banks are required to hold 12½ per cent of their deposits in lawful money and 12½ per cent in balances with other banks in central reserve cities; central reserve city banks are required to hold 25 per cent of their deposits (including those of other 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 REQUIREMENTS

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; (b) 5 per cent of the deposits of present country banks to be carried in cash in their own vaults; (c) 2 per cent of the deposits of present country banks to be carried either in cash in their own vaults or as a balance with new reserve banks; (d) 9 per cent of the deposits of present 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

From the foregoing it is clear that as some discretion is left to the banks about their reserves the exact position of those reserves at any given time can not be predicted. Maximum and minimum limits can, however, be fixed. This is done as follows:

At the date of June 4, 1913 (comptroller's last report), the present bank reserve in central reserve cities was $409,601,424 held 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
Total	$282,255,670

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 the actual release of cash as compared with the present plan would be the difference between the total new reserve and the present reserve, while if the reserve balances were created by rediscounting the cash released under the new plan would be the difference between the cash required to be held under the new plan and 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 in cash	$250,383,926
Held in balances	232,799,679
Total	$483,183,605

Under this bill these banks would have to hold in cash 9 per cent of their net deposits subject to reserve requirements and a like amount in balances which would be for the reserve cities as a group:

Held in cash	$175,128,701
Held in balances	175,128,701
Total	$350,257,402

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

Maximum release of cash	$75,255,225
Or a maximum contraction of cash	99,873,476

At the same date mentioned above the banking reserve in country banks was held as follows:

Held in cash	$289,392,177
Held in balances	310,689,129
Total	$600,081,306

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 of this at the bank's discretion.) This would mean:

To be held in cash	$180,533,642
To be held in balances	252,747,100
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
Country banks	143,888,565
Total	$243,862,041
Deduct central reserve city release	127,345,754
Net contraction	$116,516,287

It is also evident that the result might work out as follows:

Released by central reserve city banks	$268,473,589
Released by reserve city banks	75,255,225
Released by country banks	108,858,535
Total	452,587,349

It might reasonably be asked 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 the cash is released only on the assumption that the reserve requirements are met by rediscounting. If, 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.

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