by rediscounting paper with the new reserve banks.

THE DEMONSTRATION

position of those reserves at any given time can not be predicted. Maximum and minimum limits can,

At the date of June 4, 1913 (comptroller's last report), the present bank reserve in central reserve cities was \$409,601,424 hell in cash.

At the same date, the reserve which would have been required under this bill would have been 9 per cent of net deposits then subject to reserve requirements in cash, and 9 per cent in balances with the new reserve banks, as follows:

To be held in cash......\$141,127,835 To be held as balances.... 141,127,835

From this it is clear that if the balances under the new plan were established by taking actual money and putting it in the reserve banks new reserve and the present reserve. the difference between the cash reand the cash now actually held. That would signify:

Maximum release of cash, \$268,473,589 Minimum release of cash... 127,345,754

At the same date mentioned above the banking reserve in reserve cities as held by the banks was:

Held Held	in	cash balan	ces		:		:	:		\$250,383,926 232,799,67
Total				,	*			*		\$483,183,60

Under this bill these banks would have to hold in cash 9 per cent of their net deposits subject to reserve From the foregoing it is clear requirements and a like amount in

serve cities as a group:

Total\$350,257.402

Comparing these figures with the present requirements as already given it is seen hat the new plan might mean either a-

Maximum release of cash ... \$75,255,225 Or a maximum contrac-

tion of cash 99,873,476 At the same date mentioned above the banking reserve in country banks was held as follows:

Under this bill the cash required would be 5 per cent of their net deposits subject to reserve requirements and 7 per cent in balances (2 This would mean:

To be held in cash\$180,533,642 Total\$433,280,742

On the same principle as before this would mean a maximum release or contraction as follows:

Maximum release\$108,858,535 Maximum contraction 143,888,565 Thus it appears that there would

be a possible maximum contraction as follows: Reserve city banks \$ 99,973,476

Total\$243,862,041 Deduct central reserve city

Net contraction\$116,516,287 It is also evident that the result might work out as follows:

Released by central re-serve city banks.....\$268,473,589 Released by reserve city banks Released by country banks 108,858,525

Total 452,587,349

which of these results would probably be reached? Assume that the first (contraction) was the net result owing to banks fulfilling their reserve requirements by depositing cash in every instance. The government balances which are now to be poured into trade channels through the new reserve banks will run from \$200,000,000 to \$250,000,000. Bearing in mind the fact that the capital of the new banks has to be raised in cash, it will be seen that independent of this capital the monetary situation would be left about the same as it is today, except that the new reserve banks would be in position to add their loaning power to that of older banks. If we now assume that the transfer of reserves resulted in the extreme limit of expansion already referred to, it would be noted that of this est the bank's discretion.) the cash is released only on the assumption that the reserve requirements are met by rediscounting. If. To be held in balances..... 252,747,100 however, the new reserve banks have to hold one-third in lawful money in order to make these discounts, it is clear that only two-thirds of \$452,-587,349, or about \$300,000,000, will be released. Of this sum a certain part would be needed in bringing the reserves of state banks which may become members of the new associations up to the level which is required of them. How much this would be can not be positively asserted.

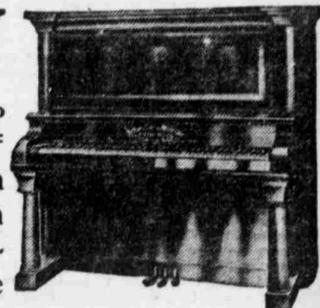
It might reasonably be asked

If it be asserted that this process will lead to inflation the answer to be made is that whether it will or not is a matter in the hands of the reserve banks, which have it in their power, by fixing their rate of discount suitably, to prevent the banks from creating reserve balances in excess of the required 5 per cent. If the reserve banks should do this, it would be found that the required 5

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