Fiftieth Anniversary of the Federal Reserve System— A Note on Gold in 1914*

Gold played a key role in the domestic as well as in the international payments system in 1914. This brief note touches on only a few facets of a vast and complex subject.

As a result of the resumption of specie redemption in 1879 (following its suspension during the Civil War) and with the enactment of the Gold Standard Act of 1900, the United States was on a full gold standard, characterized by free coinage and circulation of gold and the convertibility of paper currency into gold coin.

In November 1914, as the Federal Reserve Banks prepared to open for business, the United States had an estimated $1,835 million of monetary gold. Of this amount, $666 million was in the form of gold coin held by commercial banks and the public, $256 million in uncommitted Treasury balances, and $913 million in circulating gold certificates issued to the public and secured 100 per cent by gold in the Treasury. Gold coin and certificates outside the Treasury—roughly $1.6 billion—made up more than 40 per cent of the nation's supply of coin and currency. An estimated $800 million of the gold and certificates outside the Treasury was held by banks, serving as part of their legally required reserves.

The first *Annual Report* of the Federal Reserve Bank of New York stated that "gold is the most uneconomical medium of hand-to-hand circulation since, when held in bank reserves, it will support a volume of credit equal to four or five times its own volume". The Federal Reserve Act made possible more effective use of gold as a foundation for the domestic payments system. The expectation was that this improvement—and the base for a "more flexible" currency provided by Federal Reserve rediscounting of commercial paper—would contribute to the avoidance of money panics.

The Federal Reserve Act required that capital subscriptions of member banks be paid in gold or gold certificates. The Federal Reserve Board also urged member-banks-to-be to pay as much as possible of their required reserve deposits in gold or gold certificates. By December 31, 1914, the Reserve Banks held $229 million in these assets—more than 12 per cent of the nation's monetary gold. Required by the Federal Reserve Act to maintain gold reserves equivalent to at least 40 per cent of their outstanding notes and 35 per cent of their deposit liabilities, the Reserve Banks had, on this basis, excess gold reserves of about $138 million. One of the uses to which the Reserve Banks applied their gold was the establishment of an Interdistrict Settlement Fund, maintained in Washington. It was easy and inexpensive to settle payments between districts arising from check collections by notifying the Fund to transfer gold reserves from the account of one Reserve Bank to another. In time, these transfers replaced the expensive and cumbersome shipments of gold and gold certificates around the country that were common prior to the establishment of the System.

* The fourth in a series of historical vignettes appearing during the System's anniversary year.