

Monetary Commission

MISCELLANY

① ~~with two important~~ with a very few exceptions (Russia + Sweden^{as} the only important ones) the Central banks of Europe are private institutions in the sense that their shares are held ^{entirely} by private owners. ~~With the exception of the Bank of England~~ but the character of their management varies.

The world has witnessed
For centuries recurring waves of
popular delusion ^{with reference} to the magical
power of paper money and the belief
that wealth could be created by stamping
the stamps of the government upon pieces of paper.
The losses occasioned by the folly of one
generation have been not deterred
their successors from trying the same
experiments ^{and} with the same results.
It is however a source of satisfaction to the
philosophic student ^{of history} to realize that no
matter how severe the attack of monetary ^{mania} in any nation
that sooner or later sanity will return and
intelligence regain its control.

Any man or group of men who can
command the banking resources
of the country can control its
~~policy~~ ^{distances}

We should keep in mind that any
departure from sound economic
principles will be to invite
new disasters.

Our Annual Report

It appears to the majority
by adopted their plan
of Gov notes issues

to the majority by placing

proposals to place the
management
most private business

in the hands of the Gov

it seems the support of his

power by its new issued

destruction in the form

It will create confusion
uncertainty

impose burden on the
business

Debtors as well as
without
pulling any thing to place

policy.
The
of
may
I propose to call your attention somewhat in detail to the methods employed, the practices adopted, in the monetary legislation and usages of the great countries whose business conditions and methods are analogous to ours, ~~because I believe~~ that the experience of these countries, covering centuries of discussion and experiment, must have the greatest practical value for us in the construction of any plan for monetary reform for the United States. The more important elements for the necessary solution of the problem are the same in every commercial country. It can be safely said that the leading European countries, after many and costly experiments, have found satisfactory solutions for the monetary problems which confront us—solutions theoretical and practical that have the hearty approval alike of economists and bankers.

While the essential governing principles of all the European systems, great and small, are the same, there are differences in the details of their application, growing out of different conditions in the various countries. These different conditions are found in the business habits and customs of their people and their general financial requirements. Differences in the relative use of other credit instruments affects measurably the relative character and importance of note issues. Differences in the form of government and extent of territory have necessitated difference in the character of organization. These differences have been recognized fully and provided for in the monetary legislation as well as in the banking methods adopted in the different countries. This adjustment has not, however, impaired the vital force of the sound economic doctrine upon which these various systems are based, or disturbed the provisions for a wise and effective administration which are the distinctive characteristics of all.

2

of course

There is a general agreement among students of monetary problems that it would not be possible for us to adopt any of the great European banking systems without adjustment or revision to meet our conditions, but we cannot afford to ignore European experience. We have to contend with ancient prejudices in the fact that we have to contend with ancient prejudices in the United States, as I believe the American people have a right to insist that all those who seek to influence the determination of this great question should be free from bias or prejudice of any kind. I am aware that there are to be found in every community people who object to anything that is foreign, but this prejudice is, I believe, fast disappearing, and, in the long run, public opinion in the United States will be influenced by knowledge and intelligence.

CRITICISM OF THE BILL.

In considering the character of the remedies proposed by the bill which recently passed the House of Representatives I am not unmindful of the fact that it is much easier to criticise than to construct, and I certainly do not intend by any criticism I may make to increase the difficulties of legislators charged with serious responsibilities, but rather to call attention to changes which, it seems to me, must be made in the plan in the interest of wise and permanent legislation. The authors of the bill having in a majority of cases accepted remedies and adopted ideas based on experience of other countries, and on sound economic principles, it is all the more to be regretted that in some of the most important provisions of the bill the lessons of universal experience have been ignored.

My suggestions with reference to certain provisions of the bill are made with the hope that they may prove of service to those who have the bill in charge, in their difficult task of perfecting the measure. ~~With the assurance from responsible sources that we are to have legislation in the near future~~ it is certainly desirable that the American people, whose highest interests are to be affected favorably or unfavorably by Congressional action, should have as clear an understanding as possible of the nature of the proposals. ~~Serious mistakes cannot be corrected after legislative action.~~

Financial
Reserve

The two features of the bill ~~which violate all sound economic principles and~~ which are open to the most serious objection are, first, the provisions which authorize the unlimited issue, ~~by~~ ~~the~~ agents, of government notes to be circulated as money and loaned on collateral security to the federal reserve banks created by the bill; second, the provisions which create a government central bank of the most objectionable type, and which, by compulsory methods, seek to place the entire banking capital and resources of the country under the control of an inexperienced and unregulated organization, acting without capital or financial resources.

drawn from European experience. The National Monetary Commission, in the plan which they reported to Congress, sought to present a workable scheme based on sound economic principles, seeking to adapt to existing conditions in the United States the methods and practices which have been found wisest in experience.

*was
elsewhere*

States notes for the purpose of loaning them to Federal Reserve banks, under the conditions which I have already described.

This outline of some of the salient features of the two plans discloses their radical difference in character and methods.

D E + F

h-1

I have been frequently reminded that there is a marked similarity between the plan proposed by the National Monetary Commission and that of the bill reported from the House Committee on Banking and Currency. It is true that the plan reported seems to recognize the defects in existing conditions which the Commission sought by its plan to remedy, and while the plan of the Committee follows in many respects that of the Commission, in many important respects the remedies proposed are essentially unlike.

The plan of the bill follows that of the Commission in recognition of the necessity of an organization with power to re-discount the notes and bills of exchange of existing banking institutions for the purpose of maintaining requisite reserves, and the further fact of the necessity of concentrating and mo-

bilizing reserves for the benefit of contributing members. The methods by which these two objects are to be accomplished are fundamentally different.

The Commission plan provides, first, for a voluntary association of State and national banks into local and district organizations, and, second, for a central organization with a large capital, in the management of which the Government has a potential voice. The local and district associations, which are under local management, rediscount the paper of contributing banks. The central organization controls the concentrated reserves, with power to use these and other resources at its command for the protection of the public interests and those of the banks in different sections. Under the bill, national banks are forced to contribute to the capital stock of Federal Reserve banks within a

year, upon penalty of dissolution. They are obliged to maintain deposits with the Federal Reserve banks of not less than 5% of ~~th~~ their outstanding liabilities. All the functions of the Federal Reserve banks, including discount, are controlled practically by the Federal Reserve Board, an organization without capital and without financial responsibility, and in the management of which the banks have no voice. Under the Commission plan, the local, district, and national organizations are forbidden to do any business except with contributing members and the Government of the United States. Under the plan of the bill, in addition to their business in connection with their member banks and the Government, the Federal Reserve banks are authorized, under the provisions of open market purchases, to practically carry on a general banking business in competition with other banks. They

are authorized to purchase in the open market commercial paper from corporations, firms, or individuals. The provisions of the bill confining the discount powers of the banks to members is rendered nugatory by these provisions.

A large part of the investment business of banks today is done through the purchase of paper from brokers. These are not technically discount transactions, but they have the same practical effect, and open wide the door for the possibility of purchase on account of favoritism or to secure political influence.

It was transactions of this nature which largely furnished the basis of the attacks made by General Jackson and his followers upon the Second Bank of the United States, and which, to a very great extent, was responsible for the creation of a very strong public sentiment against the ^{bank} bill.

The Commission were unwilling to give to Reserve Associations the power to compete for ordinary business of the banks of the country. The Commission sought to interfere as little as possible with the business of banks and bankers, while the bill proposes that the Government, through the Federal Reserve Board, by provisions which I have elsewhere described, with reference to reserves and currency, shall take control not only of Federal Reserve banks but of the entire banking business of the country. The Commission sought to create an organization which, as the instrument of the allied banks and under their control, could render efficient assistance and service to the public and the banks at all times, while the bill creates a political board with authority to control the business and dominate the policy of all the banks which can be forced into submission to its control.

(29)

3.

government

and individuals prosperous by the unlimited use of ~~their own~~

obligations circulating as money. The depreciation and disasters

which have, on every occasion, followed the adoption of this allur-

2. Demagogues and

ing policy have, unfortunately, not deterred theorists in succeed-

ing generations from reopening the discussion and seeking to in-

under some circumstances, they

cite a popular belief that the government can create value and ~~insure~~

insure perpetual prosperity by an unlimited use of government pro-

mises to pay.

(Pages beginning "I need hardly recount in this presence, etc.

Insert after "significant"

use #
(u)

30

f-1

It can hardly be necessary for me to recount in this presence the disastrous results which have inevitably followed the issue of paper money by governments or states. I need only remind you of our own colonial and continental experiences. That of France at the time of *John Law* ~~the~~ Regency and French Revolution is equally significant. In exceptional cases, where continuous depreciation has not ended in absolute worthlessness of issues, like our own experience with United States notes, the losses arising from the use of a depreciated currency have greatly exceeded any possible financial ~~benefits to the country~~ which have resulted from the violation of economic laws.

Competent authorities estimate the greater cost of our civil war, owing to the use of depreciated currency, at

Quote Mitchell and Horace White.

In all cases of government issues the resulting expansion
^{when}
[↑]
have brought
 and inflation, ~~bringing~~ about instability of conditions and
 values, those dependent upon wages and salaries and engaged in
 agriculture and other production have been the principal suffer-
 ers, while the capitalists and speculators who could take advant-
 age of constantly changing conditions have been the only classes
 who have been benefited. This condition has never been better

Daniel
 characterised than by ~~Mr.~~ Webster, who said:

"Of all the countries

32 @

The views of Alexander Hamilton
who is ~~believed~~ ^{believed} in a ~~report~~

~~was~~ the leading advocate of a

centralized national government and of a ^{the in} bank of the ~~United~~ States
upon this subject
were concurred in by ~~Hamilton~~ ^{Hamilton} and Mr. Benton
fully ~~by~~ ^{by} ~~Mr. Benton~~ ^{Mr. Benton} and ~~the~~ ^{the} leading Statesman

who represented ~~one~~ ^{opposite} views of
governments ^{and} ~~currency~~ ^{and} banking questions
on ~~all~~ ^{all} ~~points~~

Mr. Hamilton said in his report of 1790

4
The emitting of paper money by the authority of Government is wisely prohibited to the individual States by the national constitution, and the spirit of that prohibition ought not to be disregarded by the Government of the United States. Though paper emissions, under a general authority, might have some advantages not applicable, and be free from some disadvantages which are applicable to the like emissions by the States, separately, yet they are of a nature so liable to abuse---and, it may even be affirmed, so certain of being abused---that the wisdom of the Government will be shown, in never trusting itself with the use of so seducing and dangerous an expedient. 4

I will quote the views of Gen Jackson & Mr. Benton
~~It is true that in the period from 1814 to 1861 Congress later~~

~~had authorized the issue of Treasury notes in limited amounts,~~

*original
of all
dearly
done
as
will
be*

Peletiah Webster, writing in 1781, after the total volume of Continental paper money had become worthless, said:

We have suffered more from this than from any other cause of calamity; it has killed more men, pervaded and corrupted the choicest interests of our country more, and done more injustice than even the arms and artifices of our enemies.

Money

~~The experience of the world, the unanimous opinion of~~

~~leading economists and of financiers and statesmen of every~~

Commerce here

have joined in
~~shade of political belief, condemn the use of the obligations~~

~~or notes of states as a circulating medium.~~

insert 32 case ①

32

Among English Economists
~~The opinion of H. D. Macleod, perhaps the leading authority~~

is perhaps
~~on banking and currency questions, expresses a view that is gen-~~

in the following

would be

universally by foreign economists
~~erally acquiesced in.~~ He says:

Governments and states should never issues paper money themselves. When states and governments once begin to issue paper money, they never can resist the temptation to issue it in boundless quantities, so that it soon begins to depreciate. They have no power to redeem it and the depreciation is unavoidable.

Quote same here

32(6)1

Among American economists
the ~~standing~~ ^{position} and authority of Prof.
C. F. Dubbar will not be questioned.

I do not know of ^{any} political
economist of standing in this
~~that would not~~ country that will
not agree that the following statement
of Prof. Dubbar ~~expresses~~ sets forth
the sound economic doctrines that
should control our note issues.

~~It is true that~~ President Jackson ~~had~~, on several occasions

(12)
15

that it might be desirable to establish
sions, suggested the creation of a Government Bank, but this

& worse suggestion was always more or less vague and he never committed
in character

himself in detail to any definite plan. His opponents, however,

claimed that General Jackson intended, by these indefinite sug-

advocate
gestions to ~~constitute~~ a Government Central Bank under political

control, and that the effect would be to place the whole banking

power of the country at the mercy of the president. I think it

fairly
may be said that this claim did not fairly represent General

and that he intended a more
the Independent Treasury that should later over
Jackson's views. The quotation which I have already made from

YMB
his letters to Lewis are confirmed in this respect by a state-

*the Government
two men
alone*

ment made in his farewell address which was as follows;--

course of this report, the following statement was made.--

" But the patronage resulting from the appointment, the ~~an-
nual appointment~~, of these agents, great as it would doubtless
be, would be insignificant and harmless, when compared to that
which would result from the dispensation of bank accommodations
to the standing amount of at least fifty millions of dollars!
The mind almost instinctively shrinks from the contemplation of
an idea so ominous to the purity of the Government, and the
liberties of the people. No government of which the committee
have any knowledge, except, perhaps, the despotism of Russia,
was ever invested with a patronage at once so prodigious in its
influence, and so dangerous in its character. In the most des-
perate financial extremities, no other European government has
ever ventured upon an experiment so perilous. If the whole
patronage of the English monarchy were concentrated in the hands
of the American Executive, it may be well doubted whether the
public liberty would be so much endangered by it, as it would by
this vast pecuniary machine, which would place in the hands of
every administration fifty millions of dollars, as a fund for
rewarding political partizans. "

put in on 6.18

General
18

Nothing that has not happened can be more certain, than
that every ^{un}favorable vicissitude in trade, every period of commercial distress and embarrassment, would give rise to importunate and clamorous calls for indulgence, and for an injudicious extension of discounts, which no administration would have the firmness to resist.

Use

The Government would have scarcely any faculty of resistance, when appeals for indulgence should come from all quarters of the Union, sustained by the strong plea of public distress and embarrassment.

circulated as money and loaned ^{to be} ⁽²⁸⁾ on collateral security to the

federal reserve banks created by the bill. Second, -the provisions

which create a Government Central Bank of the most objectionable

and ^{which} ^{by compulsory methods} type, ^{Capital and} seeking to place the control of the entire banking resources

of the country in the hands of ^{to} an inexperienced and unregulated

organization, acting without capital or financial resources.

These proposals are so radical and revolutionary in their charac-

ter, so at variance with all the accepted canons of economic law,

that it seems incredible that their adoption should be seriously

proposed. The theories of government upon which they are based

and the doctrines which they embody have been repeatedly and em-

phatically condemned by the American people. I am aware that,

in spite of the verdict of history and the teachings of all

accepted authorities, there has been periodical assertion of

the theory that the government could make communities

Neither Europe nor America will object
or pay any attention to the disconnected
Advisory Council a farce & ^{helpless units} ~~is~~

intended to be ^{unintended}
The purpose ~~is~~ concealed or disguised ^{is}
to force all banks under the control of the Govt

national bank (1)

Another feature of the bill which to my mind is highly objectionable is that which compels National Banks to subscribe to the stock of the F R Bk and obliges them to keep on deposit ^{with these banks} a certain portion of their reserves ~~with~~ ^{with the} upon penalty of dissolution in case of failure or refusal. It is hardly necessary for me to refer to the circumstances ~~under which the national banking~~ ^{surrounding the creation of} ~~were created~~ system.

The national banks were established during the civil war, to provide a safe and uniform currency for the country and to strengthen ^{the} credit of the country by furnishing ~~large~~ ^{large} ~~proportion~~ ^{proportion} a market for ~~a~~ ^{its} bonds. Both ^{of} these purposes were ^{successfully} accomplished.

Any defect in our system of bank note issues is not due to want of safety or uniformity

(2) Nat bank

The success of ~~the various~~ ^{the various} refunding acts by which the interest of our ~~the~~ public debt has been reduced from six to two percent and vast sums saved ^{to the people} has been owing to the use by the National bank of a considerable portion of outstanding bonds ~~by the bank~~. This use has been practically enforced by legislative provisions. The banks are now acting under charters granted ^{for a fixed} with certain definite conditions which have been faithfully lived up to with the result that ^{there is no note holder - has suffered any loss} losses ~~to~~ depositors ⁱⁿ or shareholders have been infinitesimal.

I submit that it is not fair that to impose upon these institutions as the price of their continued existence new onerous or impossible conditions. Especially in legislation enacted ostensibly to assist them ^{the better} to discharge ^{of all} their duty to the public in ^{times of trouble} ~~times of trouble~~

I have shown why the conditions imposed are of such a character that unless changed ^{they cannot be accepted at least by the smaller banks} ^{which form a} the large majority of the National banks without ^{serious} ~~serious~~ impairment of their resources and ability to serve the public. It will be noted that the penalty of dissolution goes into effect in one year ~~whether or~~ ^{it has not} ^{within that time} ~~it~~ ^{been possible} to organize a single Federal Reserve bank with the requisite capital. ~~There~~

The only provisions in the National Banking Law for dissolution ^{of National banks} ^{is found} ~~is~~ ^{contained} in Sec 5239 of the Revised Statutes. Which provides if the directors of any ~~any~~ bank shall knowingly violate ^{any} ~~any~~ ^{provision} of the banking law ~~that~~ the rights and franchises of the bank shall ~~be~~ ^{be} forfeited. This violation is however to be adjudged by a federal court of competent jurisdiction. In case a violator is found the every director who personally participated in the ^{act} ~~act~~ ^{action} complained of ^{is} held personally liable for all ^{damages} ^{to} the bank or its shareholders.

x

It would seem that the only method by which a national bank could ~~adopt~~ to avoid ^{the} ~~very~~ serious consequences ^{of this legislation} would be to transfer take out a State charter and transfer its business through voluntary liquidation.

if the system is broken up

It does not seem possible that the authors of this bill ~~could~~ ^{can} have considered the dreadful consequences which ~~would~~ ~~follow~~ ^{will} ~~certainly~~ follow ~~from~~ ^{any} ~~such~~ ~~enforced~~ ~~destruction~~ ~~either~~

~~of either~~ through dissolution or liquidation the national banks have outstanding 7 ^{and} ^{any} ^{banks} ^{going} ~~for~~ ~~such~~ ~~of~~ ~~such~~ ~~as~~ ~~got~~ ~~out~~ ~~of~~ ~~existence~~ must deposit lawful money in the

Treasury to ~~redeem~~ ^{redeem} for the redemption of their ~~outstanding~~ ^{outstanding} notes, ~~when~~ ~~presented~~ ~~for~~ ~~redemption~~

These banks hold 685 millions $2\frac{1}{2}\%$ bonds. ~~These~~ A State bank could not afford to hold them for investment and their sale would mean a loss probably ^{equal to} of 30% of their cost to the owners and the credit of the United States would suffer unmeasured injury

5 It is safe to say that even ~~with~~ a
~~partial~~ ~~considerable~~ the serious
disarrangement of credits and
the contraction of circulating medium,
and destruction of confidence
that would ^{certainly} arise from ~~any~~ ^{of any considerable} the
~~considerable~~ transfer of the banking
business of the country from the National
to the State system ~~with~~ would
~~lead~~ ^{lead} in a financial panic
such as we have never seen in this
country. This all doubt, on the
subject can ^{however} be dispelled by
either by making the participation
of National banks in the scheme
voluntary or by ~~pressing~~ ^{agreeing to} adopting
~~some~~ ~~method~~ ~~by~~ ~~which~~ ~~the~~ ~~transfer~~ ~~to~~ ~~the~~ ~~State~~ ~~system~~ ~~can~~ ~~be~~ ~~carried~~ ~~out~~
by ~~taking~~ ~~care~~ ~~taking~~ ~~care~~ ~~of~~ ~~the~~ ~~2%~~
without dangerous contraction or
imposing a ruinous loss on the banks
on ~~an~~ ~~account~~ ~~of~~ ~~their~~ ~~holding~~ ~~of~~ ~~2%~~ ~~bonds~~

Use

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 people gives us a safer money and saves to the people as a whole the profit arising from its issue. When a bank issues money you must pay the market rate of interest in order to get it, but when the Government issues money the people save the interest, if the money is afterward called in, and they save the principal also if the money is kept in circulation. Numerous plans have been suggested for putting this money into circulation. Some have an idea that a Government issue can only be put forth by loaning it to the people, either directly or through the agency of banks.

There are, in my judgment, other and better ways. If a limited amount is issued, and of course the amount must be strictly limited, and it is loaned to the people, partiality will be shown in its distribution, for only a few, relatively speaking, can be accommodated.

But aside from the danger of placing so great a power in the hands of a dominant party, there are plans more just and equitable than that of loaning. The money can be used to pay the expenses of the Government, as the greenbacks now in circulation were used to pay the expenses of war. If Congress decides to increase the currency a certain amount annually, say for illustration fifty millions a year, it can reduce the tax levy to that extent and the people will receive the benefit of the issue just in proportion as they pay taxes, for they will save to that extent the taxes which they would otherwise pay.

In a recent letter to a member of the Banking and Currency Committee of the House of Representatives, Mr. Bryan makes the following statement:

The provision in regard to the Government issue of notes to be issued by the banks is the first triumph of the people in connection with currency legislation in a generation. It is hard to overestimate the value of this feature of the bill.

In the second place the bill provides for Government control of the issue of this money---that is, control through a board composed of Government officials selected by the President with the approval of the Senate. This is another distinct triumph for the people, one without which the Government issue of the money would be largely a barren victory.

The third provision of the bill, which I regard as of the first importance, is the one permitting State banks to share with national banks the advantages of the currency system proposed.

These three provisions are, to my ^{mind} mind, of such transcendent importance that I am relatively very little concerned as to the details of the bill.

This frank and courageous declaration of Mr. Bryan's is significant.

President Cleveland, in his Message to Congress, August 8, 1893.

The people of the United States are entitled to a sound and stable currency and to money recognized as such on every exchange and in every market of the world. Their Government has no right to injury them by financial experiments opposed to the policy and practice of other civilized states, nor is it justified in permitting an exaggerated and unreasonable reliance on our national strength and ability to jeopardize the soundness of the people's money.

The banking system of these countries consist of joint stock ~~commercial~~ banks of discount and deposit ^{which} who do very very much the larger part of the ^{of their respective countries} commercial business, and ~~in each case~~ of central banks in each country with adequate capital and resources and important duties and functions. I shall only allude to the fact that ^{also} each country has ^{other} variety of financial institutions created for special purposes and with special functions. These include, ^{among other} savings banks, ^{of several kinds} cooperative banks, agricultural mortgage banks. ~~I shall not say your features by attempting any analysis of~~

outside of this country
 the commercial world to one general monetary policy.

meant 16
~~The central and controlling vital force of each of these~~
banks as the most
~~important element in each of these~~
~~organizations is a central bank with adequate capital and re-~~
systems

~~sources, and important duties and functions. The character of~~

assignment of the
~~the~~ duties and recognized functions ~~of~~ these central banks, wheth-

er prescribed by statute or exacted by public opinion, ~~has~~ been

resulted from
~~established through~~ a process of evolution covering generations

of practical experience. It has not been found possible to se-

cure an effective credit organization in any country without this

important
~~controlling~~ factor. For my present purpose *of comparison* a mere outline of

central
 the characteristics and methods of these institutions is suffi-

cient.

1. Each of these institutions is essentially a bank of banks, and is looked upon by all the financial institutions of the

country as ^{the only} ~~an~~ unfailing resource for assistance and support in time of trouble.

2. They are given by law the sole right of note issue.

The expiring remnants of ancient grants furnish the only exception to this rule, and these are insignificant in character.

3. They hold a very large part of the ^{gold} ~~metallic~~ reserves of ~~the~~ ^{with duty to maintain} ~~the~~ ^{with they have} their respective countries, and ~~have~~ ample power, ~~through their~~

~~Whenever a occasion require~~ ^{Whenever a occasion require} ~~command over gold supplies,~~ to increase their holdings indefinitely.

^{for the entire banking system} ly. These reserves form a central reservoir which is available

^{whenever} at all times ~~for~~ protection or assistance ^{is} ~~as~~ required. This fund

^{also} is looked upon by the public as a substantial guaranty ~~by the bank~~

of the convertibility of ~~its~~ ^{the} note issues and of ~~its~~ ^{the} ability to

meet at all times its obligations.

The central banks are the fiscal agents of their respective

within our reach. While we have suffered greatly in almost every decade of our history from the evil effects of financial crises, the people of the great commercial countries of Europe have, for nearly half a century, been entirely free from disastrous losses arising from this cause. This exemption may be said to be due solely to the character and efficacy of their credit and banking organization. The experience of England and France, and later of Germany, in this respect, has led all the important commercial nations of the world except the United States, in the essential features of their credit organization and banking systems, to follow in the footsteps of these great countries. The adoption within a few years by Sweden, Switzerland, and Japan of a ~~central~~ banking organization along the lines of the countries I have referred to, completes the adherence of

Inter~~act~~ # 14 @

We have no organization whose
influence ^{by a rise in discount rates or otherwise} can be made effective
in preventing an ~~undue~~ expansion of
dangerous ^{inflation} of bank credits.

point of view of sound banking, to the highest credit.

Meaning 14 We have now no means of preventing, through a general and ^{*some central authority*} effective raise in the discount rate or otherwise, a dangerous over-expansion of credit.

Aside from these recognized defects in our banking system there is no one of the elements of our varied forms of currency that is responsive, either in expansion or contraction, to normal or unusual demands.

While there is very general agreement among students and bankers as to the nature of the ^{*and other*} defects of our monetary system there is unfortunately no such accord as to the character of the remedies that should be applied. This is to be regretted, as it seems certain from the experience of other nations that simple and effective remedies for the defects I have named are easily

exchange issued or drawn ^{for} ~~from~~ agricultural, commercial, or in-

dustrial purposes, have only a narrow, local market for discount

no general system of bank acceptances or drafts drawn against merchandise or ~~other~~ otherwise,
 purposes, and we have no provisions of law creating standards

of commercial paper or bills of exchange
~~which would have wide acceptance,~~ and no organization of credit

which would secure to these obligations a wider market through

rediscount. The result has been that our farmers and ^{all} others en-

gaged in productive industries have been obliged to pay higher

rates for their loans and have been placed at a great disadvan-

tage in securing the credit which they have required and to which

they are fairly entitled, for the growth, retention, and distri-

bution of their products, and our bankers at the same time have

been deprived of an opportunity to invest their funds in a class

is preferred to all others
 of securities which, in every other country, ~~is considered the~~

~~very highest rank of investment,~~ and which is entitled, from the

MONETARY

MEMO

Bureau of Engraving and Printing.

See "TREASURY."

Powers of the Federal Reserve Board

- ① To ~~redesign~~ ^{add} & create new districts p 2
- ② To make regulations for the establishment of branch offices (No.?) 4
- ③ To appoint 3 ^(out of 9) directors of each Federal Res Bk
- ④ To classify, through its agent the Ch. of board) the banks for voting purposes of the banks in each district 6
- ⑤ To remove any director of class B. if he does not do this gives the F.R.B. control of the directorate and remove without notice F.R.B. 7
- ⑥ To appoint ~~the chairman of the~~ ^(the executive manager) of each F.R. Bk who is their agent and official representative in the discharge of his duties is to report to them they fix his salary which is to be paid by the F.R. Bk. 8
- ⑦ They fix the salaries compensation of the directors of F.R. Bks 9
- ⑧ It may make regulations for admission of state banks to membership and may permit State banks to become members and to ^{suspend} ~~expel~~ State Banks from membership 15

Powers of F. R. B

9) by its charter to direct the Comptroller of the Currency in the discharge of his duties (20)

10)

To compel one F. R. B. to rediscount the paper which had been discounted by another conditions not less than interest charges

11)

To suspend all any and every reserve requirement specified in the Act - Taxing power -

delegation of power to suspend laws
taxing power

12)

To supervise and regulate the issue and retirement of Federal Reserve Notes and to prescribe the form and tenor of such notes may 1st 2nd 5th and so displace certif.

13)

To add to no of Reserve + Cert Reserve and to designate the banks therein situated as Country banks at its discretion

14. To suspend or remove officials of Federal Reserve banks for incompetency &c &c

15. To require the writing of ^d doubtful & worthless assets of F.R.B.s

16. To suspend for cause the operations of any F.R.B. & appoint a Receiver therefor (judicial function)

17. To perform the duties functions or services specified or implied ^{of} in this Act

Federal advisory Council
to meet 4 times a year
to call for information
no ~~p~~ veto or other power
of the C.R.B.

continue

F. R. Board

18 It determines the character of paper
which shall be eligible of discount
by any F.R.B. for its shareholding
banks not for carry up or

24

a maturity of not more than
90 days

(19) It may fix the terms as to reserves upon which
the F.R. Bds may discount paper having
at maturity not exceeding 120 days

(20) It determines each week or
after as required the rate of
discount to be charged for each
class of paper in each of the
12 or 20 F.R. Bds not uniform

(21) it may authorize the
opening of branches



It controls every operation
create and dominate every family
of the F.R. Bds and its shareholders

Is the reduction of reserves a benefit
to the Country who asked for it

Use the large banks in central reserves cities
principal beneficiaries

Defect

$$\begin{array}{r}
 409 \\
 \hline
 1636 \\
 18 \\
 \hline
 13088 \\
 16368 \\
 \hline
 29448
 \end{array}$$

$$\begin{array}{r}
 409 \\
 244 \\
 \hline
 115
 \end{array}$$

$$\begin{array}{r}
 409 \\
 168 \\
 \hline
 \del{268} \\
 268
 \end{array}$$

$$\begin{array}{r}
 25 \overline{) 409} \\
 \underline{259} \\
 150 \\
 \underline{150} \\
 90
 \end{array}$$

(163)

$$\begin{array}{r}
 409 \\
 282 \\
 \hline
 127
 \end{array}$$

$$\begin{array}{r}
 409 \\
 163 \\
 \hline
 246 \\
 123
 \end{array}$$

690.

100
940

narrow

~~18) 926 (520 30
 25) 1702 (2
 12
 29
 2~~

~~18) 390 (2
 542
 18~~

18) 975 (542
 90
 25
 72

549

Reserve Treas

What advantages
State banks

proportion bonds
County banks

9/25

The ~~reser~~ banks in the Central reserve
cities now hold 400 millions in cash
~~against~~ 1600 millions net deposits
and

If we ~~sub~~ ^{the} ~~tr~~ ^{is} ~~ing~~ the deposits of the Reserve
Looking at cash reserves bank can
With ^a ~~the~~ ^{banks} in the central reserve city
100 million ^{cash} reserve ~~against~~ ^{with} 400
net deposit and loans and discounts
of about the same amount and ^{with} ~~the~~ ^{system}
~~the~~ ^{the} ~~house~~ ^{bill} 100 million
cash reserve ~~that~~ might have
1400 mills of net deposits and
loans and discounts.
While the transition

Let us hope that the sober second
thought of the National Legislature may
lead them to reject false doctrine,
and ^{with a patriotic spirit} to contrast a plan of
banking reform worthy the
intelligence and that will serve
the highest interests of a great people.

It is the irony of fate that principles
of a great party

It is the irony of fate that in a
Measure ^{whose great} ~~intended~~ ^{purpose should be} to give strength
and stability to our banking institutions
and to furnish ^{the people with} a currency whose
value could never be ~~questioned~~

It should be found necessary to sacrifice
the principles of a great party and
to make the national banks the unwilling
instruments in the work of ^{their own} destruction in
in order that Mr. Bryan may proclaim to the world
a triumph of base and unimportant
for ~~the~~ theories monetary and governmental
his

Use No
economic
a body of law written or unwritten
grown through centuries of ^{expensive experiments} trial
generations of bitter
contentions controversies
conclusions arrived at
at

Use No
political and
have made it impossible
secure any legislation with
based upon scientific principles
An act over resumption of specie payments
free coinage of silver
born in the throes of civil
war
necessity

Loose

a new species of legislative power

the power of putting the entire property
under mortgage for the redemption
of notes issued at their discretion
acting not under public eye
in secrecy -

notes are to be issued for the people as
If loans are to be made for the people
why not direct - why not save

to banks at $\frac{1}{2}\%$

in it

State Soc
Note
Bryan
Note
where
portant

By inspecting ~~to~~

In view of differences of opinion

We should ^{able to} successfully appeal to legislators

to take the question out of the political arena and to institute

an inquiry as broad as the subject that no mistake may be made

power of the

The Federal Reserve Board ~~is not only given~~

to

is not limited

~~power to issue~~ government notes ~~without limit~~. The authority

is granted without any of the safeguards to prevent fraudulent

or unauthorized issues or any provision for records or reports

of their proceedings ~~to be~~ available to the public or to the

banks which form their constituency. There is no provision

from of this act of no any provision for the punishment

for appeal or review ~~for~~ any flagrant abuse of the enormous

It is not certain whether they officers of the United States are subject to impeachment

power placed in their hands. This ~~power~~ extends over the form

and denomination of the notes, ~~a~~ *this* power over denomination ~~will~~

the volume of circulation

enable them to control ~~the creation~~ of government notes at their

pleasure, ~~and prevent certificates~~ or other issues of currency

now in use. Heretofore, government obligations have been issued

by the government direct through its officials . We have a

Bureau of Issue in the Treasury Dep't through which all certifi-

cates and notes of the United States and National banks are

issued, the terms, conditions, and character of the obligations have been carefully set forth in the acts authorizing the issue.

To illustrate my meaning, Congress, by law, provides ~~for their~~

for the issue of Silver certificates

issue in small denominations ~~given to prevent certificates a~~

this

~~place which~~ insures their status as a permanent part of our

and there is no

circulating medium ~~without the~~ liability of their being pre-

sented for redemption in large quantities. The friends of the

House bill apparently are not able to admit that the authority

given to the Federal Reserve Board is unlimited power. They

cite the provision that notes can only be issued upon the appli-

cation of Federal Reserve banks, the Board reserving the right

to decline any application. The demand for actual cur-

rency under ordinary circumstances, as shown, by universal

experience, is insatiable and rarely resisted, but in times

of trouble the necessity for increased issues becomes imperative.

~~add after quotation~~
~~from the~~ Lead
(93)

Citations of a similar character could readily be made from
the opinions of all leading authorities from
the public utterances of the leading ~~representatives~~ ^{Statesmen} from the
of every party, ~~from the representatives~~ ^{and} of all
classes in all the important countries
up to the time of the civil war.

In the thorough re-^{examination} of ^{which has recently taken place}
all banking ^{& monetary} questions, in
Germany, Switzerland & elsewhere
no ~~one~~ ^{party} has representatives of any and no ⁱⁿ ^{instance}
~~The parties~~ appeared in favor of
of the substitution of Government note
for bank issues. The experience
of all ^{Commercial} ~~countries~~ ^{is} ~~that~~ ^{it is} ~~not~~ ^{safe}

6

f-6

The opinion of ~~expressed~~

Professor Woodrow Wilson, in his History of the United

States, [^] said [^] on this subject was generally that held by the Statesmen of this period. In his History of the United States President Wilson says

It (the constitution) absolutely forbade the States to issue bills of credit, did not give the federal government power to do so, and was meant practically to prohibit the use of any currency which was not at least based directly upon gold and silver. p.46.

(Insert after McLeod)

34a

f-5

Our own experience prior to the adoption of the constitu-

tion led the framers of that instrument to forbid expressly the

states from emitting bills of credit, and the doctrine that the

issue of ~~paper money~~ by the Government of the United States was

not authorized by the constitution found universal acceptance.

~~Even Alexander Hamilton, whose views~~

~~Mr. Hamilton, in his report of 1790, said:~~

notes of
for the purpose of circulation as money
has wide
of a centralized
Banker's
when the subject
with the
idea

prior to the civil war it was not contended and to issue
of Congress ~~the~~ evidence of indebtedness.
But [^] the power to borrow money [^] did not ^{therefor}
~~include~~ embrace the power to "emit bills
of credit" or to issue the obligations
of the government for the sole purpose
of ^{then} circulating as money

It is true ~~than~~ ^I in the period from 1814 to 1861 Congress

34

~~had~~ authorized the issue of treasury notes in limited amounts,

issued as

which were in every case evidences of indebtedness on account of

money borrowed to meet deficiencies in revenue or expenses

growing out of wars. These treasury notes were receivable for

public dues and were, with few exceptions, payable at a fixed time with interest, and were usually ⁱⁿ denominations that precluded their use as currency.

The power given Congress by the constitution to borrow money clearly involves the right of issue of securities of such character and in such form as Congress might determine, and the right of the Government to issue obligations of this nature ~~was~~ ^{was} ~~has never been~~ ^{not} seriously questioned in any quarter. ^{must be a} The first issues of ^{and intended to circulate as money} United States notes with full legal tender qualities was made during the civil war and grew out of the urgent necessities of the Government at that time. The plea of necessity was the only justification urged for this radical departure from the policies and doctrines of the founders of the Republic. Excessive issues of these notes and the repeal of the right to exchange the

notes for interest bearing obligations of the United States,

~~the result of depreciation and discredit.~~

produced the usual result of depreciation and discredit. The

★

efforts of the friends of sound money to secure the resumption

of specie payments and their insistence that the public credit

could only be sustained by the payment of all Government obligations according to their tenor in standard coin, led to the for-

political

mation of a party who were opposed to resumption and demanded the

payment of Government bonds in a depreciated currency and the

for the issue

in substitution for

declared for the issue

substitution of United States notes for national bank notes.

Simultaneously with this greenback movement the agitation for

the greater use of silver and its free coinage was inaugurated.

Free silver advocates, ~~who divided both the great political parties,~~

were strong enough to secure the adoption of the coinage

act of 1878, which required the issue of silver certificates

Newspaper

based upon a limited coinage of silver dollars. The greenback

4

35

f-4

The reasons for this general condemnation are not difficult to understand. No government has yet been found strong enough to resist the pressure for enlarged issues in times of real or imaginary stress, or to meet some real or fancied exigency in its own affairs, or a popular demand for more money. In every case ^{all} ~~first~~ issues ^{are at first} were limited in amount, ^{and} surrounded by ^{proper} safeguards as to exchangeability and convertibility, with ample provisions for ^{and with what seems to be} ~~ultimate~~ ^{experience has shown that} safety, but in every case these safeguards have been one after another ignored or removed, ~~and the exhilaration which~~ restrictions as to amounts of issue have been modified or re-
^{pealed with} moved, and the exhilaration which has followed the initial is-
^{led to an irresistible demand for} ~~sues has been succeeded by~~ continuous inflation ^{and} a necessary destruction of values, progressive depreciation, and general
 bankruptcy.

and things have followed

(35) a

that in this case, as in all others prior to the one we have now

under consideration, a limit was placed upon the amount of issues.

~~The first issue was limited in amount to 400 millions francs~~

France had just confiscated the real property of the French church

which

in

These consisted of valuable estates from town and country, forming

of France

about 1/3 of the real property and ^{having a} equal in value to about four

thousand millions of francs and yielded a yearly income of about

~~which for notes at the rate of 3% per annum~~
of notes was limited to 400

two hundred millions. The first issue was made in 1790 and was

and

specific

rate

~~at a rate of interest of 3% per annum~~

based upon a pledge of this property, for which it was exchange-

able. The holders of the notes had a right to exchange them for the property ^{at} perfectly satisfactory prices
~~at very moderate prices~~

~~interest rate (35) b~~

In this connection the experience of 1790 and the years following France, with the issue of Assignats furnish valuable lessons

The arguments that were used in support of this issue have a family in sound it was contended "that paper money in a 4-5 while

It was claimed that paper ^{so limited and so secured} could not be used in excess that the security was beyond question and that there was no possibility of depreciation

Great stress was placed upon that ^{the fact} ~~it was claimed that~~ ^{different} an entirely ^{different} conditions has existed in laws time and that with a free government and new conditions, only beneficial results ~~no end result~~ could follow. That

prosperity and abundance were ensured.

A ^{scientific} practical guarantee of goodness was asserted and in an ^{report} address issued by the French Assembly

it was ^{said} that the paper had "a value which permits it to be ^{suppl} white

If in the later discussion it was asserted that the precious metals would soon be used only in arts and ^{paper} currency of secured upon the first ^{and} most real of all property would take its place. Soon ^{after} a demand was made for an issue sufficient in amount to pay the Government debt.

~~A.D. White, Fiat money in France, p. 67.~~

Conditions at the end of this period are thus described by a historian of the French revolution

~~Fraser~~

No paper currency ever had what seemed to be a more

25 c

practical guarantee for its security and value. It was based

was then and is now

upon what ~~would be called~~ the highest form of security, a

mortgage on productive real estate of unquestioned value. These

per annum 3% & this

notes bore interest at a rate of 3 per cent which, it was claimed,

Every precaution was taken to ~~would insure their~~ ^{retirement} ~~would insure their~~ ^{when not needed} ~~would insure their withdrawal to prevent excessive issues.~~ It was

claimed by the advocates of the assignats and mandats which follow-

ed that they were ~~properly secured and made~~ ^{made} as good as gold by the

various provisions ^{reason of} by the ~~former~~ ^{former} safeguards

known around their issue

~~Quote White about results~~

Within the next six years 36 billions
assignats ~~were~~ ^{had been} issued and 2000 millions
mandats ~~were~~ ^{had been} issued and then came
the collapse and the whole issue was
repudiated. Insert 25 c

~~law~~
(40)

Administration

All Government notes issued under the provisions of the bill are redeemable on demand at the Treasury of the United States or at any of the Federal Reserve banks in gold or lawful money. The notes are issued by the Federal Reserve Board and loaned to the Federal Reserve banks. The banks are required to deposit with the agent of the Federal Reserve Board with their application for notes, commercial paper and bills of exchange equal in amount to the notes applied for. Whenever any of the notes received by the Federal Reserve bank shall be paid out, the bank is required to segregate from its legal reserves held against outstanding obligations an amount in gold or lawful money which shall be equal to 33 1/3% of the notes paid out, which amount is held for the redemption of the notes. The notes which are issued to any Federal Reserve bank are made a first

one application

the amount

~~amount~~
deposited to a

41 (a)

~~In time of trouble~~ At such a time
The collateral would have no
value ~~in time of trouble~~ the
lien upon ~~assets~~ would not
be enforceable. The ^{crude} methods + inadequate
of redemption by the Reserve ^{means}
banks would fail in insuring
immediate convertibility and the
~~Gov.~~ Treasury would be obliged
to assume the ^{entire} burden ~~without~~

(41)

lien upon all the assets of such bank.

These elaborate provisions ~~for redemption and safety of the~~

~~might~~ ~~to maintain their parity with gold~~
notes would undoubtedly prove effective in ordinary times when

there was no call for redemption of the notes, but in times of
troubles certainly fail in times of trouble
~~the system of redemption would~~
stress they would be sure to break down, with their own weight.

Take a condition of affairs like that ~~which was existent~~ in

1907, when ~~all~~ the banks of the country suspended payment. In

Such a ~~case~~ the United States Treasury would be obliged to redeem ^{insert} ~~that~~ ~~case~~ ~~the~~ ~~United~~ ~~States~~ ~~Treasury~~ ~~would~~ ~~be~~ ~~obliged~~ ~~to~~ ~~redeem~~ ~~the~~ ~~notes.~~ ~~But~~ ~~the~~ ~~Treasury~~ ~~would~~ ~~have~~ ~~no~~ ~~gold~~ ~~or~~ ~~other~~ ~~law-~~

~~ful~~ money in its possession, ~~as under the terms of the bill all~~ ~~available~~ ~~to~~ ~~meet~~ ~~the~~ ~~demand.~~ ~~the~~ ~~moneys~~ ~~now~~ ~~in~~ ~~the~~ ~~general~~ ~~fund~~ ~~of~~ ~~the~~ ~~Treasury,~~ ~~which~~ ~~in-~~

cludes its gold coin and bullion, would be deposited in the sus-

pended banks, and there would be no alternative but Government

discredit and repudiation of its obligations.

(42)
Each of

~~The reserve held by anyone of~~ the Federal Reserve banks,

notwithstanding an attempt is made to make it responsible only

for notes issued to it, would be practically, and it might be

actually, responsible for the ^{redemption} ~~retirement~~ of the total issue, as,

so far as the public is concerned, all notes without distinction

as to whom they are issued, are entitled to redemption at any

as well as ^{at the Treasury} ~~the Treasury~~

one of the Reserve banks.

~~The several Reserve banks are required by the bill to keep a~~
~~reserve of 33 1/3% in gold or lawful money on all their outstand-~~
^{for redemption purposes}

~~ing obligations,~~ ^{have} and the obligation to redeem Government notes is

~~an obligation which applies, under the bill, to the total issues.~~

For instance, if a thousand millions were issued, any one of the

banks would be required to redeem the whole or any part of this

on demand, and this would apply to a Federal Reserve bank to whom

^{had} no notes ~~might have~~ been issued by the Board. ~~This obligation~~

43

to ~~redeem the full amount would be the same as that of a bank~~

~~which had applied for the largest amount.~~ It must be, I think,

apparent that with any considerable amount of notes outstanding,

~~and with reserves scattered in twelve different~~
for redemption scattered in twelve different
~~banks~~

~~in times of stress all of the Federal Reserve banks and the~~

~~any of the reserve banks and~~
would be likely
Treasury of the United States ~~might easily~~ find themselves in a

position where they would be unable to meet their obligations.

The ~~specie~~ redemption of the United States notes which were

in specie
issued during the war, was only possible after the accumulation

of one hundred millions of gold coin secured by the ~~issue~~ *sale* of

Government bonds, and the continuous redemption is ~~secured~~ *assured* by ~~the~~

one hundred and fifty millions of gold now held in the Treasury as

unknown and
a trust fund. We now have a proposition to issue an unlimited

amount of United States notes without any Government reserves of

any kind.

44
it should be borne in mind that there

is no limit to the issue of these notes. It may be said that

the amount of possible issue is limited by the amount of paper

in the hands of the Reserve banks available *as collateral* ~~for purposes of se-~~

~~curity.~~ This is true, but the entire amount of notes and bills

of exchange held by the banks of the United States is in the

neighborhood of 15 thousand millions of dollars, and the amount

of all securities which might be available for this purpose is

Neither of these provisions are at all likely to have
in practice on the any restraining effect
on the volume of note issue

It is claimed that a limit is fixed

to the amount of note issue ^{of} by the
sum of the applications of the Reserve and ^{banks} that ^{the aggregate} these
~~applications~~

is limited by the amount of paper
of the ~~third~~ ^{in the possession of the board banks} ~~the banks~~ may hold

and further that the central Board has
the discretionary power of ~~rejecting~~ ^{declining} all applications

These ~~limitations~~ ^{in increasing amount} under ordinary circumstances
the demand for currency, as shown by our

own experience and those of other countries
is insatiable and in time of trouble necessity

for increased issues is imperative. It is
certain that the political board ^{contemplated} would never

be able to resist demands from any
quarter. There is no limitation in

the bill of the amount of commercial paper
that a Reserve bank may rediscount or
purchase. The ^{amount of the} loans and discount of

all the banks in the United States is
about 15 thousand million dollars and the

amount of securities held by banks about
5 thousand millions more. The House Com.

Committee fix the amount that would be available
for rediscount by the Reserve at ^{banks about} 6 thousand
millions. The latter amount is likely to

largely increased by the exercise of the
authority to fix the character of loans available
for rediscount. ~~What portion might find~~

~~its way into Reserve banks in proportion to~~
~~the amount would be great that no limit could~~
~~be put on it as a restriction of note issue,~~

My suggestions in criticism of certain provisions of the bill are made with the hope that they may prove of service to those who have the bill in charge in their difficult task of perfecting the measure. ^{With} ~~the~~ assurance from responsible ^{sources} ~~quarters~~ that we are to have legislation in the near future ^{it} ~~makes~~ it the duty ^{upon} ~~of~~ every good citizen to ~~co-operate~~ assist in any way that he can to ~~secure~~

~~It is~~ ^{it is} ~~also~~ certainly desirable that the American people whose highest interests are to be affected by ~~parliamentary~~ or unfavorably by Congressional action should have ^{as clear an} ~~the~~ ^{as possible} understanding of the nature of the proposals.

Senious mistakes cannot be corrected after legislative action

27 (b) ~~is~~ ~~familiar~~ with ~~nature~~ of these
difficulties and believe

The authors of the bill ^{having in a} ~~have in a~~
majority of cases adopted accepted
remedies and adopted ideas
based on experience and sound
economic principles it is all
the more to be regretted that in
some of the most important provisions
^{of the bill} the lessons of universal experience
have been ignored

27^(a)*

In considering the character of
the remedies proposed by the
bill which recently passed the
House of Representatives "

Somewhat in detail

I have called your attention [^] to the character of the
and to the principles underlying
great central banks of Europe ^{with a view of European system} in order that I may contrast their
organization and functions with those ^{proposals of} suggested by the bill which
has passed the House of Representatives for a Government Central
^{for the United States} Bank. In entering upon an examination of the legislation pro-

~~posed by the House Caucus~~, I am not unmindful of the fact that
I certainly do not intend
it is much easier to criticise than to construct and any criti-
cism that I may make is ~~not intended to obstruct the progress~~

^{to} or increase the difficulties of the legislators charged with
serious responsibilities, but rather ~~with a view of suggesting~~
to call attention to important
changes which, it seems to me, ^{in view of} ~~from the world's experience~~ must
in their plan
be made in the interests of wise and permanent legislation.

*met
27/6*

which violate all sound economic principles and

The two features of the bill which are open to the most
serious objection are;- First, the provisions which authorize the
unlimited issue, by irresponsible agents, of government notes to be

2

close

There should be no
division on party

W Every patriotic citizen
be actually must have be a church in
a common purpose

to build up

make the country great

to by adopting weto

theories regulated here
of the best

will have our
factors to deal
progressive progress

Not based on conduct
in the future with the errors
of the past

Hamilton views
Extreme as power that could properly be
Compulsory ^{executed} results ^{by the fed} Government

~~Reserves~~

~~Tyler~~

If the large banks
in the central Reserves
cities should consult
their selfish interest they
would favor the proposition
to move give to them
a former hold

based

Capital surplus
plus completely in the central
banks then the funds
cap & deposits

proposal to create

In the ~~creation of~~ a Federal Reserve Board, the

Authors of the have committee which prepared the House bill evidently followed

~~in its main features~~ a plan submitted by President Tyler to

Congress in 1841 for the creation of an Exchequer Board. Presi-

dent Tyler, *after* having vetoed ~~two~~ *a* bills to establish a *a fiscal bank* fiscal agency *and another to create* and a *fiscal agency* on constitutional grounds.

which was another name for a ~~Bank of the United States~~, stated

~~that he would propose~~ a plan for a Board of Control to take the *place of the fiscal agency*

which he characterized as a plan which ~~to exercise~~ *described* place of the fiscal agency to be assigned the functions which he

rests on powers acknowledged in practice ~~thought should be adopted in place of a United States Bank.~~ *to exist from the origin of the government*

which will at the same time furnish the country ~~In compliance with this suggestion his Secretary of the Treasury,~~ *advised paper medium and afford all reasonable facility for regulating the exchange*

Following

Forward, submitted to Congress, Dec. 21, 1841, a plan for the

creation of an Exchequer Board, ~~the name of the Board having been~~

The designation having been changed ~~changed from a Board of Control.~~ *plan* The bill provided that this

Exchequer Board was to be composed of the secretary of the treas-

ury for the time being, the treasurer of the United States for the

time being, and three commissioners to be appointed by the president with the advice and consent of the senate; one of the said commissioners first appointed, to be appointed for two years, one for four years, and one for six years, and vacancies subsequently occurring, to be so filled as that one vacancy shall regularly occur at the end of every period of two years. ~~This Board was~~

~~authorized to establish agencies in different parts of the coun-~~

The Board were authorized and directed of course

~~try for the transaction of their business and to direct to be~~

and issued

prepared treasury notes of a denomination of not less than

five dollars or more than one thousand dollars which were to

to be issued by the Board

circulate as money. These notes were redeemable in gold or

silver on demand ~~at the agencies where issued and it was further~~

The amount of the issue was limited to

~~provided that notes so issued should not exceed fifteen millions~~

of dollars unless otherwise provided by law. They were made re-

ceivable for all dues to the United States and it was provided

that the Central Board and all of its several agencies should

keep on hand at all times an amount of gold and silver which

should equal 1/3 of the amount of outstanding notes. The Board

was also authorized to purchase and sell domestic bills of ex-

change which were payable out of the state in which they were

drawn. The purpose of this provision was to facilitate domes-

exchanges which for some time had been in a most unsatisfactory

condition, these being dependent upon State banks in different

parts of the country, most of whom had suspended specie payments

and whose notes were at a varying discount from

You will notice how closely the House bill follows

It will be said that this plan of President Tyler is identical

The same kind of a board with the same power

with the one we have under consideration except that the amount of

the notes to be issued was limited to fifteen millions of dollars

The redemption was to be in gold and silver alone

as to the character of reserves, and the enormous powers granted

to loan money and control the banking system of the country

the Federal Reserve Board were not found in the Tyler plan.

reserve

for the transaction of these business
established agencies as different parts of the

Country

in another from that in

drawn claim

Monopolized

notes large

seen in many important respects

the

with the same proportion of reserves

Lower to be in gold and silver alone

None of

are system of the country

however to be

This plan was presented to Congress at the beginning of the

December session in 1841. It was discussed at the ^{some} same length

in both houses and finally referred to ^{friendly} a committee in each house,

~~a majority of whom were supposed to be friendly to the scheme~~ ^{provision}

~~The terms of this original plan, the character~~
~~of the men who discussed it, their opinions~~
~~These discussions and the reports of the committees to whom the~~
~~as to its wisdom and the final disposition~~
~~of the measure all have the strongest possible~~
 matter was referred are very illuminating. The ~~Democrats~~ ^{senators} who
~~interested for us in the due consideration of the~~
~~seceder's cause bill~~ ^{were}
 joined in the discussion in the senate ~~included~~ James Buchanan,
^{wrote the leading part}

Thomas H. Benton, John C. Calhoun, Levi Woodbury and Robert J.

Walker, ~~political~~ ^{and its policy} men whose right to speak for their party

was not then doubted and ~~could~~ ^{can} not now be called in question.

~~even~~ by the friends of the modified Tyler plan which we are now

considering. It was apparent upon presentation of President

Tyler's plan that it had no friends or even apologists in either

house, in the form in which it was presented. The principal

discussion occurred before the ~~reference~~ of the bill to committees

Senator Buchanan led the
In the senate, Cannon and Benton took the leading part in oppo-

I feel justified in quoting from debate at length
sition to the measure. Senator Buchanan in his speech of Dec. 29,

as reported in the Congressional Globe
1841 said that he had viewed the plan suggested by the committee

in every aspect and he could see nothing in it but a great Govern-
ment bank. He went on to say, "What was the next function of this

(The Exchequer Board)
Board? They were to put in circulation a Government paper curren-
cy not exceeding \$15,000,000 in notes of a denomination not lower
than five nor higher than one thousand dollars and they were ex-
pressly authorized, according to the rules of banking, to issue
three paper dollars for every gold and silver dollar in their
possession. Then it was a bank of issue. Was it also a bank of
discount? Could any man doubt it? ~~### Whether the Board should~~ *buy a*

buy a
bill of exchange or discount a promissory note, it came to the
same thing; it was neither more nor less than an accommodation
loan. ~~And it was a loan subject to all those risks to which~~
~~banks, brokers, and speculators could expose it.~~ No prudent
~~man would ever be willing to put his own money into such hands.~~

Mr. B. therefore took it for granted that it could not and would
not be denied that this Exchequer Board was a bank. # # #

How could it possibly be supposed that any honorable Senator
belonging to the party with which it was Mr. B.'s happiness to
act could ever adopt a plan of this description. # # #

What would the President become, according to this plan?
He was already the great fountain of political patronage; and
he was to become the head of an immense moneyed institution.

on account of the stimulating qualities

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use