

**NELSON ALDRICH**

**Monetary Commission**

**MISCELLANY**

2/5/09

- Aupetit, Albert, c/o La Banque de France, Paris, France.
- Beaulieu, M. Paul Leroy, Editor, "Economist Francais", Paris, France.
- Canovi, Comm. Tito, Banca d'Italia, Rome, Italy.
- Conrad, Prof. Johannes, University of Halle, Halle, Germany.
- Ferraris, Carlo F., Camera dei Deputati, Rome, Italy.
- Flux, A. W., Gwydyr House, Whitehall, London, England.
- Foxwell, H. S., 1 Harvey Road, Cambridge, England.
- Franz, Robert, c/o "Der Deutsche Oekonomist, Burgstrasse, 3, Berling  
Germany.
- Frewen, Moreton, Brede Place, Sussex, England.
- Georges-Levy, M. Raphael, 3 Rue de Noisel XVI e, Paris, France.
- Governor, The, Bank of Belgium, Brussels, Belgium.
- Grenfell, Edward C. Esq., / J. P. Morgan & Co., 22 Old Bridge St.,  
London, England.
- Higginson & Co., 1 Bank Buildings, Price's Street, London, E.C. England
- Hirst, Francis W., 4 Arundel St., Strand, London, England.
- Holland, Robert M., Post Office Court, Lombard Street, London, England.
- Korporation der Kaufmannschaft von Berlin (Bibliothek der) Berlin,  
C 2, Börse, St. Wolfganstr.
- Landmann, Dr. Julius, Swiss National Bank, Berne, Switzerland.
- Lefevre, M., Credit Lyonnais, Boulevard des Italiens, Paris, France.
- Lexis, Prof. W., University of Goettingen, Goettingen, Germany.
- Liesse, M. Andre, 18 Rue Denfert-Rochereau, Paris, France.
- Neymarck, Alfred, 33 Rue St. Augustin, Paris, France.
- Paish, George, Editor, "The Statist", Cannon St., London, England.
- Palgrave, Sir. R.H., F.R.S., Henstead Hall, Wrentham, Suffolk, England.
- Pallain, M. Georges, / La Banque de France, Paris, France.
- Raffalovich, A., Ministere des Finances, De Russie, Paris, France.
- Riesser, Dr. J., Lichtenstein-Allee, 3, Berlin, Germany.

Search, H. W., ꝑ Bank of England, London, England.  
Vidal, E., 3 Place de la Bourse, Paris, France.  
von Bohm Bawerck, Prof. E., University of Vienna, Vienna, Austria.  
von Lumm, Dr. Karl, Director of the Reichsbank, Berlin, Germany.  
Whalley, R. W., Esq., Gen'l Mangr. Parr's Bank, Ltd., London, England.  
Withers, Hartley, 6 Linden Gardens, London, England.  
Wittner, Max, Dorotheenstrasse, 3, Berlin, Germany.  
Au Recteur l'Universite, Moscow, Russia.  
Scheuhaeßer, Dr. J., Speyerer Strasse 14, Berlin, Germany.  
Rheinstein, E., 3, Akademies Strasse, Munich, Germany.  
Knobloch, Miss Bertha, ꝑ Mitteldeutsche Privatbank, Hamburg, Germany.  
Newberg, M. 60 Broadway, New York, N. Y.  
Obst, D. Georg, Westfalische Str. 61, Berlin, Germany.

the property, which property shall be situated in the vicinity or in the territory directly tributary to the bank; Provided, That this privilege shall not be extended to other banks acting as reserve agents."

Section 56. It was agreed to embody all the provisions under the title "Foreign Banks" into one section numbered 56, with certain corrections of minor importance.

Whereupon, the Commission, ~~adjourned~~ at 1 o'clock p.m. took a recess until 2:30 p.m.

AFTER RECESS.

The Commission reassembled at 2:30 p.m.

Present, Messrs. Aldrich (Chairman), Vreeland (Vice-Chairman), Burrows, Money, Burton, Weeks, Bonyngge, and Padgett.

It was agreed to adjourn after today's session until January 2, 1912.

It was decided, after striking out the third paragraph of section 39, relating to savings deposits, to make the <sup>the</sup> matter ~~subject~~ subject of a supplemental report.

The Commission thereupon adjourned to meet 10:30 a.m., Tuesday, January 2, 1912.

United States Senate.

WASHINGTON, D. C.

Feb 16, 1910.

Meeting Monetary Commission  
2

Aldrich

Hale

Zeller

Money

Lusk  
Smith

Padgett

Burgess

Pujo

2. 16. 1910

Frewen

Print Postal Savings information

Edwin Chamberlain

San Antonio Texas  
Burgess

3810

Mellon's Digest sent to  
following Mar. 25-1910

(42)

- Hon. T. J. Rutledge, State Bank Examiner, Montgomery, Ala.  
William L. McQuire, Sec'y, Board of Bank Commissioners,  
Crocker Building, San Francisco, Cal.  
Mr. E. W. Pfeiffer, State Bank Commissioner, Denver, Colo.  
Mr. Charles H. Noble, Bank Examiner, New Milford, Conn.  
Hon. Charles H. Maull, Insurance Commissioner, Dover, Delaware.  
Hon. A. C. Croom, Comptroller, Treasury Dept., Tallahassee, Fla.  
Hon. J. P. Brown, Atlanta, Georgia.  
Mr. William G. Cruse, Bank Commissioner of Idaho, Boise, Idaho.  
Hon. J. S. McCullough, Auditor of Public Accounts, Spring-  
field, Illinois.  
Hon. J. C. Billheimer, Auditor of State, Indianapolis, Ind.  
Hon. ~~Charles~~ <sup>John</sup> L. Bleakly, Auditor of State, Des Moines, Iowa.  
Hon. William S. Albright, Bank Commissioner, Topeka, Kansas.  
Hon. Ben L. Bruner, Frankfort, Ky.  
Hon. W. L. Young, Examiner of State Banks, Shreveport, La.  
Hon. William B. Skelton, Bank Examiner, Augusta, Maine.  
Hon. Murray Vandiver, Treasurer of Maryland, State Treasurer's  
Office, Annapolis, Maryland.  
Charles L. Burrill, Esq., Sec'y, Office of the Banking Com-  
missioners, Boston, Massachusetts.  
Hon. H. M. Zimmerman, Commissioner of Banking, Lansing, Mich.  
Hon. A. Schaefer, Public Examiner, St. Paul, Minn.  
Hon. E. J. Smith, Jackson, Mississippi.  
Hon. F. H. Ray, State Examiner, Helena, Montana.  
Hon. E. Royse, Secretary State Banking Board, Lincoln, Nebr.  
Governor D. S. Dickerson, Chairman, State Banking Board of  
Nevada, Carson City, Nevada.  
Hon. M. M. Van Fleet, Carson City, Nevada.  
Hon. Richard M. Scammon, Bank Commissioner, Concord, N. H.

Hon. Vivian M. Lewis, Commissioner, Department of Banking and Insurance, Trenton, New Jersey.

C. V. Safford, Travelling Auditor, Santa Fe, New Mexico.

Mr. A. L. Morrison, Jr., Chief Clerk, Office of Travelling Auditor, Santa Fe, New Mexico.

Hon. Clark Williams, Supt. of the Banking Dept., Albany, N. Y.

Mr. George I. Skinner, 1st Deputy Supt. of Banks of New York, Albany, N. Y.

H. C. Brown, Esq., Clerk of the Corporation Commission of N. C., Raleigh, N. C.

Hon. Oliver Knudson, State Bank Examiner, Michigan City, N. Dak.

Hon. B. B. Seymour, Superintendent of Banks and Banking, Columbus, Ohio.

Hon. A. M. Young, Commissioner of Banking, Guthrie, Okla.

Hon. James Steel, Salem, Oregon.

Hon. John W. Morrison, Deputy Commissioner, Banking Department, Harrisburg, Pa.

Hon. William P. Goodwin, Bank Commissioner, State House, Providence, Rhode Island.

Hon. Giles L. Wilson, State Bank Examiner, Spartanburg, S. C.

Hon. T. G. Croft, Aiken, S. C.

Hon. John L. Jones, Public Examiner, Madison, S. Dak.

Hon. Hallum W. Goodloe, Secretary of State, Nashville, Tenn.

Charles V. Johnson, Esq., Austin, Texas.

Hon. Thomas B. Love, Commissioner of Insurance and Banking, Austin, Texas.

Hon. Charles S. Tingy, Secretary of State, Salt Lake City, Utah.

Hon. F. C. Williams, Bank Commissioner, Newport, Vt.

Mr. Richard T. Wilson, Clerk, State Corporation Commission, Richmond, Virginia.

Hon. Robert R. Prentis, Chairman, State Corporation Commission, Richmond, Virginia.

Hon. S. V. Matthews, Commissioner of Banking, Charleston,  
West Virginia.

Hon. M. C. Bergh, Banking Commissioner, Madison, Wisconsin.

Hon. Harry B. Henderson, State Examiner, Cheyenne, Wyoming.

Hon Oliver Knudson,  
State Bank Examiner,  
Michigan City, N. Dak

Hon Cornelius Roach,  
Secy of State  
Jefferson City Mo.

Hon J L Mohrhard,  
State Examiner, 214 Burke Bldg.,  
Seattle Wash



**A SKETCH OF A PLAN  
for a BANK  
THAT SHALL PROVIDE THE SAME FACILITIES  
as the  
BANK OF ENGLAND  
BANK OF FRANCE  
BANK OF GERMANY**

**SKETCH of a plan for a Bank that shall provide the same facilities as the Bank of England, Bank of France, and the Bank of Germany.**

- 1. The Capital shall be \$250,000,000. or such smaller amount as may be decided upon.**
- 2. Branches to be located same as the present Sub-Treasuries of the United States,**

**With power to locate other branches in cities having a population in excess of one hundred thousand (100,000).**

- 3. The Bank to be the depository of the United States Government. (The Sub-Treasury system to be abolished) The present buildings to be taken over by the Bank at a valuation.**
- 4. The Bank may issue its notes up to such an amount as they may have gold or U. S. Government Bonds on hand.**
- 5. In time of need they may upon the consent of three-fourths of the directors of the Central or Main Office issue their notes to the extent of \$500,000,000. in excess of the gold and Government Bonds they may hold, but upon this over-issue they shall pay a tax to the Treasury of the United States at the rate of five per cent. (5%) a year.**

**It would not pay to have this currency out except in times of stress.**

- 6. The Bank to be a joint stock corporation in shares of \$100. or multiples of same. Any one may hold stock, but no one shall hold in excess of \$500,000. - Five hundred thousand.**
- 7. Banks in the City of New York to be limited in the amount of circulation they may issue to the amount they had January 1, 1907.**

8. The Bank to have 24 directors, all resident in New York, where the main office shall be, a 25th director to be nominated by the Secretary of the Treasury. The directors to be chosen
- 1st By the Clearing House as to 8
  - 2d By the Chamber of Commerce 8
  - 3d By the Stockholders as to 8
- No officer of a national bank shall be a director. All directors shall own at least \$50,000. of the stock in their own right and free from or not used for loans.
9. The Bank to handle all Government business without charge and to be free from all taxation.
10. In any city where a branch is located the local Board of 7, who are to be of an advisory character, shall be nominated by the Clearing House of that City in connection with the Board of Trade.
11. The Government to receive no more gold and issue their notes against same. All gold in the future to be handled by the Bank, except for coinage, which, as now, to be in the hands of the Government, but only as manufacturers.
12. The present issue of the legal tenders to be continual. The Treasury to retain the \$150,000,000. gold reserve. The same also applies to the silver and notes against the same.
13. The present system of national banks to be retained as now
14. The Bank to be the custodian of the 5% redemption funds for the banks.
15. The net profits of the Bank to the extent of 5% on the Capital to be paid to the Stockholders, the excess of 5% to be divided into two parts as follows:
- 1st One-half to the surplus fund account till the same shall amount to 20% of the Capital--then after at the discretion of the officers.

2d One-half to go to a special fund till it shall amount to \$50,000,000. which is to be a fund from which the shortage in assets of failed national banks may be paid. This fund to be kept as near this amount as possible. The assets of failed banks to include the liabilities of the stockholders. When this fund amounts to the \$50,000,000. then the excess or surplus to go to the Surplus Account or Fund.

16. If I am correctly informed, the banks in England have found that about 12% of their deposits for reserve is enough in all ordinary times; anything about this is a matter of extra precaution.

Banks may keep 40% of their reserve in this bank as a deposit.

17. The Bank may lend on or discount good commercial paper, with a signature and two endorsers. No paper to be longer than four months date.

Preference as to short time paper.

18. The Bank to buy all gold offered to it at a standard price and may sell it at such price as they may consider wise.

19. The Bank may make an official rate for discounting paper, advancing or decreasing this as they may consider wise, to enable them to protect the money market.

20. In making loans the Bank shall give preference to loans made on commercial paper as is done by the Bank of France.

The basic idea is that this bank shall at all times help the commercial community in preference to loaning on the stock exchange as is done by the Bank of France and that of Germany.

## THE REGULATION OF CURRENCY.

The original Greenback Theory was: "Money Equal to the Wants of Trade". This theory, which was never sound in principle, was persistently resisted by the banks. Now the banks as persistently fav or it.

Proposals for determining what the "Wants of Trade" require varied then as they vary now. Some proposed the issue of currency on land. The original Greenbackers proposed to have greenbacks issued on any "good security" to the extent it might be called for. This is, in substance, Lawism. John Law, a Scotchman, in 1705 published his proposal for supplying Scotland with cheap money. The fundamental principle in his scheme was this: "Any thing that has value in money may be made money equal to its value". Land, he said, has undisputed value and is, therefore, the safest of all things to base money on. France was captivated by this scheme for making money abundant, and three years after its first publication adopted it, and the Mississippi Bubble was the result.

Sixty-nine years later the National Assembly, not satisfied with their first attempt at making money abundant and cheap by basing its issue on land, made a second attempt, under the influence of Mirabeau, and had their experience in the French Assignats, which, according to Mirabeau, could not depreciate "because they represented real property - the solidest of all possessions - the land upon which we tread". But the result was, if possible, worse than the Mississippi Bubble.

The present banking principle of regulating currency by basing it on bonds is at bottom the same principle, although its application is hedged about by checks and limitations that prevent the excesses that have proven so disastrous in this and other countries.

Ricardo, in his testimony given before the Secret Committee of the House of Commons of 1819, states very clearly and forcibly the defect in all schemes for making currency issues safe by making final payment secure, without any regulating principle by which the quantity - upon which their value depends - is governed. He says:

"Plans for an improved system of currency are frequently laid before the public, which rest entirely upon this fallacy. The exclusive object of these systems is to obtain for the paper currency to be issued under them a greater

degree of security than that which is supposed to attach at present to the notes of the Bank of England. This end the authors of these schemes generally propose to accomplish by contrivances which they deem to be extremely ingenious, but which always resolve themselves into the simple plan of making property of some kind or other the basis of circulation. Sometimes the plan suggested proposes to issue a paper currency against the security of ~~the public debt~~ land, sometimes against the security of the public debt, and sometimes against merchandise in the docks; but, having provided for the security of the notes, the plan generally terminates at this point: the projector apparently conceiving ~~himself~~ that he has satisfied all the desiderata of a good paper currency, although he has introduced no specific measure for regulating the amount of that currency and maintaining its value relatively to the currency of the other countries of the world."

The various plans for currency reform talked of in the press are all like those described in the above quotation from Ricardo. They look only to security of final payment without regard to quantity, upon which the value of the currency they propose to issue depends, and seem oblivious as to the effect of such currency on price levels. But the necessary effect of such issues of currency is to raise prices and thereby increase the ~~amount~~ need for more currency to do the same business. Double prices and, of course, the demand for currency to do the same business will be doubled. It is impossible, therefore, to satisfy the demand for a currency the effect of which is constantly to carry prices up, for the higher prices go the larger the volume of money required.

The price level for the world in little more than a decade, (not taking into account sudden changes in certain stocks on the stock exchange) according to tables given by the London Economist and our own Bureau of Statistics - due to the increased production of gold and the currency issued on top of the gold - has been 25 per cent. or more for England, and 33 per cent. for the United States. In other words, money has depreciated in that ratio, for a rise of prices and the depreciation of money are absolutely one and the same fact. The President, in his Message to Congress, gives the per capita of currency in 1894 as \$21.41, and now as \$33.48. And in this connection too much stress cannot be laid on this fundamental principle: that the money of a country cannot be permanently increased, beyond the increase of population and wealth, without raising prices and depreciating the money.

Among the plans presented to Congress for increasing the currency volume, that most talked of is what is known as the "Fowler Bill". This plan proposes the issue of an "emergency currency"; this currency to go into use the same as other currency, circulate the same, pay debts the same, but under the imposition of an increasing tax which is to continue until all of this particular class of notes are returned to the Treasury to be cancelled. Suppose, under this plan, a bank puts out \$100,000.00 of such "emergency currency". Of course it will be loaned out and go into circulation. Some of it will go, perhaps, to distant parts of the country, get into other banks, and into the hands of the people, who will have no interest in its return. They do not pay the tax. They have paid for the money when they borrowed it, and one kind of money is as good to pay their debts when they fall due as another. Hence there is no certainty when the banks will get back the currency it issued - some of it possibly not for years - but the bank must pay interest on any part that remains out until it is returned to the Treasury and cancelled. It therefore does not seem possible that this plan will ever be agreed to even by the banks.

*This plan may be changed*

#### HOW CURRENCY CAN BE MADE ELASTIC.

What then can be done to supply currency for that larger volume of business at certain seasons over the needs for other seasons; that is, provide for a larger number of transactions at one time than at another, without at the same time permanently raising prices and increasing the cost of living? We know of no way, nor do we believe any way has ever been found in any country, except that embraced in the principle of the Peel Act of 1844, and modifications of this act as embraced in the State and Imperial Banks of France and Germany.

#### A CENTRAL NATIONAL BANK.

Establish a Central National Bank, to be under the control of the Government, but with representation on the Board of Control for the banks and the people.

Authorize National Banks, when extraordinary demands are made upon them for credit or currency, to deposit acceptable securities with the Central National Bank and thereby obtain such credit as they may need to meet exigencies, or satisfy the larger demand for money at one season as

compared with another. For this credit, the banks should be required to pay interest, as in France and Germany, on a rising scale corresponding to the amount asked for. A large part of such credit would be ~~offset~~ off-set in clearing house settlements and in that way be extinguished, but to such extent as might be necessary, the Central National Bank should be authorized to issue lawful money. When the emergency which calls for this credit or currency passes by, banks can stop interest - beginning with the highest rate - by sending to the Central National Bank lawful money, - gold, silver, gold and silver certificates, greenbacks, or other forms of current money.

In that way, and in no other that has ever had the approval of conservative economists, can a currency volume be made "elastic" without permanently affecting prices.

As, in the Bank Act of 1844, an amount of "uncovered" currency, declared to be not more than the trade of the country would prefer in that form to gold, was allowed to remain; so in this country an amount of legal tender currency, under the law as laid down by Albert Gallatin, - that such volume should never be allowed to exceed the volume of gold and silver that would come here and stay here if there was no other currency - might safely be allowed to remain in circulation permanently and be increased from time to time as population and wealth increases. But in measuring wealth, care must be taken not to allow the measure of wealth to be lowered in value; for wealth can no more be increased by depreciating the dollars that measure wealth than territorial dimensions can be increased by shortening the links in the surveyor's chain. The lack of attention to this fact by our Bureau of Statistics has led already to large over-estimates of our national wealth. In other words, as John Locke said, "the change is in the measure and not in the goods". And certainly the question of highest importance in dealing with the problem of currency is to secure the greatest possible stability of value, for nothing produces greater wrong to a people than an alteration in the value of money.



CURRENCY COMMISSION OF THE AMERICAN BANKERS' ASSOCIATION,

ADDITIONAL RECOMMENDATIONS

ADOPTED AT THE MEETING AT THE NEW WILLARD HOTEL

WASHINGTON, D. C.

MONDAY, MARCH 27, 1911,

TO BE PRESENTED TO THE MONETARY COMMISSION.

Moved by Mr. Talbert, seconded by Mr. George M. Reynolds,  
and agreed to:

That under the heading "Charter and Location", the second  
paragraph should read:

"The country shall be divided into fifteen districts to be  
named in the bill prepared by the Monetary Commission, and a  
branch of the reserve association shall be located in each  
district, the location thereof to be determined by the direct-  
ors of the national reserve association."

Moved by Mr. Wade, seconded and agreed to:

That to the section under the heading "Directors of Local  
Associations", there be added the following paragraph:

"That each local association, branch and the national reserve  
association itself, shall have by-laws which, among other  
things, shall provide a method of filling vacancies on the  
respective boards of directors,"

or words to that effect.

Moved by Mr. McCord, seconded and agreed to:

"That the clause be interlined providing in effect that

local associations shall have corporate powers."

Suggested by Mr. Talbert:

It is suggested that the directors of each district shall elect one director of the central reserve association, and at the same time shall nominate one voting representative, thereby creating a voting representation of fifteen, who shall have the power to nominate the twelve directors provided for in paragraph 3.

Suggested by Mr. Talbert:

That the eighth paragraph, under the heading "Directors of the Reserve Association" be amended by inserting the words "from their number", so that it will read:

"The directors of the reserve association shall annually elect from their number" an executive committee and such other committees as the by-laws of the reserve association may provide," etcetera.

Moved by Mr. Talbert; seconded by Mr. George H. Reynolds, and agreed to:

"That it be suggested to the Monetary Commission that in regard to the appointment of the executive officers of the reserve association, the power to appoint and to remove the governor and deputy governors be left in the hands of the board of directors.

Mr. Wexler: That means, of course, a majority of the Board of Directors?

The Chairman: Certainly.

Suggested and agreed to that under the heading "Functions of National Banks", in the second paragraph on page 17, the words "a new" be stricken out and the word "another" be inserted, so that the paragraph will read:

"There shall be established another class of national banks, to be known by a specifically designated name," etcetera.

Suggested by Mr. Drake, seconded and agreed to, that under the heading "Note Issues" in the second line the words "of bank notes by national banks" be amended to read "of bank notes by any national bank", so that the paragraph will read:

"There is hereafter to be no further issue, beyond the amount now outstanding, of bank notes by any national bank."

Suggested by Mr. Wexler and Mr. Talbert, and agreed to:

"That we regard it as a menace to the future prospects of the Reserve Association if it should take over the enormous amount of bonds proposed, at the price stated therein, unless some definite plan for the refunding of those bonds shall have been worked out beforehand, and the Government definitely committed to that plan.

"Suggested by Mr. Talbert and agreed to:

That the third paragraph, under the heading "Note Issues" be amended by inserting after the words "of outstanding notes secured thereby", the words "circulating notes issued to replace existing national bank notes shall be free of all taxation," so that it will read:

"The reserve Association shall take over these bonds with the equivalent currency privilege attached and assume responsibility for the redemption (upon presentation) of outstanding notes secured thereby. Circulating notes issued to replace existing national bank notes shall be free of all taxation."

In conformity with the suggestion made at the last meeting of the National Monetary Commission I have prepared a <sup>an</sup> ~~tentative~~ outline of a plan for the revision of our national banking legislation, which I beg herewith to submit to the Commission. In doing this it has been my aim to suggest changes in the national banking act which will make it responsive to the demands of modern business.

<sup>T</sup>he study which the Commission has given to this subject has, I believe, led irresistibly to the conclusion that our present banking system not only fails completely under stress and in the presence of unusual demands upon its resources, but has been found inadequate and unresponsive even under the ordinary conditions of business.

*which was adopted nearly a half century and has remained practically unchanged*

The suggestions submitted herewith are ~~deductions which I have made as the result of the two years of study which the Commission~~ has given this subject, and are formulated in the light of the great mass of information which it has gathered respecting both our own banking system and needs and the experience and practices of foreign countries.

If I am right in believing that ~~the study which the Commission has given the subject leaves no doubt~~ that the present law has become obsolete, there is, then, no room for argument in regard to the necessity for modernizing the law. Assuming such to be

the case it must be our aim to accomplish the result by means which will, in the largest degree possible, leave undisturbed existing conditions. It should be our aim to liberalize the present national banking act and to add to it such features as are deemed essential, rather than to formulate any plan which will fundamentally change our present system.

In the light of our experience it is obvious that one of the principal needs is to find some method for the unification of our present banking institutions into one comprehensive system. In other countries we have found that reserves are concentrated and used freely in any direction where needed. Under our faulty system reserves are so scattered as to be unavailable in time of trouble either for purposes of assistance or defence.

The result of our law has been to create a banking system made up of a great number of isolated units, each working within a limited circle, and each of necessity governed by its own immediate interests without reference to what would be for the greatest good of all. While the intelligent managers of individual banks may fully recognize the necessity of greater cooperation, they are, under the law, powerless to effect it.

If we can so amend the present national banking act as to permit the formation of an association of all the banks of the country

to meet these needs, we shall have gone a long way towards solving the problem which is before us. If then in addition we provide a more scientific basis for bank note circulation so that the volume of circulation will be responsive to the needs of business, we shall, I believe, have met the two main requirements of a satisfactory solution. In addition to that, if we can aid in creating a discount market in this country similar to the discount markets in Europe, so that the most liquid portion of our bank funds will not of necessity be forced to such a large degree as at present into the making of call loans upon stock exchange collateral, but will instead be available for the needs of commercial business, we shall have so broadened our banking methods as to bring incalculable benefit to the commercial life of the country.

I believe that the conclusions which I present herewith meet those conditions, and that the organization which it is proposed to create will bring the benefits which we seek without running any risk of creating a financial institution which can be controlled by ambitious monetary interests or dominated by political influence.

While we have found much that is admirable in the operation of the various government banks of Europe none of them is applicable to our needs here. The good results which they obtain can, I believe, be reached without the creation of such a central bank. I feel that the plan which is proposed reaches those results without

being open to the objections which may well be brought against such an institution.

The plan which is here presented makes no claim to being worked out to a definitive form. I recognize that can be done only after it has received the consideration of the Commission and has been studied with care in all parts of the country. Discussion will certainly modify and improve its details.

In its main features, however, it will, in my opinion, meet the necessary requirements, and I offer it to you for that further consideration which it must now have.





Gentlemen: We are a delegation appointed by The Land Currency League to present for your consideration what we believe to be a correct theory of currency. Our purpose in seeking this audience is to impress you with its importance, and to convince you if possible that, at last, we have the true solution of the currency problem.

Our conclusions are the result of an extended investigation of the subject, covering a period of many years, prosecuted along new lines of research. They prove conclusively that the knowledge of the most enlightened legislators of the age concerning the science of money is of the most superficial character. This conclusion is in a measure justified by the fact that after a national existence of upward of 116 years we find ourselves embarrassed with a fiscal system that is unequal to the task of employing our full powers of production, of equitably distributing the fruit of industry, or of preventing a frequent recurrence of disastrous financial panics.

We cannot hope in a single interview to convince you of the validity of our theory. To elucidate it requires a great deal of argument on our part and a great deal of reflection on the part of those to whom it is presented, but with your permission I will briefly outline the new philosophy and give the reasoning upon which our most remarkable claim is based.

We claim that society needlessly pays interest for the use of a circulating medium; and that the compulsory practice of compensating the individual for the use of currency, as an exchange medium, is avoidable.

Our contention is that owners of wealth should not compel themselves to compensate the individual for the use of a legal-tender representative of wealth, and that they would avoid the present interest charge could they obtain from Government, on application, a legal-tender representative of the wealth they now pledge as security to the usurer.

We claim that our every economic ill is due to the fact that we unduly restrict the volume of money.

Instead of supplying ourselves with a currency volume equal to our requirements, we so restrict the issue that a private substitute for money is required to assist in effecting our exchanges. Statistics show that fully 95% of recorded exchanges are made with a credit substitute.

All money provided by Government for commercial purposes is supplied to the recipients without interest, while the cost to society of the credit substitute (which we are compelled to use because of the money shortage) actually absorbs the surplus earnings of industry.

Our failure to apply the true remedy is largely due to a common belief that the value of money, like that of a commodity, is determined by the economic law of supply and demand, and that to materially increase the money volume is to impair the value of the money unit.

An unwarranted fear of a depreciated currency prohibits a sufficient volume of money and thus prevents a just division of product.

Our investigation satisfies us that absolute money - paper or specie - does not, in fact, fluctuate in value, but that it at all times accurately reflects and represents the fluctuating value of the articles for which it is exchanged. Hence if legal-tender paper is issued for currency purposes only against individual wealth, the supply may equal our commercial needs without fear of depreciation.

It is true that an advance in prices frequently follows a material increase in the volume of the circulating medium. The result however is not due to a cheapening of the money unit, but to a natural increase in the value of certain commodities - commodities for which there is an increased demand; a demand born of a new ability to purchase. The in-

crease in value is not only confined to articles for which there is an increased demand, but it is temporary, for the secondary effect of a new money issue is to so stimulate the production of articles whose value is enhanced that prices will become normal when the new demand is satisfied. We claim that quality, not quantity, determines the value of money.

Regardless however of what is known as the "quantitative" theory of money, we claim that the currency volume may safely be increased to the extent we propose because the measure we suggest would simply substitute one form of circulating medium for another (cash for credit) without augmenting the volume of that with which our business is now transacted, and therefore would not disturb prices.

The only persons who can now call new money into existence to meet the demands of an expanding commerce are owners of wealth in the form of gold bullion and U. S. bonds. All other wealth-owners are unwisely denied the essential privilege of monetizing their wealth for currency purposes by the certificate process. The result is an enormous currency deficit of not less than twelve billion dollars, as shown by the last Report of the Comptroller of the Currency.

This report shows that our circulation now consists of public money and bank-credit - about one part money and five parts credit. We propose to cure our financial ills by substituting cash for the credit constituent of our circulating medium. This can be done we claim without departing from the present method of supplying currency for commercial purposes. We propose to extend the privilege of calling new money into existence (which is now exercised exclusively by owners of gold bullion and national bonds) to the owners of productive real estate - our most stable form of wealth.

Ours is not a proposition to "loan money on land", nor to "base" money on real estate. It is an automatic method of providing just the amount of currency required by a direct issue to money users, on demand, of a legal-tender representative of their wealth.

The underlying principle of the proposed system is that all forms of wealth are equally entitled to a currency representative in the nation's circulation on application of the owner. We claim however that the interests of society will be as well served, and the system simplified, by confining the currency issue to owners of stable or permanent forms of wealth. To monetize land values we claim will destroy the existing currency monopoly, and the indirect benefit to all will equal the direct benefit inuring to the currency recipient, because the terms upon which legalized certificates will be issued to land owners, on demand, will determine the usurer's charge for private funds and the credit substitute, should there be a demand for it.

The new system assumes that the legal-tender function alone sustains the value of money, and that commodity value has nothing whatever to do in sustaining the money value; that money is a legislative device whose value as an exchange medium necessarily equals its value for discharging contract obligations.

Evidence of the validity of this principle is found in the fact that gold coin would not circulate at par for a moment were it divested of its debt-paying power, and that our standard silver coins circulate at par for the reason alone that they are invested with the legal-tender quality. It is obvious therefore that the legal-tender attribute is the money attribute of a nation's currency - whether gold, silver or paper.

As our congressional representatives, and as members of the recently appointed Monetary Commission, we ask you to thoroughly investigate this new theory, and especially our claim that real money does not fluctuate in value. To realize this momentous truth is to perceive that a legal-tender representative of wealth may with advantage and entire safety be issued, on application, to the owners of stable forms of wealth at cost of issue.

I cannot but believe that the appointment at this time of a Monetary Commission to whose searching scrutiny this revelation in economics can be submitted will prove of the greatest possible benefit to the human family.

We trust that upon reflection you may see your way clear to commend this promising theory and the simple remedy we suggest as worthy the serious consideration of the Monetary Commission.

We have formulated a measure of which we will furnish you copies embodying our recommendations which sets forth the ~~plan~~ **plan** for carrying them into effect.

# THE NEW CURRENCY LAW

Proposed by

## THE LAND CURRENCY LEAGUE OF THE UNITED STATES

TO PROVIDE A VOLUME OF NATIONAL CURRENCY EQUAL TO THE NEEDS OF COMMERCE:  
TO SUBSTITUTE CASH FOR THE CREDIT INGREDIENT OF OUR CIRCULATING MEDIUM:  
TO ABOLISH THE CUSTOM OF PAYING "INTEREST" FOR THE USE OF A MEDIUM OF EXCHANGE:

### AN ACT TO MONETIZE LAND VALUES FOR CURRENCY PURPOSES BY THE CERTIFICATE PROCESS.

Be it enacted by the Senate and House of Representatives of the United States in Congress assembled:-

**SECTION 1.** That from and after the passage of this act, any person having possession and ownership in fee simple of any improved real estate in any state of the United States, by a clear, obvious and perfect title, and who is competent to convey the same, shall, upon the conditions hereinafter prescribed, be entitled to receive on demand from the Treasurer of the United States an issue of full legal-tender paper money to an amount not exceeding the present assessed valuation of the lot or tract upon which such issue shall be desired; provided that such assessment is made on the basis of less than forty per cent of the value of the property assessed; the money so issued to constitute the legalized representative of the value thus monetized for currency purposes, and to be a legal-tender at its face value in payment of all debts, public and private.

**SECTION 2.** To carry into effect the provisions of this act, the president, by and with the consent of the senate, shall appoint in each congressional district a resident commissioner, learned in the law, and duly entitled to practice in the supreme court of the state in which he resides, who, as fiscal agent of the national treasury, shall transact the business required of him by this act, and to whom applications for an issue of currency on real estate in his district shall be made; and he shall receive as compensation for his services a salary of two thousand and four hundred dollars annually.

**SECTION 3.** To obtain an issue of currency under this act, the applicant must file with the commissioner for the district within which his realty is located an application in writing, setting forth: (1) The name in full and post office address of the applicant—and of consort, if married; (2) the legal description of the lot or tract of land for which a currency representative is desired; (3) the county and state in which the same is located; (4) the nature and value of the improvements; (5) the value of the land exclusive of improvements; (6) the official valuation of the premises for taxation for the year 1907 as evidence by the public records of the county within which it is situated; (7) the amount of currency desired. A written abstract, certified by the proper custodians of the records of the same, showing the applicant to have such title to the real estate described as is required by the first section of this act, shall accompany each application.

**SECTION 4.** It shall be the duty of the commissioner to examine, in the order in which they are received, all applications and the real estate described therein; he shall verify the corrections, truth and sufficiency of the representations made, and the sufficiency of the respective titles; he shall reject all cases of unproductive real estate, and all cases of excessive valuation, and certify to the Treasurer of the United States such applications, with the accompanying title abstract as he finds to conform with the provisions of this act; and where it shall appear from an examination of the premises against which an issue of currency is applied for, that the value of the improvements exceeds the value of the land, the issue of currency thereon shall not exceed such a proportion of the assessed value of the premises as the value of the realty, exclusive of improvements, bears to the total assessed value.

**SECTION 5.** It shall be the duty of the United States Treasurer to cause all applications regularly submitted to him to be examined by expert examiners qualified to pass upon the validity of the same, and to endorse his approval upon such as are in accordance with this act. Such Treasurer shall file and keep a record of applications thus approved, and shall transmit to the proper commissioner, and to the applicant, official notice of such approval or disapproval.

**SECTION 6.** The commissioner, upon receiving official notification of the Treasurer's approval of any application made to him, shall, if the condition of the title remains unchanged, take a written obligation, or mortgage on the real estate, duly executed by the applicant, and jointly with the husband or wife of the applicant, if married, in favor of the United States, with conditions and provisions as follows: 1. That a sum equivalent to the currency received by the applicant shall be returned to the United States Treasury when the same shall no longer be desired for use as a circulating medium. 2. That until such currency is returned the applicant, his heirs or assigns, will pay to the national treasury on the first day of each year a tax, or charge equal to two per cent per annum on the amount of currency received. 3. That the obligation thus executed shall constitute a first and primary lien upon the realty described, until the conditions of the same are duly complied with. 4. That so long as the payment of said tax of two per cent per annum on the currency received by the applicant shall be promptly made, the obligation shall not mature; but in case of default of any such annual payment at the maturity thereof, such obligation shall be subject to foreclosure for the full amount thereof, and the premises upon which the obligation is a lien may be sold to satisfy the same.

**SECTION 7.** Immediately upon the execution of such obligation the commissioner shall make, and keep in his office for public inspection, a registry of the same, duly indexed, which registry shall impart notice to all persons of the contents thereof; and the title and right so acquired by the United States shall be prior and superior to any lien or claim of the state or any municipality thereof, and of all persons whatsoever subsequently acquired.

**SECTION 8.** Upon the registration of such obligation the commissioner shall return and certify the same to the Treasurer of the United States who shall thereupon place to the credit of the applicant on the books of the national treasury a sum equal to the amount of his obligation; which credit shall be payable on demand in a national currency to be provided by the Treasurer, of denominations and designs corresponding to the present authorized issue of United States Treasury notes. The Treasurer shall transmit to the applicant a certificate of deposit, payable to his order, for the amount of such credit, and in case of demand for the currency, the same may be transmitted by registered mail at the risk of the person entitled thereto.

**SECTION 9.** Any owner of real estate against which a currency representative shall have been issued as herein provided, may, at his option, at any time after one year from the issuing of the same, return the same into the national treasury, in sums equal to one third, two thirds, or the full amount of the original issue, and upon the sum so returned the annual charge of two per cent shall cease from the first day of the calendar month succeeding the date of such payment. Upon repayment of the full amount of the obligation, the Treasurer shall execute a discharge thereof which shall be entered in the registry of the proper county by the commissioner of such district. Currency so returned may be reissued under the provisions of this act, and when not needed for such reissue the Treasurer of the United States shall cause the same to be destroyed.

**SECTION 10.** The revenues derived from the operation of this act shall constitute a fund from which the expenses of maintaining the system shall be paid, and should the receipts exceed the expenditures, the surplus shall become available for the general expenses of the government.

#### WHAT IS OUR CURRENCY DEFICIT?

It is a sum equal to the credit constituent of our present circulating medium—which consists of cash and credit—about one part cash and five parts credit—as shown by the report of the Comptroller of the Currency, viz:

Total bank "deposits" (cash and credits).....	\$13,000,000,000
Estimated cash not deposited in banks.....	1,700,000,000
Total circulating medium.....	\$14,700,000,000
Estimated amount of coin and paper currency extant...	2,700,000,000
CURRENCY DEFICIT .....	\$12,000,000,000

The purpose of the foregoing measure is to supply this deficit—to perfect our currency system by providing national currency direct from the government at actual cost of issue, in lieu of the bank-credit checking accounts now provided by financiers at current interest rates. The measure enacted into law will make Money abundant—WITHOUT AFFECTING ITS VALUE. Only the uninformed will question this momentous truth. Products of labor fluctuate in value in response to the law of supply and demand, but the full legal-tender money unit—paper or specie—is always worth A DOLLAR, whether employed as a debt-paying device, as an exchange medium, or for conserving individual wealth.

**THE DISTURBING FACTOR IN HUMAN AFFAIRS**—By James D. Holden. An Illustrated Pamphlet Elucidating The Land Currency Theory sent post-paid on receipt of 25c. Address Secretary THE LAND CURRENCY LEAGUE 213-14 Kittredge Bldg. Denver, Colo.

# CURRENCY COMMISSION OF THE AMERICAN BANKERS' ASSOCIATION

*absent*  
**FESTUS J. WADE**  
 PRES. MERCANTILE TR. CO., ST. LOUIS

**JOSEPH T. TALBERT**  
 VICE-PRES.

**CHARLES H. HATTIG**  
 PRES. THIRD NAT'L BANK, ST. LOUIS

**JOHN PERRIN**  
 AMERICAN NAT'L BK., INDIANAPOLIS

**LUTHER DRAKE**  
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**ROBERT WARDROP**  
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**ARTHUR REYNOLDS**  
 PRES. DES MOINES NAT. BK., DES MOINES

**JAMES B. FORGAN**, VICE-CHAIRMAN, PRES. FIRST NATIONAL BANK, CHICAGO

*absent*  
 PRES. FIRST NAT. BK., KANSAS CITY

**JOSEPH A. MCCORD**  
 VICE-PRES. THIRD NAT. BK., ATLANTA

**W. V. COX**  
 PRES. SECOND NAT. BK., WASHINGTON

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FREDERICK E. FARNSWORTH, SECRETARY, 5 NASSAU AND 11 PINE STREETS, N. Y.

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Messrs. John Claflin, Frank A. Vanderlip, Charles Conant, Oscar S. Straus and Professor Johnson:-

Gentlemen:-

As your Committee has been appointed to devise a plan to prevent excessive fluctuations in interest rates, and to secure stability in rates of discount, I would like to submit for your consideration the following Amendments to our Banking Laws, viz:

1st. Authorize the issue of Class "A" Treasury notes to the holders of any series of Government Bonds to the par or face value of the Bonds, upon the deposit of said Bonds with the Secretary of the Treasury. The deposit to be for a period of not less than thirty (30) days; interest on said Bonds during the time of deposit to revert to the Government. Treasury notes Class "A" to be a full legal tender.

2nd. The Bonds so deposited to be reclaimed at any time after thirty (30) days upon payment to the Secretary of the Treasury of their face value in Treasury notes Class "A", together with interest accrued during period of deposit.

3rd. Authorize National Banks to hold any part of their 25% legal Reserve against deposits, in Government Bonds, inasmuch as said Government Bonds will be exchangeable <sup>for</sup> ~~of~~ Treasury notes Class "A" upon demand, and may therefore be counted as cash.

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The first point to be considered in any change in our Currency Laws would seem to be the absolute and unquestioned value of the security behind the new issue. This is fully covered in the issue of these Class "A" Treasury notes, inasmuch as Government Bonds are behind every note so issued.


The question of security having been eliminated, the question of elasticity must be considered.

It can readily be seen that any material advance in rates would result in the holders of Government Bonds depositing them, and securing legal tenders, thus increasing the currency, and preventing excessive rates.

The 3rd Amendment authorizing National Banks to hold their (25%) twenty-five per cent legal reserve in Government Bonds, would immediately release a large sum of money (approximately \$250,000,000. from Banks in the New York Clearing House alone) would result in an expansion of the currency very much to be desired if it can be done with safety, and would at the same time enable the City Banks to obtain some interest on their Reserve, which they now have to hold without interest, at the same time paying interest to the Country Banks upon the entire amount of their deposits.

The ideas above are respectfully submitted to your Committee for consideration, and the writer would urge that the so-called "Asset-Currency" proposition be not seriously considered, inasmuch as the basis of any currency system must be confidence, absolute confidence! Unfortunately confidence is a plant of very tender growth, and the failure of four or five Banks simultaneously might result in a wide-spread panic if "Asset-Currency" is adopted, whereas with a Government Bond behind every note, confidence would not be shaken. The security of the currency should not be sacrificed either to elasticity or expansion.

Very respectfully yours,



The monetary situation is, we must admit, both difficult and delicate, at least for **great** states. While they hesitate to retrace their steps they do not dare to venture far on a new path. What is to be done in this dilemma? The answer is very simple: to have recourse to palliatives without number, palliatives of which no one would have dreamed under other circumstances; to postpone all action until a more propitious moment and prolong treaties which otherwise might become too embarrassing. Such, in substance, is the monetary politics of our day, and such is the condition in which the monetary question has been for almost eight years.

We must, however, mention here a fact which seems to attenuate the gravity of the situation, at least in the eyes of a great many people. This very curious fact itself is of a nature to mislead not only the ignorant, but it seems that it makes this same situation to appear in a plausible light to the best informed. We might almost say that it lends that situation a real *raison d'être*. And be it remarked that this same fact is observable almost everywhere, despite the economic laws which such an administration of monetary affairs overthrows, by dealing a heavy blow at the fundamental principle of the creation of money, a principle which requires that its nominal value should be a faithful picture of its intrinsic value. We refer to the new role given to the white metal in the actual order of things. To perform the function of money, that is of international money, if the term had ever been understood in any other sense, - that was no longer in season: to do away with it entirely was impossible; to degrade it to the rank of simple divisional coin with legal tender

power to a small amount could not be done; hence it became necessary to invent something new. People went hunting in all directions and at last came on the luminous idea of henceforth designating it by the name of "internal" money.

It is in this order of ideas that there is now, first, international money, that is gold money of which all countries at all times have endeavored to attract as great a quantity as possible to themselves, and which may be legal tender to any amount. Next comes "internal" money, that is current silver coins, essentially the same as the other with this exception that it cannot travel from Calais to Dover without becoming sea sick, and without becoming in fact completely incapable of serving as money at the place of its destination. To say nothing of a sea voyage of so short a distance, this valiant money cannot even go over a much more convenient road between Nancy and Strasburg, or between Liege and Aix-la-Chapelle, for instance; for no country any longer recognizes the silver money of the other. Lastly we have the small silver coin with restricted legal tender power, to which we must add nickel and bronze or copper, all these coins playing, of course, a very modest part in monetary systems.

This internal money scared a great many minds. High science [we need scarcely say] rejected it entirely, and routine theory would have nothing to do with it. But, nevertheless, in practice it worked well. And this will last a long time more. It will last to the day when, for some reason or another, serious perturbations will be produced in the great commercial centres, till the day when one of the countries under the famous *regime* of the "Limping Standard", not possessing a sufficient quantity of international coin will see itself exposed on that account to demands which it will not be able to meet. Then vigorous

action will have to be taken, and in this way an intense crisis must break forth in the financial and commercial world. It is still time to combat it and even conjure it forever by the common action of the most important countries. But it is absolutely necessary that the great countries, that is England, as well as France, Germany and the United States, should take part in it. Any other solution of the monetary problem is impossible, and no attempt in future should be made to solve it in any other way, for such an attempt would most certainly fail.

And just here arises the question whether France, Germany and the United States would not suffice to constitute an international bi-metallic union, powerful enough to bring the restoration of silver to a happy end. These countries would certainly succeed in it; but we must ask ourselves what stability and what probability of success a conference resulting from such a union would present, if the greatest commercial country of the world, the country which by reason of its colonial possessions is most interested in the matter, if, in a word, England should take no part in it. To ask the question is to answer it. A union consisting of three would not continue in existence even a year; it would break long before that, by the irresistible force of events much more powerful than men.

Let us cast a glance at the aggregate of monetary affairs in the world as they present themselves in reality, and let the reader follow us in an examination of the monetary systems which come into play there. It soon becomes apparent that they contain, by reason of their provisions, the germ of serious obstacles, which, from the very first day of the formation of a bi-metallic union, would take a form so unmistakable that no body among those familiar with all these details could

be mistaken in their bearing. In looking at the monetary question in this manner, we take as our starting point the restoration of the ratio of 1-15  $\frac{1}{2}$  inserted in the program of the fraction of the bi-metallic party which produces the chimerical combination to which we have just alluded. This ratio, you know, accords with the rate of about 61 pence per standard ounce at London [.925 fine], and it would therefore be necessary by a *coup d'état* both brutal and gigantic to bring the actual price of 46  $\frac{1}{2}$  pence to the level lost almost thirteen years ago. Let us admit, however, for a moment that the three countries attain this by very clever and well-combined manoeuvres. What would be the result? Simply this: several countries, such as China with a ratio of 1-16.39, equal to 57  $\frac{1}{2}$  pence per ounce; Japan with its ratio of 1-16.17, or 58  $\frac{3}{4}$  pence; Mexico with that of 1-16  $\frac{1}{2}$ , or 57 pence; Turkey, where they have now as a basis the ratio of 1-15.87, equal to 59  $\frac{3}{8}$  pence; above all Bolivia where the ratio is 1-17  $\frac{1}{2}$ , representing a rate of exchange of 54 pence per ounce standard; and other states which have for a long time manifested very decided tendencies to go over to the gold standard; would seek, at the first favorable opportunity, to profit by the change made, and would thus place obstacles to the working of the bi-metallic union consisting of three parties. These obstacles would be all the more embarrassing, as people in these regions would be always more disposed to take the word of command rather from London, the greatest commercial centre of the world, than from other places where a certain and regular market of the white metal has never been able to establish itself. It would be useless to seek for support, this time, in the fact that London would naturally have to bend before the rates dictated by the mints of Paris, Berlin and America, and to translate these prices pure and simple into its own money. But to say nothing

of a lack of proper arrangements, a lack almost inevitable considering the presence of so many considerable factors, the slightest defect might greatly compromise the working in question which should naturally be maintained even in its minutest details.

Besides, whence would come, under these circumstances, the power necessary to carry all the quotations of values made in silver to London, where the arbitrage between the paper rupee and the Indian loans and sterling is always on the *qui vive*, and to the bourses of the continent? These milliards of rupees and Austrian florins would never be able to follow with equal pace the factitious rise of the white metal, and the consequence would be extravagant speculation to lower these values, against purchases of those of the same category issued in gold coin. Now such a speculation might very easily extend to silver bullion, and the bankers of India, China and the other silver-standard countries might even become parties to it, by eventually furnishing silver from their own stock to the English or Americans who, either directly or on their own account would have sold silver to be delivered at a future time to the bi-metallic union of three. To these operations which offer, so to speak, no risk and are besides very legitimate, there would be joined large drafts of England, on India, on the Straits Settlements, on China, and indeed on all the countries in which speculation on exchange or on the white metal itself might be combined in one shape or another. These drafts renewed every three or six months would certainly take, to a great extent, the place of the remittances to be made in silver, so that the metal would in fact be diverted from its principal destination and would flow to the bi-metallic union of three. Add to all this, that a great deal of capital in silver money invested in the Indies would be withdrawn, if only for a while, by the

English, who would certainly profit by the *manna* which would thus fall into their hands, so to speak, from heaven; that the companies having their capital in rupees, in dollars, in piastres, in taels, or in other silver coins would convert it without loss of time into sterling; that the Hindoos themselves would grasp the *mohurs*, the bars and objects of gold in general, suddenly placed within their reach by the formidable decline of about 24 per cent, and that without looking any further. Many people in Europe itself would stipulate that long-term loans should be payable in gold, thus carrying mistrust into their own camp and counteracting the arrangements made by the bi-metallic union of three. Let no one accuse us of being too timorous in this respect.

Silver has been falling for thirteen years continually from 61 to 46  $\frac{1}{2}$  pence per ounce. It would be strange, indeed, if, by a stroke of the pen, it would be possible to put it back to its old level and to keep it there without the co-operation of the greatest commercial country in the world, the country which has the greatest interest in its restoration and which will reap the greatest benefit from it.

With England there is absolutely nothing to fear; India itself might very well be included in such a union of four, and all speculation in the white metal or on exchange would, from the start, lose its importance and its scope. Undertaken alone, the operation would be in reality fated to receive a check, and would serve only to prove that the bi-metallic union which would embrace England, France, Germany and the United States, - to which naturally the majority of other countries would then ally themselves, - was invincible. While it might not perhaps constitute a perfect work, perfection not being of this world, it certainly would give full satisfaction within the limits of the possible. Be this as it may, we assert once more energetically that it is in this



direction that the solution of the monetary question must be sought for, if we wish to avoid an end fatal and disastrous to all interests.

deposits as a reserve and they may count their 5-per cent redemption fund as a part of the same, and the banks located in reserve cities may deposit 50 per cent of the remainder of their reserve in banks in central reserve cities. There are three central reserve cities—New York, Chicago and St. Louis. There are about forty other reserve cities. According to the report of the condition of national banks on Aug. 22, 1907, the amount of reserves held by all the national banks in the country was \$1,121,358,395."

#### SUGGESTIONS REGARDING CREDIT FUNDS FROM COLORADO.

C. D. Gurley, president of the Gurley Investment Company, of Denver, Colorado, has sent to Senator Teller the following suggestions to submit to the senate committee on banking and currency. The suggestions made by Mr. Gurley are of a somewhat radical character, but are designed along safe lines to prevent recurrences of money stringency and panics.

The suggestions are as follows:

To authorize banks to discount notes payable and to be paid in "Credit Funds," as well as at present under law to discount notes payable in cash or current funds.

This would give two kinds of "funds" or deposits: Cash and Credit, which may be kept in one account.

Credit Funds would be simply the borrowing of the bank's credit for deposit, with the names and collaterals demanded by the banker, whereby the customer "A" may transfer by check all or any part of such credit deposits to "B" and "B" to "C" and so on in an endless chain or circle.

Cash funds to consist solely of all forms of current money now accepted by banks, and checks calling for cash.

Checks for credit funds to never be subject to payment in cash, but always payable in credit. The words "Credit Funds" or "Cash Funds" stamped on the face of the checks or drafts would state the "kind" of funds drawn against. The bookkeeping would be simple.

In addition to the above:

At the request of the bank customer, and, solely at the option of the banker, permit the conversion of credit funds into cash funds and vice versa; charges (if any) to be under the supply and demand law for such conversions.

At least, the volume of credit funds discounts of a bank to be based upon the total capital and surplus, and not on the volume of deposits as at present. The former are steady, the latter fluctuating, at times wildly.

The maximum volume of credit discounts for a bank is a detail, safely fixed at from six to eight times the combined capital and surplus.

The end of the law for credit funds to be through the clearing houses, similar to the enforced method at this writing resorted to, because of its public safety, but as yet not sanctioned by law. Time and experience would improve on this. If effective in storm why not adopt it to prevent storm?

As the law stands no bank can pay 100 on urgent demand with but 25 on hand in reserve cities and 15 on hand in non-reserve towns and cities. We are now facing a condition when something akin to 100 may be needed to meet legal demands of depositors.

The statistics of the clearings show that 95 per cent in New York

City, and 90 per cent average in the United States is credit banking up to the moment of financial fear, but now the law says that the depositor may instantly demand cash for his credit balance and hence bank panics.

I call your attention to the fact that if the reserves required for all deposits average 20 per cent, it would take every dollar of legal tender, and of credit money not legal, to comply with the law, leaving no currency whatever for ninety millions of population. In other words the total deposits in the United States approximate \$15,000,000,000. The total of all kinds of legal and credit money is \$3,000,000,000, or 20 per cent of the deposits. The deposits in 1890 were but one-third of the present total; what will become of us a few years hence at the past rate of increase in deposits?

I recite the statistics to show that under the law now proposed, 90 to 95 per cent of the banking would continue to be credit banking, but not subject to withdrawal in cash. This, in effect, is equivalent to 100 per cent or a total elimination of bank panics.

If these suggestions were enacted into law, the present requirement of "confidence" in order to do banking, would be forever abolished; bank panics would be impossible; bank failures, under honest management, unknown; financial fear would become a thing of the past; bank liquidation, whenever desired, could be effected through the clearing houses without a ripple of interest to the public; values would be steady, and expansion of the country would be boundless.

It might be termed an evolution in banking, but upon right and safe lines. The devices called money would then be restored to their primitive intent, as an economical means of effecting exchanges and for use as a legal tender.

#### BIG CEMENT DIVIDENDS.

The prosperity of Southwest cement plants and the dividend paying possibilities of those industries is again demonstrated by the recent dividend declared on the stock of the Western States Portland Cement Co., located at Independence, Kansas, says the *Mid-Continent*. Two hundred and five thousand dollars is now being distributed through the Citizens National Bank of that place to stockholders who are fortunate enough to have an interest in the great concrete works at Independence. The works have been in existence a little over a year and over \$400,000 has been earned by the plant and given to the owners.

The company, besides the dividends distributed to its stockholders, has accumulated a surplus which places it in an enviable financial position. It is stated by a report of the company that the concern has earned a net profit on its cost of over fifty per cent, or in other words, it has earned more than half of its original cost in a little over a year's time of operations.

The rapid increase in the demand for Portland cement and the wide margin between its cost of production and selling price will make that industry to investors a very profitable field in which to invest money. With careful and judicious managers at the head of concrete manufacturing plants their earning power will be greater for many years to come on the capital invested than the same amount of money could earn if invested in any other direction, and it would seem from present indications that profits which come from the manufacture of cement will in the future increase instead of diminish.

## C. B. HANSON

DICKINSON, N. D.  
Farm Loans and Investments

I am in a position to place funds of non-resident investors on Gilt-edge first mortgages on improved Farms in this locality to net investors 5½ to 6%. Security the BEST. 100,000 acres of land for sale.

Write for information. References furnished. Correspondence solicited.

## DENVER, COLO.

The W. E. Moses Realty  
& Investment Co.  
ESTABLISHED 1880

First Mortgage Loans on Irrigated  
Land a Specialty.

City Property and Ranches for Sale.

## Dakota Mortgages

To Net 6%

We negotiate first mortgage loans on improved Farms in Emmons County, N. D. Business of non-resident investors solicited. We can net you 6% with gilt-edge security.

Correspondence invited.

LINTON STATE BANK,  
OF LINTON, NORTH DAKOTA.

## I. N. AULD,

ATTORNEY AND REAL ESTATE  
BROKER,  
OACOMA, SOUTH DAKOTA

First Mortgage Loans on farm lands in Lyman County to net the investor 6% annual interest or 5½% semi-annual interest.

First class opportunities for investments along the new lines of Railroad, between Chamberlain and Rapid City.

Ten thousand acres of land on the Rosebud Reservation for sale at price that will make money. Oacoma is the County Seat of Lyman County.

Inquiries cheerfully answered.

## JOHN BLOODGOOD

NEW SALEM, N. DAK.  
REAL ESTATE & LOANS

If you want a safe investment you can get it in this district in first mortgage Farm loans.

I can negotiate loans for non-residents to net investors 5½ to 6%.

Security Gilt-edge. Large list of wild and improved land for sale. 20 years experience. Correspondence invited.

## 7% NET TO YOU 7%

FIRST MORTGAGE LOANS  
In Lyman Co. S. D.

## ZAVITZ & CARPENTER

MURDO, SO. DAKOT.

REAL ESTATE—LOANS—LAW  
COLLECTIONS

### THE CAPITALIZATION OF RAILWAYS.

The danger in unrestricted management of railroad properties and the necessity for government control to prevent discrimination in rates have been urged by Gov. Hoke Smith, of Georgia.

Governor Smith says there is no more important and difficult problem to be solved by the people of the United States than that of transportation.

"Left without restraint," he says, "the railroad companies can fix the value of lands. They can determine the profits of merchants. They can control the business of the manufacturer. They can make and unmake towns and cities. The condition of dependence by the public upon them increases from day to day.

"A few years ago the transportation companies were controlled by many and varied interest. Now they are largely consolidated, and several interests control nearly three-fourths of the entire railroad mileage of the United States.

"These interests may be designated as syndicates under the names of Harriman, Morgan and Hill, the Vanderbilts, the Moores, Gould, the Pennsylvania and Rockefeller. While they conflict at times, their struggles are in the matter of acquiring properties, not in the operation of properties, and their conflicts result, not in better or cheaper transportation, but in more stocks and bonds, upon which the public must furnish money to pay dividends.

"The control of the railroads of the country has passed from trained railroad operators to bankers, who speculate in railroad stocks. A notable result of this condition is the withdrawal of authority from the local management and local superintendence, the reduction of salaries to those actually doing the work of transportation and the dwarfing of the power and capacity of the men upon whose management the public must immediately depend.

"The railroad properties of the United States are capitalized at over \$13,000,000,000. Careful estimates of their actual values show them to be worth less than \$6,000,000,000. The public, therefore, are being called on to pay excessive rates for transportation to make interests and dividends on \$7,000,000,000 of watered stocks and bonds. These bonds and stocks rest like a permanent mortgage on the industries of those engaged in the various vocations of life.

"The transportation company is a public enterprise. The railroad is built by the use of the State's power of eminent domain. The public is entitled to a voice in the charges which are made by the railroad company for carrying passengers and freight. These charges must be reasonable and free from discriminations.

"The duties of a railroad company are dual; first, to the public; and, to its stockholders.

"The public must look to the States and to the nation to protect their rights. When we realize that over half the stocks and bonds issued by the railroad companies of the United States are speculations and not based upon money actually invested in the properties, we see how recklessly the rights of the public have been disregarded.

"Instead of exhausting the capacity of our transportation companies to pay dividends on watered stocks and bonds, the public is entitled to have all the money realized from the sale of stocks and bonds invested in the properties. Thereby the facilities of the transportation com-

panies should have been improved. The public is, furthermore, entitled to a reduction in transportation charges as the volume of business increased and the cost of service lessened.

"The remedy immediately before us must necessarily be to perfect the legal authority in properly constituted agents to regulate and control, and then to enforce, through these agents, the rights of the public.

"The ratemaking power has been given to the National Railroad Commission. We should not be afraid to place upon that commission men sufficient in number to handle these questions. Their pay should be ample, and a seat upon the National Railroad Commission should be regarded as one fully as exalted as a seat upon the Supreme Court bench of the United States.

"Additional powers should be given to the commissioners. Bonds and stock issues upon interstate railroads should be submitted for their approval, and none should be permitted unless the money derived from their sale is to be spent upon the properties made liable for them.

"Transportation companies should not be permitted to load down their properties with stocks and bonds for speculative purposes. The railroad commission should have the fullest power to compel proper facilities to be furnished. Any effort by railroad companies to retaliate with a reduction of service or by cutting pay of employes should be met by severe personal punishment to the guilty officers. State commissions should be empowered with full authority in matters of interstate transportation. Public sentiment should sustain State and national commissions in the most vigorous enforcement of the duties confided to them."

#### MR. CORTELYOU'S SUGGESTION TO CONGRESS.

Secretary Cortelyou, in presenting the financial situation to Congress as he observes it through the workings of his office, contents himself with a most general, though emphatic, recommendation that action be

**4% BANK ACCOUNT  
COUPON CERTIFICATE  
OF DEPOSIT**

Safety Assured by Capital, Surplus & Profits  
\$6,000,000.00

Write for free Booklet No. 31  
"BANKING BY MAIL"

**PITTSBURG TRUST CO., PITTSBURG,  
PA.**

**J. A. WINTER,**

General Manager Dayton Real Estate & Investment Co.,

611-612 U. B. BUILDING, DAYTON, OHIO.

Offers non-resident investors unusual and attractive opportunities for placing funds safely and profitably in gilt-edge first mortgage loans in this section of Ohio and the City of Dayton. Correspondence desired.  
References: Any bank in Dayton.

### MANITOBA

W. A. DONALD  
Barrister, etc.

J. M. FRASER  
Manager Bank of Toronto

**DONALD & FRASER**  
FINANCIAL AND LOAN AGENTS  
PILOT MOUND, MAN.

We can negotiate exceptionally safe first mortgage loans, amply secured by the best Manitoba farm lands, to net the investor 5% annually. During an active experience of twenty-seven years, we have never suffered a loss in one of our farm loans. We refer to Dun & Bradstreets and the local banks. Correspondence invited.

### 7 PER CENT TO YOU 7

First mortgage loans on Farm and City property.

### JOHN ROSS & SON

References—Merchants Bank, Bank of Nova Scotia or any of the thirteen Banks doing business in the City

P. O. Box 871. EDMONTON, ALTA.

### Real Estate and Loans

Why leave your money in the bank and only get three or four per cent when we can place it for you where you can get nearly double the interest. We can lend your money here on farm property on first mortgages which is the safest security possible to get. The best security on earth is the earth itself. We have for sale 100,000 acres virgin soil in this district. Bank references. Write us for maps and information.

**Saltcoats Land & Development Co.**

Saltcoats, Sask., Canada

### MORTGAGE LOANS

### Kennebec Land Co.

J. M. DEVERS, Manager

**KENNEBEC,  
SOUTH DAKOTA**

Lyman County Farms and Ranches

G. W. White.

D. M. Parrick

Loans Negotiated on Farm Mortgages

**WHITE & PARRICK**

### Lyman County Lands

IMPROVED AND UNIMPROVED  
FARMS AND RANCHES

VIVIAN, SOUTH DAKOTA.

### Rapid City, S. D.

**Farrar & Jepsen**

Dealers in Timber Farm & Mineral Lands

1st Mortgage Loans Negotiated

We are offering the best Portland Cement proposition in the world. Those desiring safe and permanent investments, will find it to their interest to communicate with us.

June

1913  
29

Original Draft of  
National Reserve Assn.  
Plan

## C H A R T E R   A N D   L O C A T I O N .

It is proposed to charter the Reserve Association of America, which will be the principal fiscal agent of the Government of the United States. The authorized capital of the Reserve Association ~~shall~~ be three hundred million dollars. The length of its charter shall be fifty years. The head office of the Association shall be in Washington, D.C.

The country shall be divided into fifteen Districts, and a Branch of the Reserve Association shall be located in each District.

The Reserve Association and its Branches shall be exempt from State and local taxation, except in respect to taxes upon real estate owned by it.

## C A P I T A L .

Only national banks of the ~~two~~ classes hereinafter provided for may subscribe to the capital stock of the Reserve Association. A national bank having a minimum capital of at least \$25,000, may subscribe to an amount of capital stock of the Reserve Association equal to twenty per cent of the stock of the subscribing national bank, and not less, and each of such subscribing banks shall become a member of a Local Association as hereinafter provided for. Fifty per cent of the subscriptions to the capital stock of the Reserve Association shall be called in cash; the balance of the subscriptions will remain a liability of the stockholders subject to call.

*Shares of*

The capital stock of the Reserve Association will not be transferable, and under no circumstances may ~~it~~ <sup>they</sup> be owned by any corporation, other than the subscribing national bank, nor by any individual, nor may ~~it~~ <sup>they</sup> be owned by any national bank in any other amount than in the proportion here provided. In the case of a national bank increasing its capital after it once becomes a subscriber to the stock of the Reserve Association, the national bank shall thereupon subscribe for an additional amount of the capital stock of the Reserve Association equal to twenty per cent of the national bank's increase of capital, paying therefor its then book value, but only one-half of this additional subscription will be called in cash, as hereinbefore provided. In the event of a national bank which is a holder of the capital stock of the Reserve Association decreasing its capital, it shall surrender a proportionate amount of its holdings of the capital stock of the Reserve Association; or if a national bank goes into liquidation, or desires to withdraw, which it may do upon one year's notice, it shall surrender all of its holdings of the capital stock of the Reserve Association. The capital stock of the Reserve Association so surrendered shall be cancelled, and the national bank thus surrendering stock in the Reserve Association shall receive in payment therefor a sum equal to the then book value, as shown on the balance sheet of the Reserve Association, of the stock so surrendered.

#### E A R N I N G S   A N D   D I V I D E N D S .

The earnings of the Reserve Association shall be distributed in the following manner:

After the payment of all expenses and taxes the stockholders shall receive four per cent. Further earnings shall be divided, one-half to go to the surplus of the Reserve Association until that surplus shall amount to twenty per cent of the paid in capital; one-fourth to go to the Government, and one-fourth to the stock-

holders; but when the stockholders' dividends shall reach five per cent they shall ~~receive no~~ <sup>not</sup> additional distribution. After the stockholders receive five per cent the earnings shall be divided, one-half to be added to the surplus of the Reserve Association and one-half to go to the Government. After the stockholders receive five per cent per annum and the surplus of the Reserve Association amounts to twenty per cent of the paid in capital, all ~~the~~ excess earnings shall go to the Government. The minimum dividends to the stockholders shall be cumulative.

LOCAL ASSOCIATIONS OF NATIONAL  
BANKS.

*All subscribing banks shall be formed into*  
~~The law will provide for the formation of~~ associations of national banks to be designated as Local Associations. Every Local Association ~~shall~~ <sup>will</sup> be composed of not less than ten banks, and the combined capital and surplus of the members of ~~this~~ <sup>each</sup> Local Association shall aggregate not less than five million dollars.

All the Local Associations shall be grouped into fifteen divisions, to be called Districts. The territory included in the Local Associations shall be so apportioned that every national bank will be located within the boundaries of some [Local Association. Every subscribing national bank shall become a member of the Local Association of the territory in which it is situated.

DIRECTORS OF LOCAL ASSOCIATIONS.

Each Local Association shall elect annually a board of directors in the following manner;

The number of the directors may be determined by the by-laws of the Local Associations. Three-fifths of that number shall be elected by ballot cast by the representatives of the banks that are members of the Local Association, each bank having one repre-

representative, and each representative one vote, without reference to the size of the bank. Two-fifths of the whole number of directors of the Local Association shall be elected by these same representatives of the several banks that are members of the Association, but in voting for these additional directors each representative shall be entitled to as many votes as the bank which he represents holds shares in the Reserve Association. At such elections there shall be no proxies. The authorized representative of a bank, as herein provided, must be either the president, vice-president, or cashier, of the bank he represents.

DIRECTORS OF ~~THE~~ BRANCHES ~~AND~~.

As heretofore provided, all the Local Associations shall be <sup>grouped</sup> ~~divided~~ into fifteen divisions, and each of these divisions shall be designated a District. There shall be located in each District a Branch of the Reserve Association. Each of the fifteen Branches of the Reserve Association shall have a board of directors and those directors shall be elected in the following manner:

The board of directors of each Local Association shall elect by ballot one member of the board of directors of the Branch of the Reserve Association. In this manner there will thus be elected as many directors of the Branch of the Reserve Association as there may be Local Associations in the District in which that Branch of the Reserve Association is located. In addition to that number there shall be elected a number of directors equal to two-thirds of the number of Local Associations in the District where the Branch is located; such additional directors shall be elected in the following manner:

There shall be chosen by the banks composing each Local Association a voting representative or proxy holder. In choosing such voting representative each bank shall be entitled to as many votes as it holds shares in the Reserve Association. The voting representatives of the several Local Associations which form a



District shall then meet at the office of the Branch and elect an additional number of directors of the Branch equal to two-thirds of the number elected directly by the Local Associations; that is, equal to two-thirds of the number of Local Associations composing the District. Each voting representative at such election shall have a number of votes equal to the number of shares in the Reserve Association held by all the banks composing the Local Association which he represents.

The first business of the board of the Branch, as thus constituted, shall be to add to its numbers by the election of an additional number of directors equal to one-third the number of Local Associations situated in the District. Such additional directors shall <sup>fairly</sup> represent the industrial, commercial, agricultural and other interests of the District, and shall not be officers of banks.

*repeat here*

The board of directors of a Branch of the Reserve Association will thus be composed of,

First, a group of directors equal in number to the number of Local Associations composing the District, and this group shall be elected by the directors of the Local Association, each director having one vote;

Second, a group of directors equal to two-thirds of the foregoing group, and elected by stock representation;

Third, a group of directors equal in number to one-third of the first group, representing the industrial, commercial, agricultural and other interests of the District, and elected by the votes of the first two groups, each director thus voting having one vote;

Fourth, <sup>T</sup>he manager of the Branch shall be ex officio a member of the board of directors of the Branch, and shall be chairman of the board.

All the members of the board of directors of the Branch except the ex officio member, shall, at the first meeting of the board, be classified into three classes, and the terms of office of these three classes shall be, respectively, one, two, and three years. Thereafter members of the board shall be elected for a term of three years.

D I R E C T O R S   O F   T H E   R E S E R V E   A S S O C I A -  
T I O N S .

The Board of the Reserve Association shall consist of forty-five Directors, and it shall be composed in the following manner:

First, six ex officio members, namely the Governor of the Reserve Association, who shall be Chairman of the Board, two Deputy Governors of the Reserve Association, the Secretary of the Treasury, the Secretary of Commerce and Labor, and the Comptroller of the Currency;

Second, Fifteen Directors to be elected one by the board of directors of each Branch of the Reserve Association. They shall be elected by ballot, each member of the Branch board having one vote;

Third, twelve Directors, who shall be elected by voting representatives, one representing the banks embraced in each District. Each voting representative shall <sup>cast</sup> ~~have~~ a number of votes equal to the number of shares in the Reserve Association held by all the banks in the District which he represents;

Fourth, the Board as thus constituted shall select twelve additional members, who shall <sup>fairly</sup> represent the industrial, commercial, agricultural and other interests of the country, and who shall not be officers of banks.

At the first meeting of the Board all the members of the Board, ~~except~~ the ex officio members, shall be classified into three classes, and the terms of office of these three classes shall be,

respectively, one, two, and three years. Thereafter members of the Board shall be elected for a term of three years.

No member of any national or State legislative body shall be a Director of the Reserve Association, nor of any of the Branches, *nor of any Local Association.*

The Directors of the Reserve Association shall annually elect an Executive Committee, and such other committees as the by-laws of the Reserve Association may provide. The Executive Committee shall consist of ~~seven~~ <sup>nine</sup> members, of which the Governor of the Reserve Association shall be ex officio Chairman and the <sup>two Deputies and the</sup> Comptroller of the Currency ex officio ~~members~~.

The Executive Committee shall have all the authority which is vested ~~in~~ in the Board of Directors, except such as may be specifically delegated by the Board, to other committees. *The rate of discount shall be fixed from time to time by the Executive Committee.* *There shall be a Board of Supervision elected by the Board of Directors from among its number, of which the Secretary of the Treasury shall be ex officio Chairman.*

#### EXECUTIVE OFFICERS OF THE RESERVE ASSOCIATION.

The Executive Officers of the Reserve Association shall consist of a Governor, two Deputy Governors, a Secretary, and such ~~other~~ <sup>subordinate</sup> officers as may be provided by the by-laws. The Governor, and Deputy Governors, shall be ~~appointed~~ <sup>selected</sup> by the President of the United States, from a list submitted by the Board of Directors, ~~and shall be confirmed by the Senate.~~ The Governor shall be subject to removal by the President of the United States for cause. The term of office of the Deputies shall be seven years, but the ~~first~~ <sup>two</sup> Deputies ~~shall be~~ <sup>first</sup> appointed <sup>shall be</sup> for terms of four years and seven years, respectively.

In the absence of the Governor or his inability to act, the Deputy who is senior in point of service shall act as Governor.

EXECUTIVE OFFICERS OF BRANCHES .

Each Branch shall have a manager and a deputy manager. They shall be appointed by the Governor of the Reserve Association with the approval of the Executive Committee.

The powers and duties of the manager and deputy manager and of the various committees of the Branches shall be prescribed by the by-laws of the Reserve Association.

FUNCTIONS OF THE LOCAL ASSOCIATIONS .

Any member of a Local Association may apply <sup>to the</sup> Association <sup>for a</sup> to guarantee <sup>of the</sup> commercial paper which it desires to rediscount at the Branch of the Reserve Association in its District. <sup>Any such</sup> bank <sup>shall</sup> receiving a guarantee from a Local Association ~~will~~ pay a commission to the Association, to be fixed from time to time by its board of directors. The guarantee of the members of the Association, in the event of loss, shall be met by the members of the Association in the proportion to the ratio which their capital and surplus bears to the aggregate capital and surplus of the Local Association, and the commission received for such guarantee, after the payment of losses and expenses, <sup>shall</sup> be distributed among the several banks of the Local Association in the same proportion.

Local Associations shall have authority to require additional security from <sup>any</sup> banks offering paper for <sup>guarantee</sup> rediscount, ~~if the bank~~ or may decline to grant the application ~~for~~ guarantee.

→  
Insert from p 10.

FUNCTIONS OF THE RESERVE ASSOCIATION.

All of the privileges and advantages of the Reserve Association shall be equitably extended to every national bank of ~~either~~ <sup>(any)</sup> of the classes herein defined, who shall subscribe to its proportion of the stock of the Reserve Association and shall ~~sell to the Reserve Association the Government bonds now held by it to secure note issue, as hereinafter provided,~~ <sup>and shall otherwise conform</sup> ~~to all the requirements of this Act.~~

The Government of the United States, and those national banks owning stock in the Reserve Association, shall be the sole depositors in the Reserve Association. All domestic transactions ~~with~~ <sup>of</sup> the Reserve Association shall be confined to the Government and the subscribing banks, with the exception <sup>of</sup> the purchase or sale of Government or State securities or securities of foreign governments, ~~and~~ <sup>or</sup> of gold coin or bullion.

The Government of the United States shall deposit its cash balance with the Reserve Association and thereafter all receipts of the Government shall be deposited with the Reserve Association, or <sup>(when necessary)</sup> with such national banks as the Government designates for that purpose in cities where there is no Branch of the Reserve Association. All disbursements by the Government shall be made through the Reserve Association.

The Reserve Association shall pay no interest ~~on~~ deposits.

The Reserve Association may rediscount notes and bills arising  
 1 out of commercial transactions, for and with the endorsement of  
 3 any bank having a deposit with it. The amount so rediscounted  
 shall in no case exceed the capital of the bank applying for the  
 2 rediscount. Such notes and bills must have a maturity of not more  
 than twenty-eight days and must have been made at least thirty days

<sup>5</sup> prior to the date of rediscount, ~~and~~ <sup>all</sup> ~~rediscount~~ ~~shall~~ ~~be~~ ~~made~~  
<sup>5</sup> ~~at a uniform rate~~ <sup>rate</sup> ~~to be announced from time to time.~~ <sup>throughout the country</sup> ~~published~~ <sup>rate</sup> ~~The aggregate~~  
 amount of such notes and bills bearing the signature or endorsement  
<sup>4</sup> of any one person, company, corporation or firm, rediscounted for  
 any one bank, shall at no time exceed ten per cent of the capital  
 and surplus of said bank.

The Reserve Association may <sup>also</sup> ~~also~~ discount for any depositing bank  
 notes and bills, arising out of commercial transactions, having  
 more than twenty-eight days to run, but in that event the paper  
 must be guaranteed by the Local Association of which the bank ask-  
 ing for the rediscount is a member.

Whenever in the opinion of the Governor of the Reserve Associa-  
 tion the public interests require, ~~which~~ <sup>such</sup> ~~opinion~~ <sup>to</sup> ~~must~~ be concurred  
 in by the Executive Committee of the Reserve Association and have  
 the definite approval of the Secretary of the Treasury, the Re-  
 serve Association may discount the direct obligation of a deposit-  
 ing bank, endorsed by its Local Association, provided that the en-  
 dorsement of the Local Association shall be <sup>fully</sup> ~~be~~ secured by the pledge  
 and deposit with it of satisfactory securities, which shall be held  
 by the Local Association for account of the Reserve Association;  
~~and provided further, that in no case shall the amount loaned to~~  
~~by the Reserve Association~~ <sup>but such</sup> ~~the borrowing bank~~ exceed two-thirds of the actual value of the  
 securities <sup>so</sup> ~~pledged~~.

<sup>Rate</sup>  
<sup>to to</sup>  
<sup>ps</sup> The amount of <sup>total</sup> ~~such~~ guarantees by a Local Association which <sup>to</sup>  
 the Reserve Association may ~~take~~ shall <sup>not at any time</sup> ~~no case~~ exceed the aggre-  
 gate capital of the banks forming the guaranteeing Association.

The Reserve Association may, whenever its <sup>own</sup> ~~condition~~ <sup>and the</sup> ~~or~~ general  
 financial conditions warrant such investment, purchase to a limited  
 amount from a depositing bank acceptances of banks or houses of  
 unquestioned financial responsibility. Such acceptances must arise

from commercial transactions and have a maturity not exceeding ninety days, and ~~shall~~<sup>must</sup> be of a character <sup>generally</sup> known in the market as prime bills. Such acceptances shall <sup>also</sup> bear the endorsement of the depositing bank selling the same, which endorsement must be other than that of the acceptor.

The Reserve Association may invest in United States bonds and in short term obligations, that is, obligations having not more than one year to run, of the United States, <sup>or</sup> ~~and~~ of any State, or of certain foreign governments to be named <sup>by</sup> the Act.

The Reserve Association shall have power at home and abroad to deal in gold coin or bullion, to grant loans thereon, and to contract for loans of gold coin or bullion, giving, when necessary, acceptable security for their repayment.

The Reserve Association shall have power to purchase from its depositors, and to sell, with or without its endorsement, checks ~~and~~ <sup>payable</sup> bills of exchange in England, France, or Germany, and in such other foreign countries as the Board of the Reserve Association may decide. These bills of exchange must arise from commercial transactions and be of a maturity not exceeding ninety days, and shall bear the signatures of at least three responsible parties, of which the last one shall be that of a depositing bank.

The Reserve Association shall have power to open and maintain banking accounts in foreign countries, and to establish agencies in foreign countries, for the purpose of purchasing and selling and collecting foreign bills of exchange, and it shall have authority to buy and sell, through such agencies, prime foreign bills of exchange arising from commercial transactions, running for a period not exceeding ninety days, and bearing the signatures of responsible parties.

## DOMESTIC EXCHANGES.

It shall be the duty of the Reserve Association, <sup>or any of its Branches</sup> upon request, to transfer any part of the deposit balance of any national bank having an account with it, to the credit of any other bank having an account with the Reserve Association. If a deposit balance is transferred from the books of one Branch of the Reserve Association to the books of another Branch, it may be done by mail or telegraph upon terms to be fixed from time to time by the Executive Committee.

## CHARTER RIGHTS OF NATIONAL BANKS.

In addition to the rights now conferred by law, ~~provided~~ national banks shall be authorized to accept commercial paper drawn on them, having not more than ninety days to run, properly secured, and arising out of commercial transactions. The amount of such acceptances shall not exceed one-half the capital of the accepting bank.

~~Give~~ National banks <sup>shall have</sup> authority to establish branches in the city or town in which they are located.

~~Authorize~~ <sup>shall be authorized</sup> the organization of banks to conduct business in foreign countries. The stock of such banks may be held by national banks. The bank so organized may have an office in the United States, but ~~may~~ <sup>shall</sup> not compete with national banks for domestic business not necessarily related to the business being done in foreign countries.

• There shall be established a new class of national banks, to be known ~~as such~~ by a specifically designated name. Such banks may ~~establish~~ <sup>have</sup> savings departments and may make properly secured loans on real estate; ~~Loans on real estate will~~ <sup>such loans to</sup> be restricted to a certain proportion of the aggregate time and savings deposits in the bank. The reserve requirement in such banks will be less against



savings and time deposits than against demand deposits.

There shall be no change in the percentage of reserve required <sup>by law</sup> to be held against <sup>demand</sup> deposits by the national banks, <sup>except as otherwise provided</sup> as provided by <sup>the deposit balance of any</sup> sections 5191 and 5192 of the Revised Statutes, but a national bank may deposit in the Reserve Association all or any portion of its <sup>legal</sup> reserve required by said sections 5191 and 5192.

*shall be counted as a part of its legal reserve*

#### COMPTROLLER'S REPORTS.

The Reserve Association shall make a report, showing the principal items of its balance sheet, to the Comptroller of the Currency once a week. These reports shall be made public. In addition, full reports shall be made to the Comptroller of the Currency coincident with the five reports called for each year from the national banks.

All reports of national bank examiners in regard to the condition of national banks shall hereafter be made in duplicate, and one copy shall be filed with the Reserve Association for <sup>confidential</sup> the use of its Executive Officers.

All ~~depositing~~ national banks shall hereafter make a weekly report to the <sup>Comptroller of the Currency</sup> ~~Reserve Association~~ showing the principal items of their balance sheet, *such reports to be available for the use of the Executive Officers of the Reserve Association.*

#### NOTE ISSUES.

There <sup>is</sup> ~~shall~~ hereafter be no <sup>to</sup> ~~additional~~ issue <sup>further</sup> of bank notes by national banks. <sup>beyond the amount now outstanding</sup> National banks may, if they choose, maintain their present note issue, but whenever a bank retires any part of its existing ~~note~~ issue it will permanently surrender its right of reissue ~~such notes~~.

*at some satisfactory price to be announced from time to time but not less than*  
The Reserve Association <sup>must</sup> ~~agree to~~ buy at par and accrued interest

est the two per cent bonds <sup>now</sup> held by any subscribing bank to secure <sup>its</sup> circulation. ~~It is understood that~~ <sup>shall</sup> The Reserve Association takes over these bonds with the existing currency privilege attached to ~~them~~ and assumes <sup>upon presentation</sup> responsibility for the redemption of outstanding notes secured thereby. ~~and the Reserve Association shall purchase the notes in place of the bonds as fast as they are presented.~~ <sup>for secured National bank notes as fast as they are presented.</sup>

The Reserve Association agrees to hold, ~~under these conditions,~~ for a period of not less than ten years, ~~except as hereinafter provided,~~ the bonds so purchased, or any Government security which may be exchanged for them by refunding or otherwise, ~~it being~~

~~understood that~~ <sup>I</sup> If the Government should adopt the policy of issuing securities at a higher rate of interest than two per cent the Reserve Association shall have the right to exchange such securities at par for any bonds bearing interest at a rate not exceeding three per cent, but in that event the amount of annual taxes to be paid on notes based upon such new securities shall be as much greater as the interest rate of the new securities shall exceed two per cent.

To illustrate: If the Government should decide hereafter to issue a two and one-half per cent bond, the rate of taxation on currency issued by the Reserve Association thereon would be one per cent, instead of one-half of one per cent as on the existing twos. <sup>and upon a three per cent bond the rate of taxation would be one and one half per cent</sup>

~~It is understood that~~ <sup>however to</sup> The Reserve Association shall have the right, with the approval of the Secretary of the Treasury, after two years, ~~unless otherwise provided by law,~~ to annually dispose of \$50,000,000 of the bonds held by it, to secure circulation. <sup>at all times</sup> ~~The~~ Government <sup>reserves</sup> ~~reserving~~ the right to purchase at par, through the trustees of the postal savings bank or otherwise, any or all of such bonds so held.

The Reserve Association shall issue, on the terms herein provided, <sup>its</sup> ~~their~~ own notes as fast as the outstanding notes secured by such bonds so held shall be presented for redemption, it being the policy of the United States to retire as rapidly

*its*  
*John*

*4*

*5*

*2*

*Association*  
*3*

*Jo*

as possible, consistent with the public interests, bond secured circulation, and to substitute therefor notes of the Reserve Association of a character, and secured and redeemed in the manner, provided for in this Act.

When a national bank surrenders its issue of notes the Reserve Association will assume the same and will issue its own notes in their stead as they are presented for redemption. The Reserve Association may <sup>also</sup> issue <sup>additional</sup> notes as follows: Up to <sup>the amount now outstanding</sup> \$100,000,000 upon the payment of an annual tax of three per cent; up to an additional \$100,000,000 upon the payment of an annual tax of four per cent; up to an additional \$100,000,000 upon the payment of an annual tax of five per cent; and additional notes upon the payment of an annual tax of six per cent.

All note issues of the Reserve Association ~~shall~~ <sup>must</sup> be covered to the extent of one-third <sup>at least</sup> by lawful money and the <sup>gold or silver</sup> remainder <sup>remaining portion</sup> by bonds of the United States or bankable <sup>commercial paper as herein defined</sup> bills or both. (It should be either provided that the Reserve Association may also hold in its reserve foreign coin, or that the Treasury will issue gold certificates against foreign coin.) The notes are to constitute a first lien upon all of the assets of the Reserve Association. <sup>must</sup>

<sup>and adequate provision</sup> ~~shall~~ <sup>must</sup> be made for their <sup>immediate</sup> redemption in lawful money on presentation <sup>of</sup> <sup>at the</sup> <sup>head office</sup> <sup>of the</sup> <sup>Reserve</sup> <sup>Association</sup> <sup>or</sup> <sup>any</sup> <sup>of</sup> <sup>its</sup> <sup>branches</sup>

The notes of the Reserve Association shall be received at par in payment of all taxes, excises and other dues to the United States and for all salaries and other debts and demands owing by the United States to individuals, corporations or associations, except obligations of the Government which are by their terms <sup>specifically</sup> payable in gold, and for all debts due from or by one national bank to another, and for all obligations due to a national bank.

The Reserve Association shall, <sup>at once</sup> upon application and without charge for transportation, forward its notes <sup>credit to the</sup> to depositing bank <sup>against</sup> <sup>its</sup> credit balance.

In conformity <sup>with</sup> the suggestion made at the last meeting of the National Monetary Commission I have prepared <sup>a sketch of a plan</sup> ~~an~~ outline for a revision of our national banking legislation, <sup>which</sup> ~~and~~ I beg herewith to submit ~~this outline~~ to the Commission. In doing this it has been my aim to suggest changes in the national banking act which will ~~make~~ it responsive to the demands of ~~our~~ modern business. I believe that the study which the Commission has given to this subject has led irresistibly to the conclusion that our present national banking system not only fails completely under stress and in the presence of unusual demands upon its resources, but ~~that~~ even under the ordinary conditions of business, it has been found inadequate and unresponsive.

The suggestions submitted herewith are the deductions which I have made as the result of the two years of study which the Commission has given this subject, and are formulated in the light of the great mass of information which <sup>it</sup> ~~the Commission~~ has gathered respecting not only our own banking system and needs but also the experience and practices of foreign countries.

While we have found much that is admirable in the operation of the various ~~central~~ <sup>foreign systems, none of them as a whole is applicable</sup> government banks of Europe ~~it does not seem~~ <sup>to the peculiar needs of this country</sup> desirable to attempt to transplant those ~~systems~~ <sup>principles they embody, and</sup> here. I believe that the good results which they obtain can be reached without the creation of a ~~central~~ <sup>and as exists in any European countries</sup> central bank, and I feel that the plan which is proposed reaches those results without being open to the objection <sup>s</sup> which may well be brought against ~~such an~~ <sup>the adoption of and</sup> institutions <sup>here.</sup> ~~etc.~~

~~That~~ The plan which is here presented makes no claim to being worked out to a definitive form. ~~Further~~ discussion will certainly improve and modify its details. ~~No~~ attempt has been made ~~to present it in anything like~~

to frame it in the formal language of a ~~statute~~ <sup>bill</sup>. I recognize that that can only be done after it has received the consideration of many minds and has been studied with care from many points of view.

In its main features, however, it will, in my opinion meet the necessary requirements, and I offer it to you for that further consideration which it must now have.

I think the study which the Commission has given the subject leaves little room to doubt that the present law in regard to the management and control of national banks and the regulations regarding the conduct of their business have become obsolete. There is at the present time, I conceive, no room for argument in regard to ~~the necessity of modernizing this law.~~ <sup>our monetary</sup> ~~the~~ That necessity has been demonstrated too frequently in widespread loss to the people of this country, <sup>and by</sup> ~~in~~ derangement of business that extends even outside of our own borders, ~~and in~~ recognition ~~which~~ is now general that our banking system is dangerously inadequate to meet modern demands.

<sup>Assuming the</sup> ~~Granting~~ <sup>necessity of modernizing our monetary conditions</sup> all that, ~~however,~~ it must ~~still~~ be our aim to accomplish <sup>the result</sup> ~~such reform~~ (as we find necessary) by means which will <sup>not</sup> disturb <sup>to</sup> in the smallest degree possible existing conditions. I think it should be our aim to liberalize the present national banking act and add to it such features as are deemed essential ~~(to accomplish what is necessary,~~ rather than to formulate any plan which would <sup>or fundamentally</sup> ~~radically~~ change the existing system. <sup>it.</sup>

In the light of our experience it is obvious that one of the <sup>method</sup> principal needs is some ~~plan~~ for the unification of our present banking institutions into one comprehensive system. In actual operation we have found that the rigid provisions in regard to the

be forced to such large degree as ~~they are~~ at present into the making of call loans upon stock exchange collateral, but will instead be available for the needs of commercial business, we ~~will~~ <sup>shall</sup> have so broadened our banking methods as to bring incalculable benefit to the commercial life of the country.

I believe that the conclusions which I present herewith meet those conditions, and that the organization which it is proposed to create will bring the benefits which we seek without running any ~~danger~~ <sup>risk</sup> of creating ~~any central~~ <sup>a</sup> financial institution which ~~will~~ <sup>can</sup> be controlled ~~there~~ by ambitious monetary interests or dominated by political ~~consideration~~ <sup>influences</sup>.

holding and use of reserves <sup>proved</sup> have ~~been found~~ extremely detrimental to the public interests. In other countries we have found that

reserves are concentrated and used <sup>freely</sup> in any direction where needed.

Under our faulty system reserves are so scattered in time of trouble

as to be <sup>un</sup>available ~~neither~~ for purposes of assistance ~~nor~~ defence.

The result of our law has been to create a banking system of a great number of isolated units, each working within a limited circle and each of necessity governed by its own immediate interests without reference to what would be for the greatest good of all. While the intelligent managers of individual banks may fully recognize the necessity of greater cooperation, they are, under the law, powerless to effect it.

If we can so <sup>amend</sup> ~~liberalize~~ the present national banking act as <sup>permit the formation of</sup> to ~~form~~ an association of all the banks of the country to meet these needs, we <sup>shall</sup> ~~will~~ have gone a long way towards solving the problem which is before us. If we then, in addition, provide a more scientific basis for bank note circulation, so that its volume will be responsive to the needs of business, we <sup>shall</sup> ~~will~~, I believe, have met the two main requirements of a satisfactory solution. If, in addition to that, we can aid in creating a discount market in this country similar to the discount markets in Europe, so that the most liquid portion of our bank funds will not of necessity



While we have found much that is admirable in the operation  
of the various ~~central~~ government banks of Europe <sup>more of them</sup> ~~it does not seem~~  
~~desirable to attempt to transplant those systems here.~~ <sup>is applicable to our needs here.</sup> I believe

that the good results which they obtain can be reached without the  
creation of a <sup>such</sup> ~~similar~~ central bank, and I feel that the plan which  
is proposed reaches those results without being open to the objec-  
tion which may well be brought against such an institution. ~~Pre-~~

~~not that~~ The plan which is here presented makes no claim to being  
worked out to a definitive form. ~~Further~~ Discussion will cer-

tainly improve and modify its details. ~~No attempt has been made~~  
to present it in anything like

~~to frame it in the formal language of a <sup>bill</sup> statute.~~ I recognize

that that can only be done after it has received the consideration  
<sup>of the Commission</sup> ~~of many minds~~ and has been studied with care <sup>in all parts of</sup> ~~from many points of~~  
~~view.~~ <sup>the country</sup>

In its main features, however, it will, in my opinion meet  
the necessary requirements, and I offer it to you for that further  
consideration which it must now have.

## C H A R T E R   A N D   L O C A T I O N .

It is proposed to charter the Reserve Association of America, which will be the principal fiscal agent of the Government of the United States. The authorized capital of the Reserve Association shall be three hundred million dollars. The length of its charter shall be fifty years. The head office of the Association shall be in Washington, D.C.

The country shall be divided into fifteen Districts, and a branch of the Reserve Association shall be located in each District.

The Reserve Association and its Branches shall be exempt from State and local taxation, except in respect to taxes upon real estate owned by it.

## C A P I T A L .

Only national banks of the two classes hereinafter provided for may subscribe to the capital stock of the Reserve Association. A national bank having a minimum capital of at least \$25,000, may subscribe to an amount of capital stock of the Reserve Association equal to twenty per cent of the stock of the subscribing national bank, and not less, and each of such subscribing banks shall become a member of a Local Association as hereinafter provided for. Fifty per cent of the subscriptions to the capital stock of the Reserve Association shall be called in cash; the balance of the subscriptions will remain a liability of the stockholders subject to call.

*Shares of*

The capital stock of the Reserve Association will not be transferable, and under no circumstances may ~~it~~<sup>they</sup> be owned by any corporation, other than the subscribing national bank, nor by any individual, nor may ~~it~~<sup>they</sup> be owned by any national bank in any other amount than in the proportion here provided. In the case of a national bank increasing its capital after it once becomes a subscriber to the stock of the Reserve Association, the national bank shall thereupon subscribe for an additional amount of the capital stock of the Reserve Association equal to twenty per cent of the national bank's increase of capital, paying therefor its then book value, but only one-half of this additional subscription will be called in cash, as hereinbefore provided. In the event of a national bank which is a holder of the capital stock of the Reserve Association decreasing its capital, it shall surrender a proportionate amount of its holdings of the capital stock of the Reserve Association; or if a national bank goes into liquidation, or desires to withdraw, which it may do upon one year's notice, it shall surrender all of its holdings of the capital stock of the Reserve Association. The capital stock of the Reserve Association so surrendered shall be cancelled, and the national bank thus surrendering stock in the Reserve Association shall receive in payment therefor a sum equal to the then book value, as shown on the balance sheet of the Reserve Association, of the stock so surrendered.

#### E A R N I N G S   A N D   D I V I D E N D S .

The earnings of the Reserve Association shall be distributed in the following manner:

After the payment of all expenses and taxes the stockholders shall receive four per cent. Further earnings shall be divided, one-half to go to the surplus of the Reserve Association until that surplus shall amount to twenty per cent of the paid in capital; one-fourth to go to the Government, and one-fourth to the stock-

holders; but when the stockholders' dividends shall reach five per cent they shall receive no additional distribution. After the stockholders receive five per cent the earnings shall be divided, one-half to be added to the surplus of the Reserve Association and one-half to go to the Government. After the stockholders receive five per cent per annum and the surplus of the Reserve Association amounts to twenty per cent of the paid in capital, all the excess earnings shall go to the Government. The minimum dividends to the stockholders shall be cumulative.

#### LOCAL ASSOCIATIONS OF NATIONAL BANKS.

The law will provide for the formation of associations of national banks to be designated as Local Associations. Every Local Association shall be composed of not less than ten banks, and the combined capital and surplus of the members of this Local Association shall aggregate not less than five million dollars.

All the Local Associations shall be grouped into fifteen divisions, to be called Districts. The territory included in the Local Associations shall be so apportioned that every national bank will be located within the boundaries of some Local Association. Every subscribing national bank shall become a member of the Local Association of the territory in which it is situated.

#### DIRECTORS OF LOCAL ASSOCIATIONS.

Each Local Association shall elect annually a board of directors in the following manner;

The number of the directors may be determined by the by-laws of the Local Associations. Three-fifths of that number shall be elected by ballot cast by the representatives of the banks that are members of the Local Association, each bank having one repre-

sentative, and each representative one vote, without reference to the size of the bank. Two-fifths of the whole number of directors of the Local Association shall be elected by these same representatives of the several banks that are members of the Association, but in voting for these additional directors each representative shall be entitled to as many votes as the bank which he represents holds shares in the Reserve Association. At such elections there shall be no proxies. The authorized representative of a bank, as herein provided, must be either the president, vice-president, or cashier, of the bank he represents.

#### DIRECTORS OF THE BRANCHES.

As heretofore provided, all the Local Associations shall be divided into fifteen divisions, and each of these divisions shall be designated a District. There shall be located in each District a Branch of the Reserve Association. Each of the fifteen Branches of the Reserve Association shall have a board of directors and those directors shall be elected in the following manner:

The board of directors of each Local Association shall elect by ballot one member of the board of directors of the Branch of the Reserve Association. In this manner there will thus be elected as many directors of the Branch of the Reserve Association as there may be Local Associations in the District in which that Branch of the Reserve Association is located. In addition to that number there shall be elected a number of directors equal to two-thirds of the number of Local Associations in the District where the Branch is located; such additional directors shall be elected in the following manner:

There shall be chosen by the banks composing each Local Association a voting representative or proxy holder. In choosing such voting representative each bank shall be entitled to as many votes as it holds shares in the Reserve Association. The voting representatives of the several Local Associations which form a

District shall then meet at the office of the Branch and elect an additional number of directors of the Branch equal to two-thirds of the number elected directly by the Local Associations; that is, equal to two-thirds of the number of Local Associations composing the District. Each voting representative at such election shall have a number of votes equal to the number of shares in the Reserve Association held by all the banks composing the Local Association which he represents.

The first business of the board of the Branch, as thus constituted, shall be to add to its number by the election of an additional number of directors equal to one-third the number of Local Associations situated in the District. Such additional directors shall <sup>fairly</sup> represent the industrial, commercial, agricultural ~~and~~ other interests of the District, and shall not be officers of banks.

(repeat here)

The board of directors of a Branch of the Reserve Association will thus be composed of,

First, a group of directors equal in number to the number of Local Associations composing the District, and this group shall be elected by the directors of the Local Association, each director having one vote;

Second, a group of directors equal to two-thirds of the foregoing group, and elected by stock representation;

Third, a group of directors equal in number to one-third of the first group, representing the industrial, commercial, agricultural and other interests of the District, and elected by the votes of the first two groups, each director thus voting having one vote;

Fourth, the manager of the Branch shall be ex officio a member of the board of directors of the Branch, and shall be chairman of the board.

All the members of the board of directors of the Branch except the ex officio member, shall, at the first meeting of the board, be classified into three classes, and the terms of office of these three classes shall be, respectively, one, two, and three years. Thereafter members of the board shall be elected for a term of three years.

D I R E C T O R S   O F   T H E   R E S E R V E   A S S O C I A -  
T I O N S .

The Board of the Reserve Association shall consist of forty-five Directors, and it shall be composed in the following manner:

First, six ex officio members, namely the Governor of the Reserve Association, who shall be Chairman of the Board, two Deputy Governors of the Reserve Association, the Secretary of the Treasury, the Secretary of Commerce and Labor, and the Comptroller of the Currency;

Second, Fifteen Directors to be elected one by the board of directors of each Branch of the Reserve Association. They shall be elected by ballot, each member of the Branch Board having one vote;

Third, twelve Directors, who shall be elected by voting representatives, one representing the banks embraced in each District. Each voting representative shall have a number of votes equal to the number of shares in the Reserve Association held by all the banks in the District which he represents;

Fourth, the Board as thus constituted shall select twelve additional members, who shall <sup>fairly</sup> represent the industrial, commercial, agricultural and other interests of the country, and who shall not be officers of banks.

At the first meeting of the Board all the members of the Board, except the ex officio members, shall be classified into three classes, and the terms of office of these three classes shall be,

respectively, one, two, and three years. Thereafter members of the Board shall be elected for a term of three years.

No member of any national or State legislative body shall be a Director of the Reserve Association, nor of any of the Branches, *nor of any Local Association.*

The Directors of the Reserve Association shall annually elect an Executive Committee, and such other committees as the by-laws of the Reserve Association may provide. The Executive Committee shall consist of <sup>nine</sup> ~~seven~~ members, of which the Governor of the Reserve Association shall be ex officio Chairman and <sup>two Deputies and the</sup> ~~the~~ Comptroller of the Currency ex officio ~~a~~ members.

The Executive Committee shall have all the authority which is vested by law in the Board of Directors, except such as may be specifically delegated by the Board to other committees. The rate of discount shall be fixed from time to time by the Executive Committee.

There shall be a Board of Supervision elected by the Board of Directors from among its number, of which the Secretary of the Treasury shall be ex officio Chairman.

#### EXECUTIVE OFFICERS OF THE RESERVE ASSOCIATION.

The Executive Officers of the Reserve Association shall consist of a Governor, two Deputy Governors, a Secretary, and such other officers as may be provided by the by-laws. The Governor, and Deputy Governors, shall be appointed by the President of the United States, from a list submitted by the Board of Directors, and shall be confirmed by the Senate. The Governor shall be subject to removal by the President of the United States for cause. The term of office of the Deputies shall be seven years, but the <sup>two</sup> ~~first~~ Deputies <sup>first</sup> shall be appointed for terms of four years and seven years, respectively.



In the absence of the Governor or his inability to act, the Deputy who is senior in point of service shall act as Governor.

#### EXECUTIVE OFFICERS OF BRANCHES.

Each Branch shall have a manager and a deputy manager. They shall be appointed by the Governor of the Reserve Association with the approval of the Executive Committee.

The powers and duties of the manager and deputy manager and of the various committees of the Branches shall be prescribed by the by-laws of the Reserve Association.

#### FUNCTIONS OF THE LOCAL ASSOCIATIONS.

Any member of a Local Association may apply to this Association to guarantee commercial paper which it desires to rediscount at the Branch of the Reserve Association in its District. A bank ~~that~~ receiving a guarantee from a Local Association will pay a commission to that Association, to be fixed from time to time by its board of directors. The guarantee of the members of the Association, in the event of loss, shall be met by the members of the Association in the proportion to the ratio which their capital and surplus bears to the aggregate capital and surplus of the Local Association, and the commission received for such guarantee, after the payment of losses and expenses, <sup>when</sup> ~~will~~ be distributed among the several banks of the Local Association <sup>shall be</sup> in the same proportion. Local Associations shall have authority to require additional security from banks offering paper for rediscount, if they see fit, or may decline to grant the application for guarantee.

F U N C T I O N S   O F   T H E   R E S E R V E   A S S O C I A -  
T I O N .

All of the privileges and advantages of the Reserve Association shall be equitably extended to every national bank of either of the classes herein defined, who shall subscribe to its proportion of the stock of the Reserve Association and shall sell to the Reserve Association the Government bonds now held by it to secure note issue, as hereinafter provided.

The Government of the United States, and those national banks owning stock in the Reserve Association, shall be the sole depositors in the Reserve Association. All domestic transactions with the Reserve Association shall be confined to the Government and the subscribing banks, with the exception of the purchase or sale of Government or State securities or securities of foreign governments, and of gold coin or bullion.

The Government of the United States shall deposit its cash balance with the Reserve Association and thereafter all receipts of the Government shall be deposited with the Reserve Association, or <sup>(when necessary)</sup> with such national banks as the Government designates for that purpose in cities where there is no Branch of the Reserve Association. All disbursements by the Government shall be made through the Reserve Association.

The Reserve Association shall pay no interest upon deposits.

The Reserve Association may rediscount notes and bills arising out of commercial transactions, for and with the endorsement of any bank having a deposit with it. The amount so rediscounted shall in no case exceed the capital of the bank applying for the rediscount. Such notes and bills must have a maturity of not more than twenty-eight days and must have been made at least thirty days

prior to the date of rediscount. Such rediscounts shall be made at a uniform rate, <sup>throughout the country</sup> to be announced from time to time. The aggregate amount of such notes and bills bearing the signature or endorsement of any one person, company, corporation or firm, rediscounted for any one bank, shall at no time exceed ten per cent of the capital and surplus of said bank.

The Reserve Association may rediscount for any depositing bank notes and bills, arising out of commercial transactions, having more than twenty-eight days to run, but in that event the paper must be guaranteed by the Local Association of which the bank asking for the rediscount is a member.

Whenever in the opinion of the Governor of the Reserve Association the public interests require, which opinion must be concurred in by the Executive Committee of the Reserve Association and have the definite approval of the Secretary of the Treasury, the Reserve Association may discount the direct obligation of a depositing bank, endorsed by its Local Association, provided that the endorsement of the Local Association shall be secured by the pledge and deposit with it of satisfactory securities, which shall be held by the Local Association for account of the Reserve Association; and provided further, that in no case shall the amount loaned to the borrowing bank exceed two-thirds of the actual value of the securities pledged.

The amount of such guarantees by a Local Association which the Reserve Association may take shall in no case exceed the aggregate capital of the banks forming the guaranteeing Association.

The Reserve Association may, whenever its condition or general financial conditions warrant such investment, purchase to a limited amount from a depositing bank acceptances of banks or houses of unquestioned financial responsibility. Such acceptances must arise

from commercial transactions and have a maturity not exceeding ninety days, and shall be of a character <sup>generally</sup> known in the market as prime bills. Such acceptances shall bear the endorsement of the depositing bank selling the same, which endorsement must be other than that of the acceptor.

The Reserve Association may invest in United States bonds and in short term obligations, that is, obligations having not more than one year to run, of the United States, and of any State, or of certain foreign governments to be named by the Act.

The Reserve Association shall have power at home and abroad to deal in gold coin or bullion, to grant loans thereon, and to contract for loans of gold coin or bullion, giving, when necessary, acceptable security for their repayment.

The Reserve Association shall have power to purchase from its depositors, and to sell, with or without its endorsement, checks and bills of exchange <sup>payable</sup> in England, France, or Germany, and in such other foreign countries as the Board of the Reserve Association may decide. These bills of exchange must arise from commercial transactions and be of a maturity not exceeding ninety days, and shall bear the signatures of at least three responsible parties, of which the last one shall be that of a depositing bank.

The Reserve Association shall have power to open and maintain banking accounts in foreign countries, and to establish agencies in foreign countries, for the purpose of purchasing and selling and collecting foreign bills of exchange, and it shall have authority to buy and sell, through such agencies, prime foreign bills of exchange arising from commercial transactions, running for a period not exceeding ninety days, and bearing the signatures of responsible parties.

## DOMESTIC EXCHANGES.

It shall be the duty of the Reserve Association, <sup>or any of its Branches</sup> upon request, to transfer any part of the deposit balance of any national bank having an account with it, to the credit of any other bank having an account with the Reserve Association. If a deposit balance is transferred from the books of one Branch of the Reserve Association to the books of another Branch, it may be done by mail or telegraph upon terms to be fixed from time to time by the Executive Committee.

## CHARTER RIGHTS OF NATIONAL BANKS.

In addition to the rights now conferred by law, ~~provide that~~ national banks shall be authorized to accept commercial paper drawn on them, having not more than ninety days to run, properly secured, and arising out of commercial transactions. The amount of such acceptances shall not exceed one-half the capital of the accepting bank.

~~Give~~ National banks <sup>shall have</sup> authority to establish branches in the city or town in which they are located.

~~Authorize~~ <sup>shall be authorized</sup> the organization of banks to conduct business in foreign countries. The stock of such banks may be held by national banks. The bank so organized may have an office in the United States, but ~~may~~ <sup>shall</sup> not compete with national banks for domestic business not necessarily related to the business being done in foreign countries.

There shall be established a new class of national banks, to be known as such by a specifically designated name. Such banks may establish savings departments and may make properly secured loans on real estate. Loans on real estate will be restricted to a certain proportion of the aggregate time and savings deposits in the bank. The reserve requirement in such banks will be less against

savings and time deposits than against demand deposits.

There shall be no change in the percentage of reserve required to be held against <sup>demand</sup> deposits by the national banks, as provided by sections 5191 and 5192 of the Revised Statutes, but a national bank may deposit in the Reserve Association all or any portion of its <sup>legal</sup> reserve ~~required by said sections 5191 and 5192.~~

#### COMPTROLLER'S REPORTS.

The Reserve Association shall make a report, showing the principal items of its balance sheet, to the Comptroller of the Currency once a week. These reports shall be made public. In addition, full reports shall be made to the Comptroller of the Currency coincident with the five reports called for each year from the national banks.

All reports of national bank examiners in regard to the condition of national banks shall hereafter be made in duplicate, and one copy shall be filed with the Reserve Association for the <sup>Confidential</sup> use of its Executive Officers.

All ~~depositing~~ national banks shall hereafter make a weekly report to the <sup>Comptroller of the Currency</sup> ~~Reserve Association~~, showing the principal items of their balance sheet, <sup>such reports to be available for the use of the Executive Officers of the Reserve Association.</sup>

#### NOTE ISSUES.

There shall hereafter be no additional issue of bank notes by national banks. National banks may, if they choose, maintain their present note issue, but whenever a bank retires any part of its existing note issue it will permanently surrender its right to reissue such notes.

The Reserve Association agrees to buy at par and accrued inter-

est the two per cent bonds held by any subscribing bank to secure circulation. It is understood that the Reserve Association takes over these bonds with the existing currency privilege attached to them, and assumes responsibility for the redemption of outstanding notes secured thereby, and that it will substitute its own notes for the secured national bank notes as fast as they are redeemed. The Reserve Association agrees to hold, under these conditions, for a period of not less than ten years, except as hereinafter provided, the bonds so purchased, or any Government security which may be exchanged for them by refunding or otherwise, it being further understood that if the Government should adopt the policy of issuing securities at a higher rate of interest than two per cent the Reserve Association shall have the right to exchange such securities at par for any bonds bearing interest at a rate not exceeding three per cent, but in that event the amount of annual taxes to be paid on notes based upon such new securities shall be as much greater as the interest rate of the new securities shall exceed two per cent.

To illustrate: If the Government should decide hereafter to issue a two and one-half per cent bond, the rate of taxation on currency issued by the Reserve Association thereon would be one per cent, instead of one-half of one per cent as on the existing twos.

It is understood that the Reserve Association shall have the right, with the approval of the Secretary of the Treasury, after two years, unless otherwise provided by law, to annually dispose of \$50,000,000 of the bonds held by it to secure circulation, the Government reserving the right to purchase at par, through the trustees of the Postal savings bank or otherwise, any or all of such bonds so held. The Reserve Association shall issue, on the terms herein provided, <sup>its</sup> ~~their~~ own notes as fast as the outstanding notes secured by such bonds so held shall be presented for redemption, it being the policy of the United States to retire as rapidly

as possible, consistent with the public interests, bond secured circulation, and to substitute therefor notes of the Reserve Association of a character, and secured and redeemed in the manner, provided for in this Act.

When a national bank surrenders its issue of notes the Reserve Association will assume the same and will issue its own notes in their stead as they are presented for redemption. The Reserve Association may issue additional notes as follows: Up to \$100,000,000 upon the payment of an annual tax of three per cent; up to an additional \$100,000,000 upon the payment of an annual tax of four per cent; up to an additional \$100,000,000 upon the payment of an annual tax of five per cent; and additional notes upon the payment of an annual tax of six per cent.

All note issues of the Reserve Association shall be covered to the extent of one-third by lawful money and the remainder by bonds of the United States or bankable bills or both. (It should be either provided that the Reserve Association may also hold in its reserve foreign coin, or that the Treasury will issue gold certificates against foreign coin.) The notes are to constitute a first lien upon all of the assets of the Reserve Association.

The notes of the Reserve Association shall be received at par in payment of all taxes, excises and other dues to the United States, and for all salaries and other debts and demands owing by the United States to individuals, corporations or associations, except obligations of the Government which are by their terms payable in gold, and for all debts due from or by one national bank to another, and for all obligations due to a national bank.

The Reserve Association shall, upon application and without charge for transportation, forward its notes to depositing banks against their credit.