

**Collection Title** \_\_\_\_\_

Nelson W. Aldrich

**Series/Volume** \_\_\_\_\_

BOX 80

**Shelf/Accession No.** \_\_\_\_\_

LC 77-38 (1/70)

**NELSON ALDRICH**

**Monetary Commission**

**MISCELLANY**

Sort out the people of

74  
Political

Close

Not Democratic

less teachings of the father

↳ It was greenback populism

farmers

before the advent of Bryan

↳ Defeated at the ~~people~~ polls

every time it was made an

↳ ~~issue~~ issue was in the campaign of 1912

It is not the voice of the people  
and does not represent the  
cause of the people

↳ ~~propose~~ <sup>my</sup> put this scheme of

inflation

↳ and to force it through  
<sup>congress</sup>

~~without~~ ~~opportunity~~ of public

~~discuss~~ <sup>the sheet</sup> by force of executive  
power

violation of good faith

Board over ~~Federal~~ Reserve banks and their members, in fact over  
the entire banking business of the country, are vastly greater  
than any ~~which can be~~ exercised by any central bank in existence.

b. ~~In order to show~~

~~It is improvemently granted~~

The following recital in outline  
of the powers and functions given  
by the bill to the Federal Reserve  
Board fixes its character  
as a central bank.

It is <sup>unprecedentedly</sup> <sup>greater</sup> granted powers and pt.  
enjoyed by an  
the

1000 net  
get into c-8

of the act.

I have stated that by

~~I have already stated that by~~ the establishment of the

Federal Reserve Board Congress would create a Government central

bank. The Board is ~~constituted~~ a bank of issue, as ~~all of the~~

all the

~~the bill~~

Government notes authorized by ~~the act~~ are issued by it. It is

a bank of discount, ~~first~~, because it is ~~authorized to make loans~~

~~off~~ on commercial paper ~~at a rate of discount~~ based on ~~Government notes~~ to Federal Reserve banks; ~~second~~, by <sup>fixed</sup>

Meeting

~~the elaborate provisions which I have recited. The entire bus-~~

of the Board

~~iness of the Federal Reserve banks is practically managed and di-~~

~~rected by the Federal Reserve Board. The various Federal Reserve~~

~~banks and their offices scattered throughout the country are in~~

~~effect merely~~ branches of the central Reserve Board, as they

~~perform all of their banking functions under its direction.~~

imperial unprovokedly

The powers granted and authority given the Federal Reserve

~~Another feature of the bill which to my mind is highly~~

~~It is sought to make the control of the Federal Reserve Board over the banking business of the country effectuated by objectionable is that which compelling National Banks to subscribe to~~

*within a year.*

*a sum equal to 20% of the ~~and obliging~~ capital*

~~to the stock of the Federal Reserve Banks and obligate them to keep~~

*The national banks are further required to deposit with these banks a certain portion of their reserves*

~~with the penalty of dissolution in case of failure or refusal~~

~~These drastic provisions disclose an amazing want of confidence on the part of the authors~~

~~It is hardly necessary for me to refer to the circumstances~~

~~surrounding the creation of the national banking system. The~~

~~national banks were established during the civil war to provide~~

~~a safe and uniform currency for the country and to strengthen its~~

~~credit by furnishing a large and profitable market for its bonds.~~

~~Both of these purposes were successfully accomplished. Any de-~~

~~fect in our system of bank note issues is not due to ~~want~~ *lack* of safe-~~

~~ty or uniformity. The success of the various refunding acts by~~

~~which the interest on the public debt has been reduced from six~~

~~to two per cent and vast sums saved to the people has been owing~~

*thereby*

very largely

to the use by the national banks of a considerable portion of out-

standing bonds. <sup>Then</sup> <sup>by the banks</sup> ~~This~~ use has been practically enforced by legis-

lative provisions. The banks are now active <sup>ing</sup> ~~ing~~ under charters gran-

ted for a fixed <sup>period under</sup> ~~time with~~ certain definite conditions which have

been faithfully lived up to with the result that <sup>note holders have suffered no loss</sup> ~~losses~~ <sup>and that of</sup> de-

positors and shareholders ~~had~~ been infinitesimal.

*The United States is bound by every equitable consideration to protect the banks from serious losses*

I submit that it is not fair to impose upon these insti-

to be remembered that under the act in Government bonds



al to the state system would end in a financial panic such as we

have never seen in this country. *The possibility of these dire results*  
~~All doubts on this subject can~~

*avoided*  
however be ~~dispelled~~ by making the participation of the national

banks in the scheme voluntary, or by agreeing to some safe method

by which the transfer to the state system can be carried out with-

out dangerous contraction or imposing a ruinous loss on the banks

on account of their holdings of 2 per cent bonds.

3. The power of the Reserve banks to buy in  
the open market <sup>from private parties</sup> commercial paper and bills  
of exchange, <sup>of individuals, firms, and corporations</sup> and to pay for its purchases  
in Government notes and to furnish the central  
boards with security for the notes by a deposit of  
paper purchased <sup>providing</sup> another <sup>profitable</sup> means  
of note inflation.

Insert (45) 6

2.

*The corn* (45)

~~5 thousand millions more.~~ It is, of course, problematical what

~~portion of this vast amount could, by an insistent demand for money or by a desire on the part of the Reserve banks to increase~~

~~their profits, be made available as security for loans of notes~~

*Greatest boom*

from <sup>central</sup> the Board. If five per cent of <sup>the total</sup> this amount could be used

we should then have a thousand millions of additional currency.

*The selfishness is a controlling factor in the acts of corporations and what should be considered that*

~~The bill fixes a rate of not less than 1% interest on the~~  
*we may be certain if the loan is a profitable one for the bank application will be made and insisted upon*

~~loans of money made to the banks.~~ If a bank could hire money

at <sup>or 1%</sup> ~~1%~~ and loan <sup>at 4%</sup> ~~2/3~~ of it to its customers for 5% or 6%, the

business would certainly be a profitable one, and if the notes

~~could~~ <sup>can</sup> be kept in circulation indefinitely, as they probably

~~would be under the operation of the Gresham law,~~ the amount of

~~loans~~ <sup>and note issues</sup> could be increased indefinitely.  
*would*

*insert* (45)

~~It is difficult to say whether the authors of the plan con-~~

WILSON

The commercial paper pledged by a reserve bank for the security <sup>of</sup> loans of notes <sup>is</sup> ~~placed in the custody of~~ is delivered to the chairman of their own Board of Directors and kept in <sup>his</sup> ~~the~~ custody in

~~New notes~~

vault on their own premises., and ~~it can be changed at any time.~~  
~~as long as the necessary amount is left intact~~

insert

~~By the way~~ It should be remembered  
in this connection that by the various  
provisions for ~~ex~~ redemption ~~of notes~~ that the  
notes issued to any reserve bank are  
returned to it by other reserve banks  
and by the Treasury for final redemption  
and that there is nothing to ~~prevent~~ prevent  
their retention and reissue by the receiving  
bank, <sup>and for this</sup> no new application is necessary,  
and the transaction can be carried on  
and repeated indefinitely without expense.

456

As the notes fall due or a change is  
necessary for other reasons a substitution  
takes place under the direction of the  
custodian and as long as the  
necessary amount is kept intact  
the loan may go on forever.

(46) cont'd

a-6

another form of currency would be added to the seven already in existence, and if the provisions in regard to the use of letters and serial numbers to distinguish notes which are to be ultimately redeemed by particular banks, should give a greater value to some notes than other, *as would be the case if the proposed earmarking is successful* <sup>other</sup> we should have twelve additional forms of currency.

46

~~sidered whether notes are to be issued as emergency notes, to be~~

~~retired as soon as the occasion for their use has passed, or~~

*It is undoubtedly the expectation of the authors of the bill*  
*that the notes should*  
~~whether they are intended to become a permanent addition to the~~

currency of the country. Whatever may be the <sup>intention</sup> ~~intention~~ of the

~~authors,~~ it is safe to assume that currency of this character,

once issued, will <sup>not</sup> ~~never~~ be retired, and that its amount will con-

*There will be no inducement to retire them*  
*when they reach the issuing bank to whom they were issued*  
stantly increase. Each one of the Federal Reserve banks, by

the provisions of the bill, are forbidden to pay out the notes of

any other Federal Reserve bank, the purpose being, I suppose, to

*This proposal would not be effective*  
secure their prompt redemption. But no such prohibition applies

to the twenty-five thousand other banks in the country, or to the

business men and people in whose possession the notes would be

found.

*extended*  
With the ~~popular~~ use of the new notes, which ~~we may assume,~~

*will help to expose or tie on a paper that  
runners will be in possession of a large  
and of the amount of the notes*



(47)

It ~~will~~ <sup>is</sup> be said that the bill places the <sup>primal</sup> obligation for re-

demption upon the banks and requires that they should hold re-

*now they could have  
with no gold or loan  
awful lot of money  
that they can use  
for this purpose*

erves, and establishes a lien upon all the assets of the banks

*certainty*

for security. <sup>as</sup> *for this redeemer - In times of stress the United States* But ~~suppose again the conditions of 1907, of what~~ *will be called upon to redeem them*

*near*

~~avail would be a collection of miscellaneous paper held by the~~

*use to the United States Treasury*

~~Federal Reserve Board.~~ <sup>or a lien</sup> The collateral certainly could not be

disposed of. It is impossible to say from the reading of the

bill whether the title to the collateral is to be in the Federal

Reserve Board or in the Treasury of the United States. The

~~notes issued are obligations of the Gov. Government of the United States issues its obligations and the~~

*United States and  
custody*

<sup>had</sup> the collateral is in the hands of an agent of the Federal Reserve

Board. The same uncertainty exists as to the lien upon the

assets of the banks. How is the lien to be enforced, and who is

to enforce it. Does it exist in behalf of the United States or

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the bill holders? It is difficult to understand why, if the Government notes issued are to be redeemed and their safety insured by Federal Reserve banks, the United States should engage in the business of loaning money, when the obligations of the banks could be made as safe and as valuable as those of the United States, and all responsibility of the country and all danger of the possibility of suspension would be avoided.

Heretofore in legislation looking to the regulation of currency or to the issue of Government obligations Congress has surrounded their authorization with every possible precaution against fraud. Issues of currency are made through the appropriate bureau of the Treasury Department, and <sup>their</sup> ~~its~~ character and denominations are fixed by Congress itself. In the case of the pending bill the Federal Reserve Board are authorized to issue

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and

obligations of the United States without limit as to amounts, to  
 fix their character, form, and tenor. The transfer of this im-  
 portant function of Government to a Board whose acts are not  
 subject to the supervision of any Department of the Government,  
 with no requirement for reports or publicity of transactions,  
 with no power on the part of any representative of the Govern-  
 ment to ~~detect~~ detect or punish a flagrant abuse of power, has  
 no precedent in the history of this or any other country.

If the Board should ~~have any prejudices against any of the~~

*prefer to substitute*

~~existing forms of currency or in favor of the notes which they~~

*for other forms of currency to give them a*  
*do* *main circulation*

have authority to issue they might easily, by providing for the

issue of the new notes in small denominations of ones, twos and

*and this*

fives, drive out of ~~existence~~ silver certificates and United

*circulation and into the Treasury and*  
*the bank*  
*the important*

States notes of equivalent denominations and give the field to

*permanently to this new form of Government's*  
*currency.*

50  
~~the Central Reserve Board as unlimited.~~ In considering the dan-

gerous character of government note issue we must not lose sight

*while in each case the first issues have been*  
of the fact, that ~~while the first issue in every case was~~ strict-

ly limited in amount and surrounded by safeguards and restrictions

for the purpose of giving permanence to the value of the notes and

insuring their circulation and convertibility, ~~experience has shown~~

*that sooner or later in*  
~~shown that~~ in every case limitations, safeguards and restrictions

have been, one after another, removed or modified. In this case

*if it shall be found that there is any*

~~as I have shown there is no practical limitation upon the initial~~

*freedom of*

issue and we can ~~say with certainty~~ *feel sure* that no Congress will be able

to resist the popular demand for the removal of all impediments.

*In this connection the experience  
of France is <sup>highly</sup> valuable lesson*

*This first step*

57

~~this new form of Government currency. to the extent of~~  
(?) ~~500 or 600 million dollars~~

The Supreme Court of the United States in the last legal tender case, affirmed the right of Congress to issue all obligations of the United States in such form and to impress upon them such qualities as currency for the purchase of merchandise and the payment of debts as accorded with the <sup>practice</sup> use of sovereign governments, and under the power to borrow money on the credit of the United States and to issue circulating notes for the money borrowed, its power to define the quality and force of these notes as currency is as broad as the like power over a metallic currency under the power to coin money and regulate the value thereof.

The issue of the Government notes under the bill under consideration is not for the purchase of merchandise or the payment

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of debts, nor can they be said to be issued under the power to borrow money for present or prospective needs of the Government.

Notes are issued for the sole purpose of making advances to Federal Reserve banks as definitely expressed in the measure. In

other words, to enable a Board to exercise a purely banking

function of loaning money on collateral, loaning the credit of the

Government to private corporations. Grave questions may well

arise as to whether Congress has the power to issue obligations

of the United States, *for this purpose* *it would certainly*  
~~or~~ if it has the power, ~~whether it is ex-~~

*be* *and we -*  
*we* pedient or wise to exercise it in the manner provided in the bill.

The greenback sentiment in both parties was strong enough to secure the passage of an act in 1875<sup>2</sup> increasing the limit of United States notes in circulation. The veto of this measure by General Grant was an effective check to the first and only post bellum attempt prior to 1913 to inflation through the increased use of government money.

*But here*

While ~~the~~ opponents of resumption and the friends of further inflation and of the free coinage of silver included members of both political parties, *and* they were not strong enough in the early stages to induce either of the great parties to openly espouse their cause in national platforms. The democratic platform of 1872 contained an emphatic declaration in favor of a return to specie payments and a maintenance of the public credit, and denounced repudiation in every form and guise. The failure of



the friends of inflation to secure the formal support of either of the great parties to their peculiar views led to the formation, successively, of the greenback, people's, and populist parties.

The letter was written to a member of the Committee upon the eve of

*Called to act upon*  
of the Democratic caucus upon the bill and amendments. While this

frank and courageous declaration of Mr. Bryan's had the expected

result of solidifying his followers in the support of the bill, ~~+~~

*also, I venture to suggest*  
~~it should~~ open the eyes of that numerous portion of the American

public which is not and never has been in sympathy with his peculi-

lar views, to the dangerous character of ~~his~~ *the* proposals. ~~he~~

*commended so warmly*

The Bryan proposition as now made ~~goes beyond anything~~ *and*

*accepted furnishes a plan of*  
~~which has ever been suggested in the nature of paper issue by a~~

*distribution that is skillfully devised*  
~~government. The one obstacle which has always stood in the way of~~

*the printing of the notes is a simple matter*  
~~the adoption of greenback theories has been to find some way by~~

*but no advocate of* ~~to suggest any way by which they could~~  
*be distributed.* ~~Mr. Bryan himself has not always~~

*been clear upon this point.* ~~In a speech made by him, he says;--~~  
*in 1894*

"If it is said that we must institute banks of issue in order to put money into circulation, I answer that there is a better way. The issue of money by the Government directly to the

danger of the placing so great a power, that is the power to loan money, in the hands of a dominant party. It would seem that Mr.

Bryan's ideas upon the subject are progressive ~~and~~ <sup>He</sup> ~~he~~ certainly

could not have anticipated in 1894 that it would be possible for

him to secure the adoption of a plan of distribution <sup>much</sup> more compre-

hensive and radical in its character than he at that time thought

wise to advocate. Mr. Bryan in his letter to which I have re-

ferred reiterates with increasing emphasis the statement that a

government issue of notes through a Board of government officials

<sup>is a</sup> ~~was~~ distinct triumph for the people. If the method of distribut~~io~~

tion by loaning notes to a class of banks ~~is a~~ triumph, why not

make the triumph more definite and beneficial by loans <sup>on similar terms</sup> to all

banks or, ~~better still~~, to all individuals or corporations doing

<sup>better still</sup> business or <sup>also</sup> directly to all the people. If the theories of his

<sup>proposals for note issues contained in the bill</sup>

~~associates are cr~~ ~~and~~ are really in the interests of the

people, why not make them comprehensive and include all the people rather than a certain privileged class? It is not surprising that Mr. Bryan and his followers should be but little concerned as to the other details of the bill when they have achieved a victory of such transcendent importance. I have no disposition to detract from the credit which Mr. Bryan is entitled to for the victory he has attained but I think we have a right to ask that the American people should be given an opportunity, under the circumstances, for a full hearing upon the question before judgment is rendered adverse to their highest interests.

There can be found no precedent for this remarkable delegation of authority.

*If the United States are to carry the demands for the loaning of notes on merchandise receipts for collateral then can such be accepted*

It is one of the principal purposes of the bill to consolidate reserves so that they could be made useful at any time. but in the case of reserves for note issues they are scattered all over the country in 12 different points and practically valueless for general purposes.

(1)

The same arguments as to differences in conditions and the character I think I have that shows that the ~~that I~~ the cumbersome

methods of redemption provided in the bill will certainly fail <sup>under</sup> <sup>pressure</sup> to accomplish their purpose

under pressure. If the reserves were held in a manner that <sup>would</sup> permit <sup>would still be found</sup> their effective use they are inadequate

for the reserve purposes judging by the experience of other countries.

The average ~~percentage of the~~ <sup>percentage of the</sup> cash holdings of the three great European banks for the ten years 1901-10 inclusive

to note issues and all demand liabilities were as follows

	England	France	Germany
To note issues	86.6	84.5	72.5
To all liabilities	47.4	72.9	50.4

Notes issue should have at least 50% cash reserves and <sup>these should be</sup> so placed and held that they would <sup>be</sup> at all times available for redemption purposes

(N) It is difficult to understand why  
the remarkable proposition to make <sup>these</sup> new obligations of  
the United States ~~redeemable~~ - in lawful  
money - that is in <sup>other</sup> obligations of the U.S.  
is ~~to state~~ ~~in~~ ~~the~~ ~~character~~ <sup>was incorporated</sup>  
Bank notes, are naturally redeemable <sup>necessarily</sup>  
in any form of money <sup>that is</sup> made legal

Causes

~~by the government but that~~  
~~the same rule applied to obligations~~  
~~is no analogy in the other cases.~~  
~~such rule should be made to apply~~  
~~to government these as obligations~~  
~~of the banks and not of the government~~  
~~the rule but the same rule~~

If the government should undertake  
to force individual creditor to authorize  
individual debtors to pay their debts  
by ~~the~~ <sup>the</sup> promises to pay which ~~should~~ <sup>could</sup>  
be met ~~independently~~ by other promises  
and the process ~~should~~ <sup>be</sup> con-  
tinued indefinitely. We should  
characterize the ~~process~~ <sup>authorization</sup> by a very  
harsh name. In ~~Colonial~~ <sup>Colonial</sup>  
times it was quite common when  
one ~~set~~ <sup>issue</sup> of notes had become practically  
valueless to authorize their redemption  
on some basis in new notes and this  
process went ~~on~~ <sup>on</sup> ~~to~~ <sup>on</sup> ~~the~~ <sup>until</sup> ~~the~~ <sup>the</sup> ~~final~~ <sup>final</sup>  
~~collapse~~ <sup>collapse</sup> ~~of~~ <sup>of</sup> ~~all~~ <sup>all</sup> ~~was~~ <sup>was</sup>

## State Bank Reserves

no reserve requirement in 10 states

xx sep 11<sup>th</sup> Barnett

cas reserves include Nat BK notes

p 120

Reserves cash balances in banks  
and in some states securities

The commencement  
what is sure to follow  
As several This note  
issue only opens the  
door report says that  
US. State notes are  
to be substituted for Nat BK  
bill does not  
say this but  
promotion say it will be  
done through machines

Reserve for notes 5% fund + lawful money

condition of the Treas

Open market Provisions

xx Effect of Reserves generally Country banks ✓  
State banks growth & relation ✓  
discrimination against County  
banks and small banks ✓  
Country banks have much larger  
proportion of the Capital  
in U.S. bonds ✓



# Differences

+ 100  
+ 200  
500 800...

- 1 Note issues - Redemption
- 2 from Custodians or Central bank Political
- 3 6 1/2 Compulsory nature of <sup>Political</sup> analogy Inter State
- 4 Reserves effect changes? Com Com
- 5 manne fix bank rate not operative
- 6 acceptance important omission
- 7 Relative treatment Treasury Balances  
 County banks  
City banks Central reserve cities  
 of % of total Capital

the  
 He hold a larger part of  
 the gold reserves of the Country  
 and are relied upon to  
 maintain sufficiency  
 for help etc

How the financial world  
 watches weekly statements  
 which show  
 index Barometer

Effect on banks

Compulsory feature

banks in - Idaho

- Wyoming

What will happen to them

use

Small  
won't affect  
H. S. C.

Important  
Small

at a controlling partner completely  
with some banks for business  
through branches

The Government in the banking bus-  
iness in every important business community

The U. S. is made a partner (controlling)  
in the banking business (?)

Angels  
Treatment of banks  
Situation of banks  
small business  
machines time to fail

unfair & unjust  
created  
Services  
bond  
Position stockholders  
will be in  
pre-<sup>h</sup> capital  
double liability  
Preferred Creditors  
G or R for deposit  
No certainty of meeting seasonal demands  
to note

5. Practical effects  
on country banks  
and those of south & west

Reserves

Aggregate deposits  
Domestic Stock banks  
England 1890 £ 685. millions  
Private deposits  
Bank of England 50. "

Banks

Suburban County banks  
what they will give  
& what will they get  
in return

# Relative condition of a county

bank

to take & work & make

deposits more than Capital

$7\frac{0}{4}$

Could borrow by rediscounts

Do not rediscount  
paper

$\frac{2}{3}$  of the amount  
local notes

Now keep  $9\frac{0}{10}$  in reserve or central  
reserve cities

If they want to borrow or rediscount

they could  $\frac{3}{4}$  of deposits at

$1\frac{1}{2}\%$  or Chicago rates

Effect Collections on Reserve banks  
Collections on St. Louis

+ on County banks

Present cash reserves		Cash Reserves	Under bills	Red
County banks	Liabilities 3,610 m	266.	180	86
Res City	<del>1945</del> 1569	242	147	95
		405	120	285
		<u>913</u>	reduced to	<u>466</u>

Amount to be paid to F. R. Banters

Reserves  
Confusions  
& uncertainty

Why change  
How



Reserve  
 3610 000 000  
 7.124 @ 12.75  
 1.3358 @ 6.8

Important <sup>also</sup> See Hill  
 + Reason Report

520 from Reserve R  
 Reserves <sup>280</sup> for bank  
 Nat Bk note experience

466  
 150  
 86

Reserves  
 520 out of funds in  
 reserve of R cities  
 & locked up in  
 F. R. B.  
 partly compensates for  
 the construction of  
 requirements of  
 banks

1569  
 18  
 12552  
 1569  
 7845

7124  
 1275  
 35620  
 498620  
 7124880  
 9083100  
 68  
 13358

28 - with  
 deficiency  
 due from banks  
 in case of deficiency  
 of revenue  
 Statement  
 shows  
 48 m due from banks

Hill  
 Bank Note  
 Redemption  
 in ordinary times  
 no pressure for old  
 87% of outstanding

Character and amount reserves  
Reserves against note issues  
for member banks  
all Nat "

effect of changes

115 / 67,500 (587)  
 575.  
 1000  
 920

3/140 112)47 (42  
 48 448  
 220

Reserves banks

Penalty the same unless the law is suspended  
 by obtaining the same

2 m.

after - 90,000 - 60,000

1/2 270  
 675

in bank Earning

now

90,000 @ 2% = 1,800

if rediscounted receive 67,500  
 and use 58,700

then in bank  
 70,000

Earnings  
 0

if rediscount receive 47,000  
 and can use 42,000 + 20,000  
 or 62,000

2/3 paper discounted for other banks  
all their assets pledged to secure notes + \$ or deposits

Reserve bank  
 nominal 70,000  
 notes held as a reserve for Bank A  
 but really 23,333

Real reserves in cash

In one case reserves deposited in bank in which these reserves form but a small portion of the assets in the other the liability to

Have 70,000 where no and where part of it can be used the real without a violator of law reserves is only 1/2  
 transferable with  
 to a reserve bank and all assets no part-

Banks but

Reserves not adequate  
cite European banks, character

a distribution of  
percentage of  
The result would  
a game such as  
the most man

Relative importance  
growth of the  
the system why

Treatment National Bank  
created  
Chartered to furnish a sound cur  
and as a means to float  
bonds.

put in a position where they  
were obliged to take 2%  
bonds the Govt saved nearly  
100 million in interest  
To be now told if so far  
a large number of country banks  
are and there here a  
larger proportion of notes  
& bonds held in proportion  
to their capital than other  
that if they do not invest  
20% of the capital and  
deposit <sup>a sum equal</sup> 7% to 9% of the  
deposits in a bank

disolution means loss of millions  
and if the system is broken and the  
bank, obliged to default 700 million

in a bank who may see a  
direct competitor of theirs  
with one year they are  
to be dissolved  
Method of dissolution  
or liquidation of the  
bank  
forfeiture  
in 4  
years

Reserves  
Use

They can regulate  
the deposits in -

→ R B 19 -  
by it fixing reserves

one bank same city 12  
1000 18  
another non. at all

Relative  
treatment  
transfer in  
diff sections  
Use

The banks in the central reserve  
cities with take stock  
and pay for it at money not  
now earning  
any thing  
& transfer into  
5% stock  
a county bank will take  
money now paying 2  
& place in dep  
where it will pay  
nothing

Reserves

~~Reserves~~

They take away from the banks. Say  
520 millions which the banks  
now use <sup>loans</sup> less 25% = 405 millions

+ place the sum in the I.R. Act  
where if used to the fullest p  
extent would only ~~be~~ could only  
loan to banks 520 - 173 = 347 and

known in order to do this much  
aphase to the discounting capacity  
and the <sup>and</sup> reserves and  
and this condition would be permanent  
could not furnish relief  
of any kind in case of trouble

Reserves

Reserves  
use

Questions about the adequacy of  
cash reserves <sup>this involves</sup> and their proper  
relation between cash reserves and  
the credit structure resting upon  
them def between 12.75 and 67  $\frac{1}{2}$   
is the present reserve too large and  
can we safely base in

over

Opinion  
shall ~~be~~ necessary to keep  
question out of politics

great importance

reference making it a political  
question

Political board.

Character of proposition where  
it is said to be made a  
Democratic measure &  
submitted to a

Violates  
way <sup>economic</sup>  
principle, the  
doctrine of  
the Dewey  
and the  
Fitzgerald  
learn



They are

6

Political aspects

with a man in the presidential  
who should dictate to Congress  
and dominate his party

7x

Government deposits

~~the~~ transfer of funds by rediscount  
Proposed treatment:

See p 20 bill

impractical

# Reserves

by the terms of existing law  
 9% of the reserves of Country banks  
 can be deposited in other banks  
 12 1/2% of ~~reser~~ of those in Reserve  
 cities.

12)  $\frac{320}{220} = 1.4545$   
 24)  $\frac{72}{50} = 1.44$   
 $\frac{12}{15} = 0.8$   
 $\frac{4}{5} = 0.8$

800.  
 15)  $\frac{4500}{450}$  (320)

at present  
 cash      def other banks

other reserves city  
 400 - 250  
 250 - 480  
 Country  $\frac{320}{970}$  - 730.

18/25 of 400. = 285  
 500 = 360  
 Country = 640  
 1700

deficit  
 1/4 = 72  
 = 100  
 = 266  
 438.

Cash  
 285 - 213.5  
 360 - 260  
 640 - 278.5  
 1285 - 947 + 438

other hand, the banks should take advantage as many of them

would be sure to do, of the reduction of legal cash reserves

from  $12\frac{1}{4}$  to 6 % and extend their credits on this basis, the

general effect of the loan would be a large inflation of credits/

It is quite impossible to say precisely what the effect of these

*changes in legal reserves*  
~~reductions and transfers~~ would be/ The immediate effect would be

*to bring about a*  
~~at first to contract~~ <sup>loan</sup> credits *at points* ~~in some places and~~ the necessary ad-

justments and transfers would certainly lead to great confusion/

After the first effects are over, whether the ~~result would be~~

*would*  
 contraction or inflation depends upon the policy the national

*ineffective* *are proposed*  
the bill ~~proposes~~ two methods of relief, ~~both of which would be~~

*by the bill* *These are*  
ineffective. ~~It is proposed~~; (1), That the Central Board shall

require one reserve bank to discount the paper of another. It

is not clear whether this requirement means that the paper should

be the direct obligation of the borrowing bank or that it should

be a rediscount of the commercial paper held by such banks. In

any event, it would be almost impossible to put ~~the machinery~~ *this plan of* of

*without doing more harm than good*  
relief into operation. ~~Its wise administration would be pre-~~

*at all times*

suppose an intimate knowledge, on the part of the central board,

of the financial condition and ~~loanable ability~~ *ing power* of each of the

reserve banks otherwise the transaction ~~would~~ *might*, of itself, pre-

cipitate a crisis. The c

The other method by which it is proposed to afford relief

*banks of* to communities or ~~sections~~ in trouble, is to *by a* transfer government *of*

deposits from one reserve bank to another. This method would be

equally perilous with the other. ~~These~~ <sup>of this character</sup> transactions would appear

in the weekly reports <sup>of the reserve banks</sup> ~~required by the bill~~ and the knowledge that

banks in any section of the country were in ~~trouble~~ <sup>need of assistance</sup> would almost

<sup>be likely to</sup> ~~certainly~~ cause a run upon the <sup>adventures</sup> ~~suspected~~ institutions and the

attempt to relieve <sup>single</sup> would not only prove futile but dangerous.

<sup>productive of serious results</sup>

~~Government relief~~ was efficacious in 1907 to restore confidence <sup>in</sup> ~~the deposit of Treasury funds~~

but in that case the money was taken from the Treasury. ~~If it~~

<sup>and not</sup> ~~had been~~ withdrawn from one bank to <sup>be</sup> deposit in another, the

<sup>otherwise the</sup> beneficial effects would have been lost.

<sup>Suggestion</sup> ~~The adoption of these devices to~~ make the resources of, <sup>questionable methods of making</sup>

<sup>one</sup> ~~we will say~~, the reserve bank of ~~New York~~, available for the

<sup>another</sup> relief of ~~a bank in Oklahoma~~, discloses the inherent weakness of t

<sup>plan</sup> ~~the scheme~~. What is needed is that <sup>each</sup> the capital and resources of each reserve bank <sup>be</sup> ~~be~~

should be concentrated in one organization, its name is unimportant,

*an organization*

of which the several reserve banks would be ~~really~~ branches, an

organization under the joint control of the government and its

stock holders, an organization with the authority and means to

promptly afford ~~its~~ unstinted protection and support whenever

~~unable to afford effective relief~~

needed, such an institution would command confidence at home

*at all times*

*Provision for*

and abroad. ~~The principles~~ of an institution of this kind, in

the scheme we are considering, with carefully limited powers and

strictly defined functions would furnish an easy solution of

all the problems that disturb us.

~~It is~~ The main purpose of the <sup>proposed</sup> ~~the purpose of the promoters of~~ this legislation as announced

stated <sup>are</sup> ~~is~~ by its friends is, ~~first, to vest~~ <sup>are</sup> to the people the control ~~to take away from the banks~~ <sup>the control</sup> over the banks and banking <sup>and monetary</sup> interests of the country ~~by the crea-~~ <sup>and to place it in</sup> ~~tion of the~~ <sup>the hands</sup> Federal Reserve Board, and ~~second,~~ <sup>and</sup> to prevent the

concentration of the money of ~~the country~~ in New York and other

great financial centres by the creation of <sup>12</sup> the federal reserve

banks. <sup>reserve to take over and</sup> The banks are ~~to~~ hold the reserves now held <sup>by the banks in the</sup> in reserve

and central reserve <sup>cities</sup> banks, with a view of weakening, if not of

destroying, the supremacy of the money power, or of the money

<sup>described by political</sup> ~~the~~ reformers.

trust, as it is sometimes called. To aid in the accomplish-

<sup>as well as reserve banks</sup>

ment of this purpose a new system of reserves is proposed.

^

Keeping these purposes in mind it is desirable to examine some-

what in detail the methods <sup>proposed</sup> ~~adopted~~ for their accomplishment.

Fifty-nine per cent of the national banking capital of the

*of the different and conflicting interests of the banks in different sections are not controlled by the Government and only influence the condition of the banks in different sections are not controlled*

country is located in 13 States, classified in the Comptroller's report as Eastern and Middle Western States, while the other 36 States have 41% of the capital. The 13 States have 67% of the banking resources of the country, while the other 36 have 33% of these resources. The capital of the federal reserve banks is fixed by <sup>a</sup> percentage of the capitalization of the national banks of the country. It follows that 59% of the capital of these

banks will be located in the 13 States. The deposits of these <sup>in these 13 states</sup> reserve banks, outside of government deposits, will be 67% of those of the country. If we assume that the banks in these

13

States will have ~~the~~ potential voice in the management of the <sup>in their section as some of the</sup> reserve banks, ~~that the~~ friends of the measure claim they will

~~have~~, the supremacy of the money power of the country will be

*to be operated by the same institution  
in administration is set up, under government  
affair with Government approval*

strengthened rather than weakened by the <sup>house bill</sup> proposition. *At the location*  
*A portion of the capital and resources are*  
*transferred from one class of organization to another*  
*without change of ownership*



the promoters and advocates of the plan.

*As I have shown*

By the terms of the bill national banks are obliged to furnish the capital and the deposits of the Federal Reserve banks, the only other depositor being the United States. They are

obliged to invest a part of their funds and ~~dispose of a much~~ *to place a* ~~larger~~ *considerable* part of their resources ~~in this way or~~ *beyond their own* to submit to ~~practical~~ *a sacrifice* confiscation or sequestration of their ~~entire~~ property and

business. This ~~large~~ *large* portion of their capital and resources is, *Contribution of the National banks is* as I have stated, ~~placed under the control of a government central~~ *of necessity*

~~bank, managed by~~ political appointees, the majority of whom cannot *the* have knowledge or experience to qualify them for the important ~~tasks~~ *duties* assigned them ~~task committed to their charge.~~

*The national banks are*  
The national banks, ~~having been~~ forced into the position of

stockholders and principal creditors of the Reserve banks, in- *whose*  
~~with subordination to the central board is established~~

The reserve banks are forced to  
 conduct their affairs  
 under instructions of from the Central  
 board and get neither the Reserve  
 banks nor the national banks are  
 allowed to participate in any way the  
 management of the central bank

It is not a question whether <sup>these</sup> banks  
 are ~~to~~ <sup>be permitted</sup> control the board created to  
 supervise their transactions but  
 whether they shall any voice whatever  
 in the management of their own  
 property

Neither the Reserve ~~the National Bank~~

~~stitutions that are subservient to the central Board, are not~~

*participate in any way*

permitted to have any representation in the management of the ~~Central Bank~~ <sup>Govt</sup>

Central Bank

~~for the purpose of~~ *The purpose to place*

~~Board. The control of the Reserve banks and national banks~~

*under government control*

generally, furnishes the only reason for the creation and exis-

~~is that it is in control of the Reserve banks~~

tence of the central Board. ~~It is not a~~ <sup>The</sup> question whether the <sup>national</sup>

*we have to consider*

control of this central Board shall be given to the banks, but

*is no,*

either they shall have any voice whatever in the management of

property.

popular control. The functions of the Board are exercised in

secret and there is no ~~publicity~~ <sup>provision</sup> for publicity of any kind, *except an annual report to Congress.*

There can be no review of their opinions and no appeal from their

decisions. It is doubtful whether they could be impeached for

flagrant abuse of power. They are creatures of the President and

responsible only to him for the manner in which they discharge

their duties. ~~They are required to report to the Speaker of the~~

~~House of Representatives once a year.~~

In the practical management of a great banking system questions affecting important interests are constantly under consideration.

*It is difficult to believe that* This attempt to give to a political oligarchy the power

~~to control the largest business interests of the country at their~~ *to be exercised*

discretion, without restraint and with no means of preventing or

*to control the banks and* punishing abuses, ~~is contemporaneous with a movement by the same~~

*currency of the country*

*who had*  
 ident ~~with~~ the power to dominate his party and to dictate to Con-  
 gress, if he was at the same time ambitious for the succession,  
 might be tempted to use an organization whose influence <sup>*of his own creation*</sup> would be  
 irresistible to accomplish his purpose.

*The bill we are considering was it  
 is said prepared by Frank  
 Wingman. I commended to these  
 gentlemen the serious admonition  
 of a distinguished son of Virginia  
 Prof. Leone Tucker of the University  
 of Virginia*

Political

Extracts from Tucker on Money and Banks. Page 266 ,  
et seq.

In times of great party excitement, that course of favoritism by which pecuniary consideration would be made to yield to political, and which the stockholders of a bank would be sure to discountenance, might meet with favor rather than censure from the government. If party zeal is sometimes a screen for moral delinquency, we might suppose it would prove a coat of mail for mere imprudence. As public officers then would have neither the means of doing right, nor the checks against doing wrong, which we might expect in the directors of joint stock banks, their banking operations might prove a source of loss to the public, instead of gain.

Book 4

~~In the next place,~~

Use H a

Tucker--4

of the public revenue, though men of high character for probity, have not been able to resist the applications of their friends for temporary loans, until the practice became habitual, and terminated in their own ruin and the public loss; which loss, their character, by preventing suspicion and delaying detection, served but to aggravate.

Ha  
use  
—

*who are earnestly seeking*

is promoted by the same men  
~~men, the representatives of the same party,~~ to secure legislative

action <sup>to</sup> ~~which will~~ destroy monopolies and <sup>to</sup> repeal all grants of

special privileges. No ~~grant~~ of monopoly or special privilege



But it may be urged that while the Government would be unfit to manage a bank of discount, it might safely supply the country with a paper currency, by issuing notes, redeemable at the treasury and its offices, in payment of its debts; and that in thus supplying the nation with a circulation which would have a solidity that the paper of no joint-stock bank could possess, they might make a correspondent profit in aid of the revenue.       #       #       #

changes in Germany, which were made by the Government upon the report of a commission that it had considered the matter exhaustively from an economic and practical standpoint and had heard the opinion of experts and the views of representative men in all classes. It seems impossible to conceive that in autocratic Germany they could exclude from the consideration of the question everyone whose views did not coincide with those of the ruling powers. In no country of Europe could legislation of this sort be enacted without opportunities for public discussion in advance of a partisan or executive decree from which no appeal would be permitted.

fourth from under consideration and in accepting

after

changes in Germany, which were made by the Government upon the

report of a commission that it had considered the matter exhaustively

from an economic and practical standpoint and had heard

the opinion of experts and the

A similar course

views of representative men in all classes. It seems impos-

possible to conceive that in autocratic Germany they could exclude

from the consideration of the question everyone whose views did

not coincide with those of the ruling powers. In no country of

Europe could legislation of this sort be enacted without opportuni-

Character

ties for public discussion in advance of a partisan or executive

decree from which no appeal would be permitted.

In the preparation of the bill we have under consideration,

the democratic members of the House Committee on Banking and Cur-

rency called before them parties of their own selection, who were

not questioned in regard to the plan which they thought should

extending Charter of Amal

11  
*national in this country 2-1*  
*the national of any party*  
The first declaration in a party platform in favor of a

further issue of United States notes was made by the greenback convention of 1876, which declared for a United States note issue directly by the Government, and convertible on demand into United States obligations. The democratic platform of 1868 had declared in favor of the payment of United States bonds in a depreciated greenback currency, but in 1872 the democrats made an emphatic declaration in favor of a return to specie payments and to the maintenance of the public credit, and denounced repudiation in every form and guise.

In 1875 the democrats of Ohio demanded that the policy of contraction should be abandoned, that the resumption law should be repealed, and that the volume of currency and United States notes should be made and kept equal to the wants of trade. The notable campaign in Ohio in this year between General Thomas Ewing

*the*  
*amount of these notes should be substituted for Na B Note*

and President Hayes resulted in the ~~election of Hayes~~. <sup>defeat of Erving</sup> In the

following national campaign the democrats repudiated the Ohio

idea and nominated Mr. Tilden for President on a platform which

declared that reform was necessary to establish a sound currency,

restore the public credit, and maintain the national honor.

Notwithstanding the fact ~~that there was considerable agita-~~  
<sup>the movement</sup> tion throughout the country in favor of enlarged coinage of sil-

<sup>had</sup> ver, ~~resulting~~ in the passage of the Bland-Allison act of 1878,

<sup>became an accomplishment</sup> the resumption of specie payments ~~in~~ 1879 ~~led~~ the democrats in

their platform in 1880 ~~to re-affirm~~ the declaration of 1876 and

~~to declare~~ for honest money and strict maintenance of public

<sup>that</sup> faith. The greenback platform of ~~this~~ year declared that all

money, whether metallic or paper, should be issued and its volume

controlled by the Government and not through or by banking cor-

14

fluctuating currency, and ~~strangely enough recommended the repeal~~  
~~of the ten per cent tax on state bank issues.~~

The farmers' alliance convention of 1890 ~~had~~ declared for  
the abolition of national banks and the substitution of legal  
tender treasury notes in lieu of national bank notes in suffi-  
cient volume to do the business of the country. The populist  
or national peoples' party <sup>in</sup> of 1892 demanded a national currency,  
sufficient, sound and flexible, issued by the general Government  
only, without the use of banking corporations, and for a just,  
equitable and efficient distribution direct to the people.

The socialist labor convention of the same year declared that  
the United States should have the exclusive right to issue money.

The democrats, in the national convention of 1896, which  
~~for the first time in its history~~  
nominated Mr. Bryan for the presidency, ~~for the first time adopted~~

A departure from sound  
economic principles

is to invite new disaster

It seems incredible that in this

20<sup>th</sup> Century with <sup>the</sup> advances

scientific heat menh that

the U.S. should adopt

doctrines and methods

condemned by experience

New England States

		44	
		108	
Maine	6.	139	
N. H.	4	<u>291</u>	
Vermont	4		Nepe chow 266
Mass.	18		
R.I.	5		531
Conn.	<u>7</u>		
	44		

**T**

Eastern

		<u>247</u>
		18
N.Y.	45	
N.J.	14	
Penn.	38	
Del.	3	
Md.	8	
	<u>108</u>	

Middle West

Ohio	24
Indiana	15
Ill.	29
Mich.	15
Wisconsin	13
Minnesota	12
Iowa	13
Missouri	18
	<u>139</u>

Not time to take them in detail  
 & point out the essential  
 after receipt  
 I say cannot refer to all  
 character of the work

No centralization of money  
 in central bank

Appeal 3 classes Populists

400,000,000	400,000,000	400,000,000	Socialists
200,000,000	200,000,000	200,000,000	Big Banker
100,000,000	100,000,000	100,000,000	Small Bank
50,000,000	50,000,000	50,000,000	Who
25,000,000	25,000,000	25,000,000	How affected

Head to deposit

collections  
 discounts  
 gold loans

amounts deposit  
 who does not borrow  
 but does a banking  
 boy

some  
 conditions





*That was a letter from the Board of Governors of the Federal Reserve Bank of St. Louis after the meeting of the Board of Governors of the Federal Reserve Bank of St. Louis.*

**CIRCULATION STATEMENT—October 1, 1913.**

GENERAL STOCK OF MONEY IN THE UNITED STATES.		<sup>a</sup> HELD IN TREASURY AS ASSETS OF THE GOVERNMENT.		MONEY IN CIRCULATION.			
September 2, 1913.	October 1, 1913.	September 2, 1913.	October 1, 1913.	September 2, 1913.	October 1, 1913.	October 1, 1912.	January 1, 1879.
\$1,881,440,176	\$1,895,438,245	\$174,031,112	\$193,697,046	\$605,566,895	\$610,735,030	\$609,910,326	\$96,262,850
-----	-----	95,822,940	61,178,010	1,006,019,229	1,029,828,159	946,242,270	21,189,280
565,649,020	565,666,263	5,276,262	2,216,773	72,519,758	73,284,490	68,975,061	5,790,721
-----	-----	16,056,827	11,429,278	471,796,173	478,735,722	482,367,666	413,360
175,645,870	175,617,585	19,493,192	17,829,718	156,152,678	157,787,867	144,147,954	67,982,601
2,629,000	2,607,000	3,195	4,250	2,625,805	2,602,750	2,846,260	-----
346,681,016	346,681,016	7,436,157	6,854,562	339,244,859	339,826,454	341,385,059	<sup>c</sup> 310,288,511
761,720,029	759,030,694	49,789,651	49,353,596	711,930,378	709,677,098	711,009,328	314,339,398
3,733,765,111	3,745,040,803	367,909,336	342,563,233	3,365,855,775	3,402,477,570	3,306,883,924	816,266,721

October 1, 1913, estimated at 97,759,000; circulation per capita, \$34.86.

<sup>a</sup> of the Government does not include deposits of public money in National Bank Depositories to the credit of the Treasurer of the United States, amounting to \$78,259,089.10. <sup>b</sup> Equivalent in amount of the appropriate kinds of money is held in the Treasury, and is not included in the account of money held as assets of the Government. 1872.

*Handwritten notes and signatures at the bottom of the page, including the name 'J. Edgar Hoover'.*

Can be some methods,  
scattered use  
but mainly

Inadequate —

Lawful money

Greenback theory  
& practice

Nothing to prevent

The Post U.S.

might occur

but could not

be in the latter

case in full operation

W.C. Clegg

This wide departure from the principles and methods that we have ~~so long considered~~ <sup>since 1900</sup> considered that the proposals came as a great surprise and it is not too much that there has been no wide comprehension of the revolutionary character of the proposals

①  
H note issues

No govt issues its own notes  
but those of a bank in which  
perhaps it is the only stockholder  
Cite Russia

Redemption  
note issues

to place its credit and sal. and its  
power to pay its <sup>demand</sup> obligations in  
standard money in peril

~~institution~~

...SION

p. 67 A.D. White's Fiat money

~~From top "Before"~~

~~Loss~~

Reserves <sup>over this</sup> why changed  
effect on leg banks  
Small "  
dis not adequate  
follow through  
what happen 3 years from now  
in, unions effect on County banks  
affect discounts by Res Banks  
dif in security reserves  
old & new

Failure of Reserve board & why  
Failure of system generally  
& remedy simple

**SENATE CHAMBER  
WASHINGTON.**