UNITED STATES MONETARY POLICY: RECENT THINKING AND EXPERIENCE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ECONOMIC STABILIZATION

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

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MONDAY, DECEMBER 6, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
SUBCOMMITTEE ON ECONOMIC STABILIZATION,
Washington, D. C.

The subcommittee met, pursuant to notice, at 10:05 a. m., in room 318, Senate Office Building, Senator Ralph E. Flanders (chairman of the subcommittee) presiding.

Present: Senators Flanders, Goldwater, Sparkman and Douglas; Representatives Talle, Patman, and Bolling.

Also present: Grover W. Ensley, staff director, and John W. Lehman, clerk.

Senator FLANDERS. I would like first to say I am glad to see you here. I am glad that our panel is here. I am glad that the attendance in the uncomfortable chairs in the rear of the room indicates a lively interest, and I am glad that there are other members of the Joint Committee on the Economic Report here besides the members of the subcommittee.

The Subcommittee on Economic Stabilization was appointed by Chairman Jesse P. Wolcott on April 16, 1954, pursuant to the report of the Joint Committee on the Economic Report filed with the Senate and House of Representatives on February 26, 1954 (H. Rept. 1256). The committee report set forth the functions of the Subcommittee on Economic Stabilization in the following words:

> *Subcommittee on Economic Stabilization.*—The economic situation is obviously very dynamic. The committee and staff will follow economic trends and developments from day to day to make sure that stabilizing action on the part of Government and business is effective. To facilitate expeditious study and action in this field the chairman will appoint a Subcommittee on Economic Stabilization. The subcommittee will hold hearings and conduct meetings as frequently as it deems necessary and desirable, and will report from time to time to the full committee on employment, production, and purchasing power trends. It will follow particularly the role of fiscal and monetary policy in dealing with the current recession.

The subcommittee and the committee staff have followed the current economic trends carefully during the past year. The staff has met frequently with economic analysts of the executive agencies, of business, labor, agriculture, and consumer groups, and the universities. Members of the committee have joined in a number of these meetings. As customary, the staff has reported these happenings and developments to all members of the committee. The subcommittee, in its executive meetings during the course of the past year, felt that recent economic developments did not warrant a material change in appraisal

of the outlook from that presented by the witnesses at the committee's hearings last February, and set forth in the committee's report of February 26. We have consequently not seen the need for subcommittee hearings or special public reports during the recent session of the Congress. We have reported to the full committee.

During the last 3 years much reliance has been placed on monetary policy in carrying out the objectives of the Employment Act of 1946. The Joint Economic Committee has actively studied the objectives and workings of the United States monetary policy. Thorough studies were made by subcommittees in 1949–50 and again in 1951–52 under the chairmanships of Senator Paul Douglas and Representative Wright Patman, respectively.

Since the inquiry in 1951–52 there have been significant changes in the national economy and in the use of monetary instruments. It seems appropriate, therefore, and in compliance with announced intentions of the committee in its report to the Congress last February (H. Rept. 1256), to review recent thinking and experience with monetary policy. The use of the term "monetary policy" in this study is intended to include Federal debt management policy. The study will try to avoid covering the ground of the earlier committee studies, and will postpone discussion of the immediate economic outlook and the program to be submitted to the Congress by the President next January.

The subcommittee, in October, asked the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System to submit in writing their judgments relating to a number of questions by November 20 for review by the subcommittee, the committee staff, the panel participants, in advance of today's and tomorrow's hearings. I will insert at this point in the record the list of questions that were transmitted to Secretary Humphrey and Chairman Martin. We asked Secretary Humphrey to give his judgments on questions 1 and questions 6, 7, and 8; we asked Chairman Martin to comment on questions 1 through 5.

(The questions referred to above are as follows:)

1. What role did monetary policy play in the period of relative stability following the Treasury-Federal Reserve "accord" in 1951, in the months of boom late in 1952 and early 1953, and in the recession of 1953–54?

2. How has the emphasis in the use of monetary instruments changed during the period since mid-1952? For example, how have the various instruments—open market operations, discount rates and administration of discount operations, and reserve requirements—been used under varying conditions? Has there been any reliance on moral suasion during this period?

3. What is the practical significance of shifting policy emphasis from the view of "maintaining orderly conditions" to the view of "correcting disorderly situations" in the security market? What were the considerations leading the Open Market Committee to confine its operations to the short end of the market (not including correction of disorderly markets)? What has been the experience with operations under this decision?

4. What is the policy with respect to the volume of money?

5. Has monetary machinery (*a*) worked flexibly, and (*b*) has the market demonstrated flexibility in its responses to changes in policy? For example, how has the policy of "active ease" been reflected in the level and structure of interest rate, the volume of credit, and the roles of various types of lenders?

6. Has the debt management policy of the Treasury—both as to objectives and techniques—been consistent with the monetary policy of the Federal Reserve throughout the period since mid-1952?

7. What considerations should dictate the maturity distribution schedule of the Federal debt, first, as to the long-run ideal to be pursued and, second, as a practical operating matter, giving weight to timing and contemporary conditions?

8. Are the benefits and costs to commercial banks of handling Government transactions clear enough, or can they be made clearer, to determine whether or not the banking system is being excessively compensated or undercompensated? What about the Treasury cash balance—its size and management? Should the Government receive interest on its deposits with commercial banks?

Senator FLANDERS. Without objection there will also be inserted in the record the replies of these two officials.

(The documents above referred to are as follows:)

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, November 26, 1954.

HON. RALPH E. FLANDERS,
Chairman, Subcommittee on Economic Stabilization,
Joint Committee on the Economic Report, Washington, D. C.

DEAR SENATOR FLANDERS: In accordance with the request contained in your letter of October 26 and with subsequent conversations between members of your staff and the staff of the Board, there are attached copies of the Board's answers to questions 1 through 5 contained in your press release of November 12, 1954.

Sincerely yours,

WM. MCC. MARTIN, Jr.

REPLIES OF THE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM TO QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON ECONOMIC STABILIZATION OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT IN CONNECTION WITH SUBCOMMITTEE HEARINGS OF DECEMBER 7, 1954

(1) What role did monetary policy play in the period of relative stability following the Treasury-Federal Reserve accord in 1951, in the months of boom late in 1952 and early 1953, and in the recession of 1953–54?

Inflationary dangers in prospect in 1951 made essential a shift in credit and monetary policies of the sort envisaged in the Treasury-Federal Reserve accord. Review of subsequent developments supports the conclusion that the policies pursued were helpful in bringing about and maintaining a reasonable degree of both stability and growth in the economy. The country encountered an economic problem of unprecedented nature, namely, carrying out, with no further price inflation after the 1950–51 spurt, a defense program of exceptional magnitude short of war while permitting moderate expansion in private expenditures. Private demands for goods and services were still in the process of overcoming the effects of war and postwar scarcities. Credit and monetary measures, together with fiscal and debt-management policies, helped to make it possible to cope with this situation through the mechanism of competitive markets and a free price system. As a result, the various direct controls imposed early in the defense period could be eliminated, thus relieving markets of the rigidities and inefficiencies inherent in such controls.

The Treasury-Federal Reserve accord was reached after an earlier inflationary outburst of overbuying, overborrowing, and overpricing in the private economy. In the first year after its adoption, private spending and borrowing moderated while the defense program expanded. In the second year, however, from the spring of 1952 to the late spring of 1953, there was a vigorous expansion in private spending and in private credit demands, just as defense expenditures were reaching a peak and the Federal Government faced the need for heavy borrowing to meet a deficit. Large capital expenditures, inventory accumulation, and heavy consumer purchases of durable goods—all financed to a large extent by credit—together with overtime operations in industry and exceptionally full utilization of resources generally, threatened to develop into an unsustainable boom. Credit restraints helped to keep total demands within the limits of the capacity of the economy to produce and to spread the volume of spending over a longer period.

The boom was checked without collapse and was followed by an orderly and moderate downward adjustment in activity. The adjustment was cushioned by progressive action to ease credit markets, as well as by tax reductions and other

fiscal measures. It has not developed into a disastrous depression, as many quite reasonably feared.

The defense program has now been curtailed to a level more likely to be sustained over an extended period. Many of the more urgent domestic and foreign shortages resulting from war destruction and postwar reconstruction have been satisfied. Inventories have been reduced appreciably, and current production is more nearly in balance with demand. The problem of economic policy has thus become one of facilitating, yet keeping within sustainable bounds, the normal growth forces of a free enterprise, competitive economy.

In the remainder of this answer, credit and related economic developments in the 1951–54 period are described and analyzed in some detail.

Treasury-Federal Reserve accord

When the Korean outbreak occurred, the financial policies of this country were hampered by problems and methods of operation inherited from the Second World War and its aftermath. Federal Reserve credit policies for many years had been handicapped by trying to combine appropriate credit action with the support of Government securities prices. These practices, which were adopted to meet wartime conditions, contributed in the early postwar period to an inflation that had raised the price level to almost double the prewar average before it came to an end in 1949.

Following the Korean outbreak and adoption of a greatly enlarged defense program, inflation resumed. Various attempts to restrain credit expansion while continuing to support prices of Government securities had unsatisfactory and diminishing results as mounting sales of securities to the Federal Reserve by banks and other holders made funds abundantly and cheaply available for spending, investing, and speculation.

In a move to correct this situation, on March 4, 1951, the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System announced that "the Treasury and the Federal Reserve System have reached full accord with respect to debt management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt."

Following this accord, monetary policies were reoriented. Open market operations were altered over a period so as to adjust the supply of bank reserves to levels consistent with stable economic growth rather than to support prices of Government securities. The discount mechanism through which member commercial banks borrow from the Federal Reserve banks was gradually restored to an effective instrument of credit regulation. Various selective regulatory and voluntary means for restraining credit extensions in particular areas were utilized for a time, but to an increasing extent reliance came to be placed upon the more general measures that operate through the quantity of bank reserves and through flexible interest-rate movements.

Imposition of credit restraints—Spring of 1951 to spring of 1952

Following the accord, Federal Reserve operations in the short-term Government securities market, except for limited purchases during periods of Treasury refunding, were only for the purpose of influencing the volume of bank reserves in accordance with the broad objectives of Federal Reserve policy, namely, to contribute to stable economic growth. Purchases of long-term securities by the Federal Reserve were continued in diminishing volume for a number of weeks following the accord, but after mid-1951 the Federal Reserve bought practically no long-term bonds.

Under these policies, any bank or other investor wishing to sell Government securities generally had to depend on buyers in the market, and the free play of market forces resulted in some fluctuation as well as some rise in rates. Such price and interest-rate fluctuations perform important functions of a self-corrective and stabilizing nature, as is explained more fully in the answers to questions 3 and 5.

It had been widely feared that because of the magnitude of the public debt the removal of pegs on prices of Government securities would leave the market with insufficient buyers and holders to carry the debt, and thus would produce a catastrophic decline in bond values and panic conditions in the Government bond market. These fears proved unfounded. Would-be sellers either found buyers at prices they were willing to accept or refrained from selling. New issues were offered at yields which attracted sufficient buyers. Until late 1952, market yields on long-term bonds averaged less than 2¾ percent, with prices fluctuating

between 95 and 99. The rate on Treasury bills gradually increased, but until 1952 remained generally below the Federal Reserve discount rate of 1¾ percent.

The Federal Reserve purchased short-term securities at times of Treasury refunding operations in order to steady the market. During periods of peak seasonal needs for reserves by the banking system, the Federal Reserve bought securities either outright in the market or from dealers under repurchase agreements for limited periods. At other times, however, System holdings of securities were reduced in order to absorb reserves in excess of current needs. For the year ending April 30, 1952, although there were wide variations during the period, total Federal Reserve holdings of United States Government securities declined slightly as shown in table I.

During this period banks were supplied with some reserves on balance by other factors, primarily a gold inflow, offset in part by a growing currency demand. To obtain additional reserves, banks resorted increasingly to borrowing at the Federal Reserve banks; these borrowings fluctuated considerably in response to temporary needs for reserves and showed a gradual rising tendency. This was the first time banks had had to borrow to any significant extent since the early thirties. Since banks are generally averse to borrowing steadily and the Federal Reserve banks endeavor to discourage continuous borrowing by individual members, the result of such a situation was to exert restraint on bank credit extension and thus on growth of deposits.

Federal Reserve credit and bank reserves, changes from April 1951 to April 1952 [1]

[In billions of dollars]

Federal Reserve credit:	
United States securities	−0.5
Discounts and advances	+.2
Other factors affecting reserves (sign indicates effect on reserves):	
Gold stock and foreign balances at Federal Reserve banks	+1.8
Currency in circulation	−1.3
Other, net	+.3
Member bank reserve balances, total	+.5
Required reserves	+.6
Excess reserves	−.2

[1] Changes derived from monthly averages of daily figures for the 2 months indicated. Figures may not balance because of rounding.

In addition to the adoption of more restrictive monetary measures following the Treasury-Federal Reserve accord, direct controls were imposed on prices early in 1951 and the allocation of materials in short supply was made more rigorous. A general reaction set in from the overbuying, overpricing, and overborrowing of the previous months. In the following 12 months, Government expenditures for defense increased sharply, but expansion in business and consumer expenditures for durable goods halted, and the rate of accumulation of business inventories was reduced. Consumer expenditures for nondurable goods and services continued to increase moderately. Private credit expansion slackened. Prices in general showed little change. Some prices that had previously risen most sharply declined, while some other prices advanced moderately.

Private credit expansion continued in this period, but the rate of growth was much slower than immediately after the outbreak in Korea. Commercial banks, while slowing down their loan increases, added somewhat to their holdings of short-term Government securities, being motivated to do so by the attraction of higher rates and by the fact that their longer-term holdings were less liquid than they had been under the bond support policy. Credit developments in this and other periods are indicated in table II, which shows changes in outstanding amounts of selected types of credit and also by selected groups of lenders or investors for years ending June 30, 1950 to 1954.

Although corporate security issues increased from mid-1951 to mid-1952, as a result especially of needs to finance expanding defense activities, the rate of expansion in bank loans to businesses and in mortgage credits slackened considerably. Increases in consumer credit and in borrowing by State and local governments were kept within moderate limits, notwithstanding continuing strong demands. The moderation in credit growth was due in part to regulation

of consumer and mortgage credit terms and to the voluntary credit restraint program carried on by lending institutions. To a considerable extent, however, the slackened pace in making loans and investments resulted from the limitation on the availability of bank reserves, higher interest rates, and the reluctance of lenders and others to sell Government securities at the lower prices then prevailing.

TABLE II.—*Growth in major types of debt and equity financing*

[Net increase in amounts outstanding, in billions of dollars]

Distribution of growth by—	12 months ending June 30—			
	1954	1953	1952	1951
Major types:				
Federal cash borrowing	2.2	2.9	−0.5	−5.8
State and local government issues	5.5	3.1	2.6	2.8
Real-estate mortgages	9.9	9.4	8.2	11.3
Corporate bond and stock issues	6.7	7.7	7.3	4.7
Bank loans to business	−1.3	2.0	1.5	6.5
Consumer credit by banks and other lenders	.4	4.9	2.3	1.8
Bank credit not included above	2.4	.2	1.4	1.0
Total, major types of financing	25.8	30.2	22.8	22.3
Selected holders:				
Federal Reserve banks	.3	1.8	−.1	4.7
Commercial banking system	8.2	3.5	8.4	4.0
United States securities	4.9	−2.5	2.7	−7.2
Other loans and investments	3.3	6.0	5.7	11.2
Nonbank holders:				
Mutual savings banks	1.9	2.0	1.4	.9
Savings and loan associations	3.9	4.0	2.4	2.1
Life-insurance companies	4.5	5.2	3.7	3.7
Others, U. S. Government securities only:				
Individuals	0	1.5	−.9	−2.0
Corporations	−2.6	−.2	−1.1	1.6
Miscellaneous investors	.9	1.2	.9	1.0
Total holdings of above financing types accounted for by selected holders	17.1	19.0	14.7	16.0

NOTE.—Table shows net changes in selected types of loan extensions and new equity financing. Among types not included are trade credit other than consumer credit; interbank loans; security issues by foreign agencies, international organizations, nonprofit and eleemosynary institutions; nonbank loans for purchasing securities; and claims such as shares, passbooks, and insurance policies issued by financial organizations. Among holders, the most important exclusions are nonfinancial corporations, trusts, governments, and individuals, except for U. S. Government bonds.

These latter changes constituted in effect a decrease in liquidity and resulted in an increased demand for cash balances. The changed liquidity needs and the expanding volume of economic activity made possible a further substantial growth in bank credit and the money supply without generating inflationary pressures. Demand deposits and currency showed a further expansion of about $7 billion, or 6 percent, in the 12 months ending April 1952. Savings deposits, which had actually contracted following the Korean outbreak, increased substantially, as did savings in other forms.

In summary, it may be said that after the Treasury-Federal Reserve accord the Federal Reserve endeavored to adjust its policies so as to influence the level of bank reserves and the money supply in accordance with seasonal requirements, the capacity of the economy to produce goods and services, and sustainable economic growth in the economy. The discount function was restored as a means of supplying temporary needs for Federal Reserve credit in a manner that exerted restraint on unwarranted uses of such credit, thereby complementing open market operations in influencing the availability of credit at member banks. Discontinuation of rigid pegging of Government security prices removed the possibility of monetizing the public debt through sale to the Federal Reserve System at the initiative of the holders, nonbank as well as bank, and without loss to them. The excess liquidity of the economy was thereby removed.

Resumption of expansionary tendencies—spring of 1952 to spring of 1953

Beginning in the spring of 1952 the rate of increase in defense spending slackened, but there was a renewed expansion of private expenditures and private credit demands became more vigorous. Around the middle of that year direct regulation of consumer installment and real-estate credit and the voluntary credit-restraint programs were discontinued. These actions increased the dependence on general credit measures for restraining excessive credit and monetary expansion. Total national product increased in the following year as a result of growing private expenditures both for consumption and investment, including a building up of inventories. By late 1952 the economy generally was operating on an overtime basis. Wage rates again rose substantially and consumer prices advanced slightly; at the same time, however, wholesale prices continued to show more declines than advances.

All major kinds of credit increased more sharply in the 12 months ending June 1953 than in the preceding 12 months, as shown in table II. The biggest change was in consumer credit, which increased $5 billion as compared with only little change during most of the previous year. The United States Government became a net borrower of about $3 billion from the public, as compared with a reduction in its indebtedness in the previous year. The volume of mortgage loans completed and of corporate and State and local government securities issued was moderately larger than in the preceding year. Bank loans to businesses, reflecting inventory accumulation, expanded very sharply in late 1952 and failed to show the usual seasonal decline in early 1953.

A significant characteristic of this period was the amount of credit demands met from the genuine savings of the public. The net expansion in credit supplied by nonbank lenders was much greater than in the preceding year, while bank credit showed a smaller rate of increase. Furthermore, a larger portion of the bank credit represented the investment of savings deposits, which increased by 7 percent. Demand deposits and currency continued to expand but the annual rate of growth declined from 6 to 3 percent.

The Federal Reserve occasionally bought Government securities in this period but the objective of monetary policy continued to be restraint on undue credit and monetary expansion. Purchases were made at times of Treasury refundings during 1952 and subsequently offset in part by sales. Open market operations were also undertaken in response to seasonal influences affecting bank-reserve needs.

Over the whole period April 1952 to April 1953, as shown in table III, net purchases were less than enough to cover the drains on bank reserves resulting from gold outflow and larger currency demands. Banks had to borrow substantial amounts from the Federal Reserve in order to meet growing demands for credit. Discounts and advances at Federal Reserve banks generally exceeded a billion dollars from July 1952 to May 1953, and they averaged $1.6 billion in December 1952. This made banks much more restrained in their willingness to supply these demands. To make the policy of restraint more effective, the Federal Reserve discount rate was raised from 1¾ to 2 percent in January 1953.

TABLE III.—*Federal Reserve credit and bank reserves, changes from April 1952 to April 1953* [1]

[In billions of dollars]

Federal Reserve credit:	
United States securities	+1.4
Discounts and advances	+ .8
Other factors affecting reserves (sign indicates effect on reserves):	
Gold stock and foreign balances at Federal Reserve banks	— .7
Currency in circulation	—1.3
Other, net	+ .1
Member bank reserve balances, total	+ .2
Required reserves	+ .3
Excess reserves	— .1

[1] Changes derived from monthly averages of daily figures for the 2 months indicated. Figures may not balance because of rounding.

The restraints did not stop credit and monetary growth. The growth that occurred apparently corresponded closely to the capacity of the economy to absorb more money without inflation. Since the resources of the economy were generally fully utilized, any more credit might have resulted in inflationary price rises and moreover might have built up an unsustainable debt structure. Inflation was prevented, notwithstanding strong pressures of demand for more credit, and prices remained relatively stable. In some lines, particularly installment loans to consumers and inventory loans to business, the rate of expansion was apparently more rapid than could be sustained.

The money market showed a marked response to the strong demand for credit and the restraints on its availability. Interest rates rose during the period, reflecting the pressures of credit demand in excess of the available supply. The rise in interest rates was particularly great in the spring of 1953 when yields on high-grade securities and loans generally reached the highest levels for 15 to 20 years. Treasury bill rates approached 2½ percent, the average yield on long-term Treasury bonds rose above 3 percent, and a small new issue of 30-year Treasury bonds bore a coupon rate of 3¼ percent. Rates on new issues of high-grade corporate bonds exceeded 3½ percent, and federally guaranteed mortgages sold at discounts in the secondary market.

By May 1953 the market developed a condition of tension that threatened to become unduly severe. This reflected a number of converging factors. Apprehension arose regarding the ability of the credit market to meet borrowing demands of the State and local governments, consumers, home buyers, and business corporations, together with rising Treasury financing needs. The combination of a Government deficit and large private credit demands is exceptional for a period other than one of active war and it was difficult to gage the problems that it might present. At that time the Treasury made its offer on a $1 billion issue of 30-year 3¼ percent bonds to raise new money from nonbank investors. This offering gave probably the first tangible evidence of a striking nature, not only of the fact that the Treasury had to borrow substantial amounts, but also that it had to compete against large private borrowing demands for the available supply of savings at competitive rates if resort to the creation of an undue volume of new money through the banking system were to be avoided.

In addition to Treasury borrowing, private credit demands of various sorts were exceptionally large. New security issues by corporations and State and local governments exceeded $7 billion in the first half of the year—larger than in any previous half-year, and the amount of future issues scheduled was still large. Some of this borrowing was in anticipation of further stringency. About this time, also, the ceiling rates on the FHA and VA mortgages were raised after months of consideration, and a large volume of mortgages which had been held back pending the authorization of higher rates suddenly came on the market. The new rates, however, proved low relative to the tight market at the time, and such mortgages sold at discounts in the secondary market.

The continued high level of member bank borrowing from the Federal Reserve and the limited availability of reserve funds were keeping banks under pressure. The effect on the money market was a marked rise in interest rates, which exerted a considerable amount of restraint on private credit demands. The heavy pressures on the market were due to the growing demand for credit. The supply of credit actually increased substantially but did not meet all demands.

Slackening of activity after spring of 1953

Early in May 1953 Federal Reserve officials recognized that as a result of a combination of circumstances, some of which were unexpected, undue tension was developing in the credit market. They concluded that steps should be taken to temper restraints curently imposed on member banks, particularly in view of prospective seasonal credit and currency demands.

The Open Market Committee began early in May to supply reserves by purchasing Government securities and by midyear about $1 billion of securities had been acquired. Early in July some $1.2 billion of reserves were released to the banking system by a reduction in member bank reserve requirements. These actions made it possible for banks to decrease their borrowings sharply and to subscribe for a new issue of short-term Government securities early in July, as well as to meet seasonal credit and currency demands around the midyear.

Inflationary forces abated after the spring of 1953 and economic activity commenced to recede from the all-time high level reached in the second quarter of that year. Business inventory expansion slackened and subsequently contraction

in inventories set in. Home building plans were temporarily held up because of financing difficulties. Substantial cutbacks in defense expenditures began to be made by the Government.

As these evidences of business slackening became clearer, the Federal Reserve further eased credit conditions by purchasing additional securities in the market. Reserves thus made available were enough to cover the effects of a gold outflow and the customary seasonal rise in currency and credit demands, but the increases that actually occurred in currency and required reserves were smaller than expected. Member banks were thus able to use a part of the reserves made available to them to reduce their borrowings at the Federal Reserve banks. In February 1954 the Federal Reserve discount rate was reduced to 1¾ percent.

Developments for the first 12 months following the change in policy are summarized in table IV. In that period the reduction in reserve requirements of $1.2 billion and Federal Reserve purchases of securities of $1.3 billion enabled member banks to meet a small further gold outflow, to decrease appreciably their borrowings at the Reserve banks, and to obtain reserves needed to cover further deposit expansion.

TABLE IV.—*Federal reserve credit and bank reserves*

[Changes in billions of dollars [1]]

	April 1953 to April 1954	April 1954 to October 1954
Federal Reserve credit:		
United States securities	[2] +1.3	−0.2
Discounts and advances	−1.0	+.1
Other factors affecting reserves (sign indicates effect on reserves):		
Gold stock and foreign balances at Federal Reserve banks	−.5	−.2
Currency in circulation	0	−.3
Other	[2] −.4	0
Member bank reserve balances, total	−.6	−.5
Required reserves, due to—		
Reduction in requirements	−1.2	−1.6
Growth in deposits	+.4	+1.1
Excess reserves	+.2	0

[1] Changes derived from monthly averages of daily figures for the 2 months indicated. Figures may not balance because of rounding.

[2] Exclude effect of $500 million sale of Government securities to Treasury in exchange for free gold carried in Treasury cash balance.

Since April 1954 reserves needed for customary seasonal and other purposes have been supplied largely by a further reduction of about $1.6 billion in member bank reserve requirements. Reserves were supplied at times by Federal Reserve purchases of Treasury bills, while at other times to absorb redundant reserves bills were sold or not replaced at maturity. Thus banks have been able to meet seasonal credit and monetary demands and also to purchase new issues of Treasury securities with little borrowing.

Total credit demands, particularly for long-term purposes, continued substantial during the latter part of 1953 and in 1954, although less than in the preceding year. There was a decline in bank loans to business and consumer credit showed little increase from the middle of 1953 until recently. Mortgage lending began to pick up in the autumn of 1953 and has since been in record volume, stimulated in part by considerably liberalized downpayment and maturity terms, especially under Government mortgage programs. New security issues by corporations were slightly less than in the preceding year but those of State and local governments were much larger. The Federal Government remained a substantial net borrower.

Savings continued to meet a large portion of total credit demands as reflected in the figures of insurance companies, savings and loan associations, and mutual savings banks as well as in time deposits of commercial banks. The total of demand deposits and currency, which changed little from the spring of 1953 to the spring of 1954, except for normal seasonal movements, showed a more than seasonal increase after mid-1954.

As a result of the increased availability of funds and the slackened credit demands, yields on short-term Treasury securities declined by the summer of 1954 to the lowest level since 1949. Since the spring of 1954 yields on long-term Government securities and those on high-grade corporate bonds have been gen-

erally at the lowest level since the Treasury-Federal Reserve accord. Rates charged by banks on customer loans remained at about last year's higher levels until mid-March, when the rate to prime borrowers was reduced. Mortgage interest rates declined somewhat and discounts on guaranteed and insured mortgages were reduced substantially, with small premiums appearing in some areas.

Summary and conclusion

The role and objective of the Federal Reserve in the defense-mobilization period have been to make possible the provision of adequate credit and money for full utilization of, and growth in, the country's economic resources. At the same time, policy endeavored to prevent excessive credit and monetary expansion beyond the limits of productive capacity that would lead to inflationary developments and threaten the maintenance of stable growth.

During the period of restraint in 1952–53, Federal Reserve policy looked toward the avoidance of credit excesses which could cause real trouble once a downturn had come. This policy sought to even out the flow of capital investment by fostering deferment of some projects until slack had developed in the economy. During the period of ease since May 1953, the major contribution has been to facilitate as large a volume of bank lending as the economy required, and to provide support for mortgage lending and utility and State and municipal financing which has had its counterpart in a high volume of construction of residential property, utilities installations, public buildings, and road construction. These activities have been a substantial offset to declines in defense expenditures and in business inventories.

(2) How has the emphasis in the use of monetary instruments changed during the period since mid-1952? For example, how have the various instruments—open-market operations, discount policy, and reserve-requirement changes—been used under varying conditions? Has there been any reliance on moral suasion during this period?

At any given time, the Federal Reserve System pursues the policy it believes appropriate for the credit and economic situation. It has three major instruments available for effectuating its policy—open-market operations, discount policy, and changes in reserve requirements. These instruments are complementary and mutually reenforcing. Extent of reliance on any one of the instruments depends upon the System's judgment as to what may be most appropriate under the circumstances to further the general credit policy being pursued.

Description of the instruments

Open-market operations are carried out at the initiative of the System by making purchases or sales of Government securities in the market. Purchases of securities supply reserves to member banks. Sales of securities absorb or extinguish member bank reserves. These operations can be used to offset losses or gains in reserves from changes in such factors as currency in circulation or gold stock or to expand or reduce the volume of bank reserves.

Discount policy relates to Federal Reserve bank lending to member banks. The initiative in such credit extensions is taken by individual member banks when it is necessary for them to build up their reserve positions to required levels. The discount rates at which the Federal Reserve banks will lend to member banks are established by each Reserve bank from time to time, subject to review and determination by the Board of Governors, in accordance with the credit and economic situation.

Member banks, as a matter of well-established banking practice, are generally reluctant to operate on borrowed funds, or to stay long in debt. Therefore, under ordinary circumstances, borrowing at the Federal Reserve by individual banks is usually on a temporary, short-term basis. In unusual or emergency situations, of course, Federal Reserve discount credit may be outstanding to individual banks for longer periods. The general principles governing Reserve bank administration of the discount window arise out of law, regulation, and Federal Reserve discount experience.

By raising or lowering reserve requirements of the various reserve classes of member banks—within specified limits for each class as permitted by law—the Federal Reserve at its initiative may diminish or enlarge the volume of funds which member banks have available for lending. Action of this type thus influences the liquidity position of banks and their ability to expand deposits in relation to their reserves. By their nature, changes in reserve requirements affect at the same time and to the same extent all member banks within each reserve class subject to the action.

Interrelationship of the instruments

Although any one of these three major instruments will tighten or ease credit conditions, each of them has a somewhat unique role in carrying out System credit and monetary policy. Open-market operations have become the chief instrument by which the System influences on a current basis the volume of unborrowed reserves of member banks. Such operations are also actively used to exert important restrictive or expansive pressure on bank credit conditions when the economic situation calls for fundamental change in these conditions. Since a purchase or sale of Government securities by the System adds to or substracts from the reserves of the member banks, it will be reflected initially, other things unchanged, in the volume of excess reserves held by member banks or in the volume of reserves that member banks need to obtain by borrowing at the Federal Reserve banks. Reflecting the reluctance of member banks to incur indebtedness or remain long in debt, changes in the volume of member bank excess reserves or borrowing are promptly reflected in conditions of credit avail- the Federal Reserve banks. Rejecting the reluctance of member banks to incur become increasingly indebted and eased as the volume of that indebtedness is diminished or the amount of excess reserves is increased. Open-market operations are thus a flexible means for helping to achieve whatever condition of credit tightness, ease, or moderation may be appropriate.

The Federal Reserve discount rate is a pivotal interest rate in the credit market. In particular, short-term open-market rates tend to array themselves in relationship to the Federal Reserve discount rate, except in a period when the reserve positions of member banks are so easy as to obviate the need for borrowing at the Reserve banks. When through open-market operations bank reserve positions have been put under pressure (or have been allowed to get under pressure as bank credit and deposits expand), money rates will tend to range higher in their relationship to the discount rate. Conversely, as bank reserve positions ease, they will be lower in relation to that rate.

In a period, for example, when restraint on bank credit and monetary expansion is needed, open market operations and changes in the discount rate need to be used to reinforce each other. In the first instance, increasing pressure on bank reserve positions (increased need for borrowing) may be developed through use of the open-market instrument alone. At a point, however, it will become appropriate to support the effectiveness of this open-market action by an increase in the discount rate, strengthening the reluctance of member banks to remain indebted to the Federal Reserve by making borrowing more expensive as a means of adjusting bank reserve positions. Such discount rate adjustments tend to lag behind adjustments in market rates in a tightening credit situation. With an upward adjustment of the discount rate, market rates may shift further upward over a period of time as they re-form around the new and higher discount rate.

In a period when it is appropriate to ease credit conditions, open-market operations may be undertaken to supply reserve funds. Member banks may use these funds initially to reduce their borrowing. Since this action will put banks in a stronger position to increase their lending and investing activities, it will tend to be reflected in a stronger tone in money markets and in lower market rates in relation to the discount rate. To reinforce this credit-easing action, it may be appropriate at some stage to lower the discount rate, thereby keeping the cost of using this avenue for the temporary adjustment of bank reserve positions more nearly in line with the cost of making these adjustments through the sale and subsequent repurchase of market paper or securities.

Changes in reserve requirements can be used, like open-market operations, to tighten or ease bank reserve positions. As with open-market operations, the effect shows up initially in changes in the volume of member bank excess reserves and borrowing at the Reserve banks. Its impact on the money market and the availability of bank credit is, therefore, similar in many respects to that of a comparable open-market action.

The reserve-requirement instrument, however, is not interchangeable with the open-market instrument. Unlike open-market operations, the results affect immediately and simultaneously all banks in each reserve class. Changes in requirements, moreover, cannot be made frequently—especially on the up side—without unduly disturbing the operations of individual banks, since in our country adherence to reserve requirements is a basic rule to be observed in conducting a banking business. Changes in reserve requirements are, therefore, made infrequently and typically involve a fairly sizable volume of funds. The effects tend to be large and concentrated within a short period of time. The instrument

is more appropriate for making a major change in the volume of available bank reserves than it is for short-run adjustments. It is not adaptable to affecting bank reserve positions on a day-to-day and week-to-week basis, as are open-market operations. Nor is the instrument as sensitive and flexible a means of affecting general credit conditions as is the combined use of open market and discount operations. In fact, it may be desirable to engage in partially offsetting open-market actions in order to cushion the impact of reserve requirement changes in credit markets.

Use of the instruments since mid-1952

In an appended tabulation, exhibit A, the various credit actions taken by the Federal Reserve after mid-1952 are set forth, together with a summary of the surrounding credit and economic circumstances. A chart, exhibit B, shows the interrelated effects of these actions on member bank borrowings and excess reserves. Examination of these measures will make clear the interaction and interrelation of the major instruments following a pattern similar to that described above. As may be seen from the accompanying chart, the System did not fully meet through open-market operations the heavy demands of banks for reserves in the fall of 1952, with the result that there was a buildup in the volume of discounts. This pressure on bank reserves was reflected in a rise in interest rates, particularly in the short-term sector. The restrictiveness of this development was reinforced in early 1953 by an increase in the discount rates of the Reserve banks from 1¾ to 2 percent. Restraint on bank reserve positions was maintained over the first several months of 1953. Reflecting the very strong demand for credit from a variety of sources, interest rates, both long- and short-term, rose further.

The revival in this period in the use of the discount instrument, little used since the early 1930's, raised some problems of discount administration for the System. Through a lapse of time some member banks had lost familiarity with the principles of law and regulation relating to the appropriate occasions for borrowing at the Reserve banks. Under the excess-profits-tax law then in effect, it was profitable for member banks in excess-profits-tax brackets to borrow to increase their tax base, and, in order to improve their tax situations, a few of these banks began to rely on borrowing at the Reserve bank rather than adjustments in asset positions in maintaining their reserve positions. Some other banks seemed willing to remain indebted at the Reserve banks for extended periods in order to profit from differentials between market rates of interest and the discount rate. As these developments became apparent, they were dealt with administratively by the Reserve banks on a case-by-case basis.

With signs of an abatement of the inflationary threat in the spring of 1953, the Federal Reserve modified its credit policy. Easing actions were first undertaken through the open-market purchases begun in early May and made on an increasing scale through June. These open-market purchases were supplemented at mid-1953 by a reduction in reserve requirements. Taken together these actions made available sufficient reserve funds to meet seasonal reserve drains and credit needs at the midyear, including large Treasury needs, and at the same time greatly to ease pressures on bank reserve positions and to reduce member bank borrowing needs.

Additional open-market actions were taken over the second half of 1953 to expand further the supply of reserves available to member banks in accordance with usual seasonal factors. Actual credit demands did not come up to seasonal expectations, however, and member banks used surplus reserve funds to reduce their borrowings at the Reserve banks. By early 1954 banks were largely out of debt to the Reserve banks and over the first half of the year excess reserves increased steadily, largely reflecting seasonal factors. Easing actions by the open-market instrument were supported by reductions in the discount rates of the Reserve banks first in February and again in April and May. Interest rates declined sharply over the period in response to this combination of actions and the reduced demand for short-term credit.

In May of 1954 the Federal Reserve again began to supply bank reserves through open-market operations and around midyear reserve requirements of member banks were further reduced. This action was taken in order to promote further bank credit and monetary expansion and to make available funds to meet seasonal reserve drains and credit needs, including those of the Treasury. It was foreseen that the action would supply more reserves than were called for at the time and accordingly open-market sales were made to absorb a part of the funds. It was anticipated that these funds would be released to the market over the fall months as needed by open-market purchases and this was done. Theh dovetailing of reserve requirements and open-market actions in the summer of 1954 illustrates how the impact of a change in reserve requirements may be cushioned and spread over time by temporarily offsetting open-market measures.

Selective credit actions [1]

In addition to its general credit instruments, the System had during this period one continuing instrument of selective credit action, namely, margin requirements on stock market credit. Margin requirements established by the Board of Governors limit the amount which brokers, dealers, and banks may lend to customers in order to purchase or carry securities. Their statutory purpose is to prevent undue use of credit for stock market transactions. From the standpoint of credit and monetary administration, margin requirement regulation serves to minimize the bearing that stock speculation might have on the use of the general instruments of System policy discussed above.

In February 1953 margin requirements on stock market credit were reduced from 75 to 50 percent. The 75 percent margin requirement had been set in January 1951 as a preventative measure during that inflationary period. The action in early 1953 was taken in the judgment that a 50 percent requirement would be adequate to prevent an excessive use of credit for purchasing and carrying securities.

Use of moral suasion

Moral suasion is generally taken to refer to oral or written statements, appeals, or warnings made by the banking and monetary authorities to all or special groups of lenders with the intent of influencing their credit extension activities. During the period under review only minor use was made of this instrument within the Federal Reserve System.[2]

The term "moral suasion" is sometimes given a broader meaning to include any public or private statements made by Federal Reserve officials in the discharge of their responsibilities. As so defined it would include statements made to promote awareness and understanding of current credit and monetary problems on the part of the public and the financial community. It would also include conferences with member banks, individually and in groups, and with others in connection with the administration of various System functions, including particularly the discount function. On the basis of this broader definition, it may be said that moral suasion is constantly being employed by the System to promote public understanding of System actions and to ensure compliance with the law and with regulations issued pursuant to the law.

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[1] At times during the past the Board has also had temporary authority to regulate the terms of consumer and real-estate credit. Most recently, for example, regulation of consumer credit was undertaken in the early fall of 1950 under temporary authority granted by the Defense Production Act. The Board suspended such regulation in May 1952, and in the Defense Production Act amendments approved June 30, 1952, Congress repealed the authority to regulate consumer credit. In the fall of 1950 the Board was also given temporary authority to regulate real-estate credit terms. Such regulation was begun in midfall of that year and suspended in September 1952 to conform with the provisions of the Defense Production Act as amended. That act continued the authority for real-estate credit regulation until mid-1953, but required that the regulation be relaxed earlier if the estimated number of dwelling units started in each of 3 successive months was below a seasonally adjusted annual rate of 1.2 million.

[2] For example, the Federal Reserve Bank of Boston, on May 15, 1953, addressed a letter to all commercial banks in the First Federal Reserve District calling attention to relaxation of credit standards taking place in the market for installment credit.

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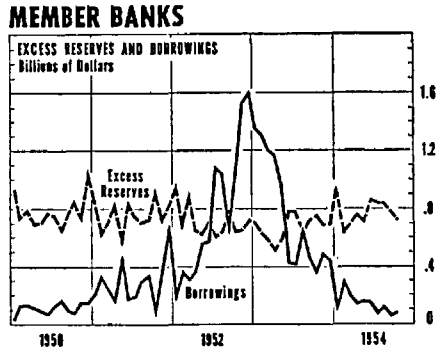
EXHIBIT A.—*Use of Federal reserve instruments, July 1952–October 1954*

Date	Action	Purpose of action	
		Intent with respect to effect on credit and money	Explanation
September 1952	Suspension of regulation of real-estate credit.	None	To conform with the terms of the Defense Production Act, as amended, requiring suspension of regulation if housing starts in each of 3 consecutive months fell short of an annual rate of 1,200,000 units, seasonally adjusted.
July–December 1952	Limited net purchases of U. S. Government securities in open market to $1.8 billion.	Restrictive	To meet seasonal and other reserve drains only in part, requiring banks to borrow some of the reserves needed so as to restrain bank credit and deposit expansion at a time when credit demand was very large and the economy was fully employed. Purchases in August and September were made primarily at times of Treasury refunding operations and were offset in part by subsequent sales.
January–April 1953	Sold or redeemed $800 million net of U. S. Government securities.	do	To offset seasonal changes in factors affecting reserves and thus to maintain pressure on member bank reserve positions.
January 1953	Raised discount rates from 1¾ to 2 percent and buying rates on 90-day bankers' acceptances from 1⅞ to 2⅛ percent.	do	To bring discount rates as well as buying rates on acceptances into closer alinement with open-market money rates and to provide an additional deterrent to member bank borrowing from the Reserve banks.
February 1953	Reduced margin requirements on loans for purchasing or carrying listed securities from 75 to 50 percent of market value of securities.	None	To reduce margin requirements from the high level imposed early in 1951, in the judgment that the lower requirement would be adequate to prevent excessive use of credit for purchasing and carrying stocks.
May–June 1953	Purchased in open market about $900 million U. S. Government securities.	Relief of credit market tensions.	To provide banks with reserves and to permit a reduction of member bank borrowing from the Reserve banks at a time when such borrowing was high, credit and capital markets were showing strain, and seasonal needs for funds were imminent.
July 1953	Reduced reserve requirements on net demand deposits by 2 percentage points at central Reserve city banks and by 1 percentage point at Reserve city and country banks, thus freeing an estimated 1.2 billion or reserves.	Expansive	To free additional bank reserves for meeting expected seasonal and growth credit demands, including Treasury financing needs, and to further reduce the pressure on member bank reserve positions.
July–December 1953	Made net purchases in open market of U. S. Government securities totaling $1.7 billion.	do	To provide banks with reserves to meet seasonal and growth needs and to offset a continuing gold outflow with little or no additional recourse to borrowing. This action and the one below were taken in pursuance of a policy of active ease adopted in view of the business downturn.
January–June 1954	Limited net sales to about $900 million of U. S. Government securities in open market.	do	To absorb only part of the reserves made available by the seasonal deposit contraction and return flow of currency thereby further easing bank reserve positions.
February 1954	Reduced discount rates from 2 to 1¾ percent and buying rates on 90-day bankers' acceptances from 2⅛ to 1¾ percent.	do	To bring discount rates as well as buying rates on bankers' acceptances into closer alinement with market rates of interest and to eliminate any undue deterrent to bank borrowing from the Reserve banks for making temporary reserve adjustments.
April–May 1954	Reduced discount rates from 1¾ to 1½ percent and buying rates on 90-day bankers' acceptances from 1¾ to 1½ percent.		

EXHIBIT A.—*Use of Federal reserve instruments, July 1952–October 1954*—Con.

Date	Action	Purpose of action	
		Intent with respect to effect on credit and money	Explanation
June–October 1954..	Reduced reserve requirements on net demand deposits by 2 percentage points at central Reserve city banks and by 1 percentage point at Reserve city and country banks, and requirements on time deposits by 1 percentage point at all member banks, thus freeing about $1.5 billion of reserves in the period June 16–Aug. 1.	Expansive.....	To supply the banking system with reserves to meet expected growth and seasonal demands for credit and money, including Treasury financing needs.
	Sold or redeemed U. S. Government securities totaling about $1 billion in July and August.	Cushioning...	
	Made net purchases in open market of about $400 million in September and October.	----------	Reductions in reserve requirements were offset in part by temporary sales of securities in order to prevent excess reserves from increasing unduly at the time, but security purchases were resumed as need for funds developed.



(3) What is the practical significance of shifting policy emphasis from the view of "maintaining orderly conditions" to the view of "correcting disorderly situations" in the security market? What were the considerations leading the Open Market Committee to confine its operations to the short end of the market (not including correction of disorderly markets)? What has been the experience with operations under this decision?

The matters referred to in this question relate to changes in techniques of System open market operations adopted in the spring of 1953. At that time, the full Federal Open Market Committee decided to amend its directive to the executive committee by dropping the clause authorizing operations to maintain orderly conditions in the market for United States securities and by substituting therefor a clause authorizing operations to correct a "disorderly situation" in the securities market. At the same time, the executive committee was instructed to confine its operations to the short end of the market. Closely associated was a decision taken earlier to discontinue direct supporting operations during periods of Treasury refinancing with respect both to maturing issues and to new issues being offered, as well as issues comparable to those being offered in exchange.

These three decisions did not change basic policy objectives. They were taken after intensive reexamination in 1952 of the techniques then employed in System

open market operations with particular reference to the potential impact of such techniques on market behavior. Their purpose was to foster a stronger, more self-reliant market for Government securities. Improvement in this market was desired (1) in order that the Federal Reserve might better implement flexible monetary and credit policies, (2) to facilitate Treasury debt management operations, and (3) to encourage broader private investor participation in the Government securities market.

The decisions were taken to remove a disconcerting degree of uncertainty that existed at that time among market intermediaries and financial specialists. The market was uncertain, first, with respect to the limits the Federal Open Market Committee had in mind in its directive to "maintain an orderly market in Government securities." A second uncertainty pertained to the occasions when the System might decide to operate directly in the intermediate and long-term sectors of the market to further its basic monetary policy objectives, i. e., to ease intermediate and long-term interest rates in periods of economic slack or to firm these rates in periods of exuberance.

Both of these uncertainties related solely to transactions initiated by the System outside the short end of the market, transactions which had as their immediate objective results other than a desire to add to or absorb reserves from the market. The effect, however, was to limit significantly the disposition of market intermediaries and financial specialists to take positions, make continuous markets, or engage in arbitrage in issues outside the short end of the market.

The constant possibility of official action, which from the standpoint of investors and market intermediaries would often seem capricious, constituted a market risk which private investors could in no reasonable way anticipate and evaluate in formulating their advance judgment about market prospects. Even a financial intermediary who appraised correctly the emergence of a situation, where the Committee might decide to intervene, would have little basis for estimating the exact timing of that intervention, the issues in which it might be concentrated or the levels at which it might take place. Such estimates are important to the sensitive rapid trading at very small spreads that is characteristic of a self-reliant securities market. Inability to make them may add a degree of risk that is more than financial intermediaries are willing to accept.

It became apparent that these uncertainties, so long as they persisted, would tend to perpetuate a condition of thin markets and sluggish adjustment as between sectors of the market. This impaired the attraction of Government securities as a medium of investment, since their very high status with investors rests on ready salability as well as on credit quality. From the point of view of the Federal Reserve System, such uncertainties might increase the probability of situations arising in which the Open Market Committee would be forced to intervene in various sectors of the market, either to prevent disorderly situations from arising or to see to it that funds it added to or absorbed from bank reserves in the pursuit of monetary policies found effective and appropriate response throughout the credit structure. In taking these decisions, the Federal Open Market Committee is not absolving itself from concern with developments in the longer-term sector of the market. It is particularly concerned that its policies shall be reflected in the cost and availability of credit in those markets.

In the case of all three decisions, subsequent experience with actual operating results has, on the whole, tended increasingly to substantiate the judgments that led to their adoption. This is particularly true of operating experience since June 1953. Wihout any intervention from the Federal Open Market account, except in the short end, the market for United States Government securities has become progressively broader, stronger, and more resilient throughout all maturity ranges. Experience during April and May 1953, just after the new techniques were adopted, and before their import was understood, is less clear. This was the period of mounting tension in the credit and capital markets analyzed in the answer to question 1.

In the 20 months' period of operations under these decisions, the economic climate has changed from one of boom to one of reduced levels of activity. Accordingly, Federal Reserve policies have been shifted from restraint against inflation to the active promotion of ease in the credit markets. Ease in the long-term markets, as well as the short-term money market, has been an important objective of these policies. Although all open-market operations, for technical reasons cited below, have been confined to the short end of the market, there appears to be no example that can be cited from Federal Reserve history where the cost and availability of credit in all sectors of the securities market has been

more sensitively responsive to shifts in Federal Reserve policy than during these months. This applies as fully to the market for long-term funds as for short-term funds; to the market for mortgage money, for business and industrial, State, municipal and public financing.

It is important to keep in mind the scope of the decisions relating to the new open-market techniques. They are decisions of the full Open Market Committee adopted for the guidance of its executive committee and the manager of the open-market account. They do not mean that no operations wil be undertaken henceforth outside the short end of the market. They do mean, unless modified by the Committee, that operations in other than the short end of the market will have to be specifically authorized by the full Open Market Committee, except operations to correct a disorderly situation. In that case the executive committee, which can be convened quickly by telephone if necessary, is empowered to authorize such corrective operations.

Background of new techniques

These three interrelated decisions are designed to hold to a minimum the technical market repercussions that result in some degree from any operation on the part of the Federal open market account. In one sense it may be said that any purchase or sale in a market by any party, private as well as public, small as well as large, disturbs the market in that it results in a change in demand and supply conditions in that market. The new operating techniques are not designed to prevent this type of repercussion. Such market response is necessary and desirable if a market is to perform efficiently the function of continuously equilibrating changes in demand with changes in supply. On the contrary, it is the primary objective of the techniques to contribute, so far as possible, to the development of such responsiveness in the market for United States Government securities. For this end to be realized, the market must be able to translate swiftly an increase in the availability of funds in any one sector of the market to increased availability in all sectors, and to soften the impact of decreased availability of funds on any one sector by spreading that impact over other sectors of the market. In a well functioning market capable of such resilient response, Federal Reserve policies can make their greatest contribution to economic stability and growth.

Technical characteristics peculiar to system transactions.—The danger that operations by the Federal open market account may, if executed through faulty techniques, exert an unduly disturbing or even disruptive effect upon the market for United States Government securities arises from four characteristics of these operations by which they are differentiated from purchases and sales of securities for the account of private firms and individuals.

First, the dollar amounts of reserve funds that are required to be injected into or withdrawn from the markets in the course of ordinary day-to-day operations are likely to be quite large, much larger than the average amounts bought or sold in the course of a day for any individual private account. This naturally puts some strain on the market mechanism which is likely to function most effectively when the aggregate of its transactions is made up of numerous individual transactions of relatively small magnitude.

Second, the open market account deals in reserve funds which provide a basis for a multiple expansion of credit. This means that when it buys it does more than merely add to the demand side of the market, as do other purchasers. The account pays for its purchases with a check on the Reserve banks. Consequently, it simultaneously adds to the reserve base sufficient buying power to absorb a much larger volume of securities. Conversely, when the open market account sells a Government security, the problem of the market is more than finding a buyer for that issue, as it must in the case of sales of securities by others. The purchasers must simultaneously pay for the security with commercial bank reserve funds which will be subtracted from the reserve base. This withdrawal of reserve funds will affect positively the supply of securities offered for sale.

Third, transactions by the open market account are not motivated by profit or loss considerations. They differ, consequently, from private purchases and sales which are so motivated. Private firms or individuals motivated by profit and loss considerations will not pursue purchases when prices rise or yields fall to levels that appear less remunerative than comparable alternative outlets for their funds, neither will they press sales and take losses with respect to either price or yield when alternative courses of action open to them appear less costly. The result of these motivations in a market with large numbers of participants is to generate forces that tend to slow down, or counteract, or limit

movements in either direction. The importance of these counteracting forces was effectively illustrated after the accord when the unwillingness of investors to take losses reduced offerings in the market for United States securities. This restrained expenditures and helped materially to prevent a continuation or resumption of the Korean inflation. These same motives do not govern transactions initiated by the Federal open market account, which are undertaken for policy reasons, and pursued, until policy goals are achieved, without regard to their effect upon the earnings of the Reserve banks.

Fourth, the Federal open market account is the largest portfolio of United States securities under single control. Its holdings of marketable United States securities approximate $25 billion or nearly 1 out of 6 of all such securities outstanding with the public. Its potential buying power is also very large. Transactions initiated by the Federal open market account differ, therefore, from privately initiated transactions not only with respect to their motivation but also with respect to the potential financial power that lies back of them.

Role of financial intermediaries.—These four basic respects in which transactions in United States Government securities initiated by the Federal open market account differ from privately initiated transactions find a reflection in the technical organization of the market for United States securities. They are particularly important in circumscribing the role which primary dealers in United States Government securities and other professional intermediaries are willing to assume in that market.

In general, a market such as the market for United States Government securities achieves depth, breadth, and resiliency when there are active within it, at all times, professional and intermediaries alert and willing, on their own capital and risk, to make continuous markets and to engage in arbitrage. To make continuing markets, they must stand willing continuously to quote firm prices at which they will buy reasonably large quantities of securities from any and all sellers, including each other. They must be prepared, if necessary, to hold such securities in their portfolio, pending subsequent resale. Similarly, a professional intermediary must stand ready to quote firm prices at which he will sell securities in reasonably large quantities to any and all purchasers, and must be prepared to enter into such contracts for sale even if the particular issues in demand are not in his portfolio at the time but must subsequently be purchased from others.

To make continuous markets successfully with his own capital and at his own risk, the professional intermediary must be alert to possibilities for arbitrage, i. e., he must sense when various issues are offered for sale or sought for purchase at prices which are mutually inconsistent with each other in terms of price relationships which may be expected to prevail in the near future. In such cases, the professional intermediary seeks to sell the issue that is overvalued and simultaneously to purchase the issue for which there is momentarily less demand. This requires a keen sense of values, and has the effect of keeping market quotations for comparable values in close alinement with each other. The sensing of such minor inconsistencies is less difficult when the two issues are in the same maturity sector of the market. It requires great skill, however, when they lie in different maturity sectors, for then the professional intermediary must stake his capital on a judgment as to price and interest rate relationships that may be expected to emerge as between the various maturity sectors of the list. When the financial intermediary, alert to possibilities for arbitrage as between the various maturity sectors, is able to make such judgments successfully, and is willing to act on them aggressively, the effect is to impart continuity and responsiveness to the whole market. Continuity exists when variations in quotations as between successive transactions are minor. Responsiveness obtains when the impact of sales in any particular sector, instead of being concentrated in that sector, is cushioned and dispersed in greater or less degree throughout all maturity sectors.

Technical repercussions of transactions for system account.—These technical factors, taken in conjunction, pose the problem dealt with in the decisions discussed in this answer. Since transactions in United States securities initiated by the Federal open market account differ in important respects from similar transactions for private account, there is a danger that they may set off adverse repercussions that impair the efficiency of the market as an equilibrating factor in the economy. The nature of these repercussions may be illustrated by analysis of a sales transaction initiated by the Federal open market account.

In any market, a transaction initiated by the seller is likely to have as one effect a lowering of price for the commodity sold. In the market for Government

securities, this means that sales initiated by any seller are likely to find their first expression in a softening of quotations for the particular security offered for sale. The softening is likely to be larger, the larger the amount that is offered. It is also likely to be larger if there is ground to expect that the specific offer for sale is only the first of a series of further offers. In the case of offers from the Federal open market account, these typical reactions and expectations are likely to be accentuated because such sales not only supply issues to the market for which purchasers must be found but also withdraw reserve funds from the market and diminish its ability to carry securities. They are made, furthermore, from the largest portfolio of the United States Government securities available for sale in the market. For all the market knows, they may be the forerunner of many more sales to come. Since they are not motivated by the twin incentives of maximizing gains or minimizing losses that motivate most other offers that appear in the market, but are made solely in the execution of monetary policy, they are properly regarded as a possible signal of the attitude of the monetary authorities with respect to the state of the economy. These reactions acquire peculiar significance when transactions are initiated outside the short end of the market because prices fluctuate most widely in these sectors in response to changes in the availability of securities relative to the demand for them.

This imposes a handicap upon private dealers and other professional intermediaries in the market whose function it is, first, to provide continuous markets by carrying portfolios and taking positions throughout all maturity sectors of the list, and, second, to maintain a consistent relationship between prices of different individual securities by being alert to possibilities for arbitrage. The gross operations of these professional elements are very large relative to their capital at risk. They maintain markets by trading at very small spreads. If they are alert, they can function effectively when variations in price from one transaction to the next are small, as they are likely to be when selling and buying is on private account, limited in volume by the needs of private investors for outlets for funds on the one hand, or for cash on the other.

Private professional intermediaries face a very different problem when prices in any group of securities vary sharply between transactions. Then the risk of making continuous markets and of engaging in arbitrage becomes too great. They tend to retire to the sidelines, so far as putting their own capital at risk is concerned. They cease, under these conditions, to make continuous markets, and confine their activities mainly to acting as brokers. As a result, the market for issues characterized by such risks becomes thin and moves over a relatively wider range between transactions. Such a market reacts sharply to relatively small bids or offers, and quotations that characterize an individual transaction become a poor guide to the values that would prevail on normal volume.

Technical advantages of operations in the short end of the market.—The danger that transactions initiated by the open market account may unduly disturb the efficient functioning of the market is much less acute when they are confined to the short end of the market. There are three main considerations which contribute to this result.

In the first place, the risk assumed by professional intermediaries when they trade in bills is much less than when they trade in longer term securities. Bills are traded on a discount basis, and the great preponderance of bills outstanding at any one time have a maturity of less than 3 months. This means they will always appreciate to par within that period. Bills are ideal collateral, furthermore, and can always be used as security for loans. It is not too difficult, therefore, to hold them to maturity. The main financial hazard attending professional operations in bills is that the holder will have to pay more in interest when he borrows to carry them than they gain in price as they approach maturity.

Another reason is that the bill market is accustomed to relatively large transactions such as the open market account must undertake in absorbing and releasing reserves. It is the market in which all financial institutions typically adjust their day-to-day positions. Trading is continuous and the market is accustomed to a large volume of individual transactions.

Finally, the financial markets do not attach the same significance to System operations when they are transacted in bills as they do to transactions in other sectors of the market. Financial experts know that the Federal Open-Market Committee is more or less continuously engaged in putting funds into or absorbing funds from this market as it compensates for large day-to-day fluctuations in the amount of float, in Treasury balances, in the demand for currency, and in other factors. The appearance in the bill market of purchase or sell orders initiated by

the Federal open market account has no general long-term policy significance in the great majority of cases, and therefore does not so readily give rise to apprehensions that a change in policy is imminent.

Summary of technical considerations.—To summarize, transactions initiated by the Federal open market account, particularly transactions in intermediate and long-term issues, may seriously affect the efficiency of the market. The initial impact of such transactions falls first on the professional intermediaries of the market whose willingness to take positions gives continuity to the market and whose willingness to engage in arbitrage works to cushion a concentrated impact of such sales on part of the price structure by spreading their effect in greater or less degree throughout all maturity sectors.

These intermediaries confront great difficulty in estimating how large transactions for the Federal open market account may be, how long they may continue, or how large are the losses the seller may be willing to absorb. Such estimates, however, are essential to the efficient performance of the professional intermediary whose operations make continuous sensitive markets possible. Without them, dealers and other professional intermediaries have less basis for decision as to the amounts of securities they can afford to take into portfolio, or the points at which they can undertake an arbitrage operation. The ability to make such supply and demand estimates correctly on the average is a rare skill which a professional intermediary in the market must possess in high degree to survive.

When market conditions are such that approximate supply and demand estimates cannot be made, the continuity and sensitiveness of the market is seriously impaired. Dealers and other professional intermediaries in the market become reluctant to take positions and to undertake arbitrage. Instead, they tend to confine their role to that of brokers, operating mainly on a commission basis. In this role, they offer to find buyers for issues pressed for sale, and other sellers for issues in demand, but they do not themselves purchase or sell securities at their own risk. They do not, therefore, perform the function of giving breadth and continuity to the market by their willingness to take securities into position.

This situation presents a very real dilemma to the monetary authorities. Monetary policy is most effective and can make its maximum contribution to economic stability and growth without inflation at high levels of output and employment when the entire credit structure is sensitively responsive to its operations. Federal Reserve operations exert their constructive influence most effectively when they affect the cost and availability of credit throughout all sectors of the market. This is particularly true of the long-term market where the rate of saving and the cost and availability of funds register on capital formation. The effectiveness of monetary policies is definitely hampered when markets are thin.

Historical background of new techniques

Market conditions, adverse to the proper functioning of dealers and other professionals in the market for Government securities, were strongly in evidence during the period of pegging prior to the Treasury-Federal Reserve accord of March 1951. Dealers in United States Government securities tended to confine their operations to the broker function, coming to the Federal open market account for securities when they were in demand in the market and disposing of securities to the Federal open market account when they were in supply. Under these conditions, the account itself performed the function of making continuous markets for most maturity sectors even including the very short end of the market. It did so, of course, at the expense of monetary policies appropriate to the stability of the economy. The reserve funds that were made available almost automatically under the technique of pegging operated to augment the availability of credit and thus to increase the demand for commodities to a volume that was in excess of what could be supplied. The result was to incorporate into the base of the price structure a spiral of rising costs and prices.

This inflationary process was stopped early in 1951 when the Federal Open Market Committee discontinued pegging the prices of United States Government securities. Thereafter, as is brought out in the reply to question 1, the reserve funds released or absorbed through open-market operations were adjusted more closely to the needs of a growing economy operating without inflation at high levels of activity. The market for United States Government securities showed its basic strength at that time by adjusting to the new situation with much less disturbance than many close and informed observers had

expected, and within a few months the operations of the open market account were almost wholly confined in practice to the short end of the market.

The Federal open market account continued during this period, however, to engage in operations in support of Treasury refinancing. The volume of reserve funds released in these supporting operations became, as time passed, a matter of increasing concern to the Federal Open Market Committee. They were large in volume and had later to be recovered by offsetting sales if the fueling of inflationary forces was to be avoided.

Concurrently, there was increasing concern at the failure of certain sectors of the market, particularly the long-term sectors, to develop the degree of depth, breadth, and resiliency that would be desirable from the point of view (1) of effective refinancing of the public debt, (2) of the effective execution of monetary policies, and (3) of the effective operation of the market in shifting or allocating funds among various users.

Specifically, following the accord, the long end of the market was described by competent observers as "thin." This was illustrated by the fact that prices of long-term Government bonds fluctuated over a relatively wide range in response to the appearance of relatively small buying or sales orders. It indicated that, so far as the longer sectors of the market were concerned, dealers and other professional intermediaries still tended, on the whole, to confine their operations to the broker function. Operations undertaken at their own risk, either to maintain continuous markets or for arbitrage, remained limited on the whole to relatively small commitments, too small to give the market a desirable degree of self-reliance.

It was in this setting that the Federal Open Market Committee undertook, in 1952, to reexamine intensively the techniques employed by the System itself in its contacts with the market for United States Government securities to see whether any changes could be made in those techniques that would contribute to a stronger, more smoothly functioning market. This examination led, among other things, to the three interrelated decisions that are dealt with in this reply. These decisions have fostered a more effective and efficient market for United States Government securities in two ways: First, by reducing to a minimum the direct disturbing or disruptive impacts on the market of transactions initiated by the System; and, second, by establishing a climate of expectations in the market that would encourage private operators to engage more actively in making continuous markets and in arbitrage.

The accomplishment of these results has had beneficial effects on System open-market operations from a monetary point of view. These operations are now confined to the amounts necessary to effectuate basic monetary policies—that is to say, they have come to be limited to providing or withdrawing reserve funds in amounts and at times appropriate to the general economic situation.

Decision to discontinue support of Treasury refinancing

The decision to discontinue support operations during periods of Treasury refinancing was mainly important in improving the timing, reducing the volume and minimizing the disturbing or disruptive effects of System operations on the market. Its importance in minimizing the volume of operations initiated by the open-market account and in improving their timing shows up strikingly in the record of System operations between July 1, 1951; i. e., after the market had adjusted itself to the accord; and September 30, 1952, the last month in which direct support was given to a Treasury refunding issue. During these 15 months, direct operations for System account put reserve funds into the market amounting to $2,418 million net, during periods when the Treasury was refinancing. During the same 15 months the net effect of all open-market operations initiated by the System in the intervals between these periods of refinancing was to withdraw $1,658 million. In other words, during those 15 months, a large volume of sales from System account were made solely to absorb reserve funds in excess of basic needs that had previously been put into the market to support Treasury refundings.

This phenomenon has entirely disappeared since the autumn of 1952 when the practice of giving direct support to Treasury refinancing was discontinued. At the same time, the rate of attrition incident to Treasury refunding operations, i. e., the relative proportion of maturing Treasury securities that have been presented for cash payment at maturity, has averaged lower than it did in the period when such direct support was given. This wholly satisfactory result reflects, of course, the nature and pricing of new securities offered by the Treasury since supporting operations were discontinued as well as improved performance on the part of the market under the new operating techniques.

Decision to confine operations to the short end of the market

The technical considerations that account for the decision to confine operations to the short end of the market have already been discussed. The decision was taken to remove an obstacle that appeared to account, in part at least, for an undesirable degree of "thinness" in the intermediate and long-term sectors of the United States Government securities market after the accord. It was not taken without consideration of alternative techniques from the point of view both of the possible effects of these techniques on market behavior and of their implications in the development and effectuation of credit and monetary policy.

Alternative to operations at the short end of the market.—The problem of how to deal with the effects of central bank transactions on market behavior are not confined to this country. They are present in greater or less degree in all countries with highly developed credit structures where open market operations are used as a principal means of effectuating monetary policies. Some monetary authorities have tried to meet the problem by themselves assuming primary responsibility for making continuous markets and for arbitrage. They do this by being themselves prepared to buy or sell in all maturity sectors of the Government securities market. When a particular issue in demand is in relatively scarce supply in the market, the monetary authority is prepared to make the desired securities available from its own portfolio. It may then have to purchase other securities from other sectors of the list to offset the effect of the sale upon bank reserves, if the basic objectives of monetary policy do not justify an absorption of reserves from the credit base.

This procedure resembles in many respects that which was employed by the Federal Reserve System when it was engaged in pegging the prices of Government securities prior to the accord and for a period afterward during periods of Treasury refinancing. It has the important difference that no attempt is made to perpetuate any particular price level for Government securities. Rather, when this is done, the monetary authority comes to a judgment not only as to the general interest rate level but also as to what structure of rates would be most appropriate in the various maturity sectors of the market and is prepared in its operations to make these levels effective. As economic conditions change, requiring a different level of interest rates or a different structure of rates as between the various maturities, the monetary authority uses its own operations to move the prices of securities quoted in the market and market rates of interest to levels it rgards as more appropriate to the new situation.

When monetary authorities adopt this technique, the problem of thin markets and sluggish arbitrage is in a sense eliminated, since the monetary authority is itself prepared to maintain continuous markets and to establish directly and to change from time to time the levels of prices and of interest rates which it regards as appropriate to the various maturity sectors of the market. The various securities in its portfolio become part of the potential market supply and it takes over the role of primary jobber to the market. At the same time, for reasons already noted, dealers and other professional middlemen operating on their own capital and at their own risk tend to confine their activities to that of brokerage.

It has been recognized within the Federal Reserve System since the accord that the technique described above not only had intrinsic defects but was inapplicable to the American economy. Considerable thought has, however, been given to a variant of this approach, namely, one in which the Federal Open Market Committee would normally permit the interplay of market forces to register on prices and rates in all the various maturity sectors of the market but would stand ready to intervene with direct purchases, sales, or swaps in any sector where market developments took a trend that the Committee considered was adverse to high level economic stability.

It will be readily appreciated that this variant differs decisively from that described above. Instead of taking affirmative responsibility to make continuous markets and to establish interest rates and prices in all the various sectors of the list, the Committee under this variant would operate normally in the short end of the market, absorbing or releasing reserve funds from day to day in accordance with general policy directives. It would stand continuously ready, however, to intervene in any sector of the list when it considered such intervention might further the objectives of monetary policy.

Such intervention would not necessarily have to be decisive. The fact that the Committee purchased or sold securities at any given quotation would not mean that it was prepared to engage in similar subsequent transactions to maintain the same price. Rather, it would seek, by occasional purchases and sales

at the fringe of the market, to cushion or reverse declines or advances at some times and to accelerate them at others. In each case of intervention, the decision whether to accelerate or cushion would be based on an evaluation of what was considered most appropriate at the time to the achievement of the objectives of monetary policy.

This variant, which paralleled closely the actual pattern of System operations during the period following the accord up to the spring of 1953, was not adopted because it did not appear to offer real promise of removing obstacles to improvement in the technical behavior of the market.

System open market experience from the accord to March 1953.—During the greater part of the first 2 years after the accord, the great bulk of transactions actually undertaken by the System was confined, in fact, to the short end of the market. These included purchases to support Treasury refinancings, most of which were executed in the short end of the market. At the same time, the policy statement of the Federal Open Market Committee directed the executive committee to maintain orderly conditions in the market for United States Government securities. It was generally understood during this period, both within the System and in informed market quarters, that it was the policy and desire of the System that a free market for United States Government securities should develop and be permitted to make its maximum contribution to economic stability both in the sense of equating the demand for funds for investment with the supply of savings (with due allowance for the growth factor in the money supply) and of being permitted to allocate these demands and supplies as between the various sectors of the market. At the same time, it was understood that the System stood ready through open market operations, without restriction as to maturity, to check undesirable movements in prices and interest rates.

In comparison with the preceding period in which the practice of pegging prices and yields contributed to the inflationary potential, this shift in policy and technique was in the right direction. Despite the forebodings of many who prophesied that the dropping of the pegs would be followed by chaos, a free market did develop when the pegs were dropped and did play a major role in stopping the inflation and in sustaining the economy at high levels of activity. There was no catastrophic shift in prices of Government securities. There was no panic. Confidence in the stability of the dollar was restored. The results of the action in all major respects, except one, corroborated the judgment of those who took the responsibility for its initiation.

The exception, already noted, was the thinness that continued to characterize the intermediate sector and the long-end of the market for United States Government securities. At first, this was generally explained by the fact that a return to a free market after so long an interval would necessarily be accompanied by some frictions. It would necessarily take time, it was felt, for appropriate mechanisms to develop in the market before it could perform its normal functions at high efficiency. As time went on, however, these mechanisms failed to develop adequately and the problem of thin long-term markets continued to exist. It was in this setting and, in part, to consider how to deal with this problem, that the Federal Open Market Committee in 1952 undertook the studies that led to the three decisions treated in this question.

Decision to change directive with respect to orderly markets

During the period from the accord to March 1953 there was considerable misapprehension and confusion with respect to the interpretation of the phrase "orderly markets," a situation which in many respects was justified. The clause in the directive requiring the executive committee to maintain orderly markets was in the directive prior to the accord and was the authority under which many stabilizing operations were taken at that time. The fact that the phrase had not been changed after the accord but instead had been interpreted less restrictively left legitimate grounds for uncertainty with respect to the interpretation that might be placed upon it in future operations.

The decision to change the directive to the executive committee "to maintain orderly markets for United States Government securities" to read "to correct a disorderly situation in the Government securities market" was made to remedy this misapprehension and confusion. This gave notice that the Federal Open Market Committee would not intervene to prevent fluctuations of prices and yields such as normally and necessarily occur as markets seek to establish equilibrium between supply and demand factors and to allocate savings as between the different maturity sectors. Instead, it indicated that the market would have to be clearly disorderly before such intervention would occur.

The primary aim of this shift in operating objectives was to foster in the market a climate of expectation with respect to System intervention that would encourage maximum private participation in market activities. In combination with confinement of operations to the short end of the market, the shift also contributed to minimizing the disturbing or disruptive effects of System operations.

Experience with the new techniques

These decisions were taken in March of 1953 in the hope and expectation that they would provide an environment in which professional intermediaries in the market would begin to broaden the scope of their operations in a way that would give greater depth, breadth, and resiliency to the intermediate and longer sectors. Specifically, it was hoped that these intermediaries, faced mainly by business and market risks which they were in a position to evaluate and freed from the risk of disturbing or disruptive repercussions arising from direct intervention by the Federal Open Market Committee, would begin to make more continuous markets and engage more promptly in arbitrage through all maturity sectors. It was hoped that they would sufficiently improve the market so as to minimize the occasions for direct System intervention in these sectors of the market, intervention either to correct the development of a disorderly situation or intervention to hasten the market's response to changes in credit and monetary policy. These expectations to date have been on the whole fulfilled, although, of course, it is recognized that this approach is still experimental and that insufficient time has elapsed to draw firm conclusions.

The first and most difficult test came in the spring of 1953, within a very short time after the new techniques were adopted, and before their impact had been evaluated or understood. This was the period described in the answer to question 1 when great tension developed in the long-term investment market, sufficient tension to require vigorous offsetting action by the Federal Reserve System. There were many at that time who felt that direct System intervention in the long-term money market was the only remedy that would relieve the situation. This view gained adherents when the first purchases of bills, initiated by the System early in May 1953, found relatively small immediate response in relieving tension in the long-term sector of the market even though the Treasury with its own funds made some purchases in that sector during this period. Finally, as the Treasury made larger purchases and the open-market account undertook to supply reserves in large volume through an aggresive purchase of bills, the tension began to subside.

Subsequently, all sectors of the market, long, intermediate, and short, have been characterized by great improvement with respect to their depth, breadth, and resiliency. Private arbitrage has brought about a sensitive response to the System's monetary policy in the long-term sectors of the market. The ease that for some time has pervaded the money and credit markets may account for part, but it does not by any means account for all, of these results.

It has been a primary objective of System credit and monetary policy during this period to encourage an expansion in private activity financed by long-term funds. This has also been a main objective of Treasury debt management policy which has refrained from competing with mortgage borrowers and other potential users of long-term savings. While, under the new techniques, open-market operations to help effectuate this policy objective have been confined entirely to putting reserves into the short market, the response in the form of increased availability of funds in the long-term capital markets, including even the semi-isolated mortgage market, has been gratifying.

The recession of industrial activity during this period has been exceptionally mild as compared to other periods, even milder than the recession of 1949 when United States security prices were pegged. It would be very difficult to make a case that direct intervention in the long-term markets during this period would have induced an even better response.

Such is the experience with the new techniques to date. As previously pointed out, it remains for them to be tested in other more normal periods of Federal Reserve operations. Only time and further experience will tell whether problems not now foreseen will or will not emerge. If they do, it will be the duty of the Federal Open Market Committee to deal with them in the light of its accumulated experience.

Conclusion

The formulation of appropriate credit and monetary policy is, at best, difficult. It requires, first, painstaking search for all the relevant facts that may bear on

the economic and financial outlook; second, all the wisdom and insight that experience and operating contacts can bring to the interpretation of those facts, and, finally, and perhaps most important, humility with respect to any emerging situation. There are relatively few occasions when the meaning of developing events is so clear that the monetary authorities can say, "As of today, our policy should be changed from restraint to ease." A shift in policy emphasis more typically emerges from a succession of market developments and administrative decisions in which the range for variation needed in pursuit of any particular policy gradually shifts from the side of ease to the side of restraint or vice versa.

The various factors that exert an impact on bank reserve positions are at best difficult to forecast in advance. There is a considerable margin of uncertainty in any forecast of factors absorbing or supplying reserves. Yet these forecasts or projections must be made in planning open-market operations. In consequence, there is frequently much discussion, when prospective purchases or sales are authorized, of whether it would be wiser to deal with the area of uncertainty in the forecast in the direction of restraint or in the direction of ease. These changing shifts in emphasis do not necessarily mean that a new policy direction is emerging. Usually, however, by the time the facts of the economic situation are sufficiently clear to lead to the adoption of a changed policy directive, it will be found that these day-to-day allowances for uncertainties in the forecasts of reserve availabilities have begun to be increasingly resolved on the side later indicated by the new policy directive.

Such tentative testing and probing of the responsiveness of the economy to monetary actions would be much more difficult if the Federal Reserve were to make itself responsible not only for adding to and withdrawing marginal amounts of reserve funds from the money market but also for making continuous markets and establishing interest rates and prices prevailing in all sectors of the security markets. Then any changes in such interest rates and prices could result only from direct administrative decisions. Such decisions would carry considerable significance in themselves and would require adequate justification.

Such justification might not be too difficult to find if the American economy customarily relied on the import of capital for its development. In that case, the necessary signals would usually be furnished by movements of prices and interest rates in the various sectors of the foreign financial market from which the capital was imported. In fact, however, the American economy is a high-saving economy that exports rather than imports capital. In this country if the structure of interest rates were too closely controlled, it would be difficult to tell from the character of the market response whether and when new trends were developing within the economy. The allocation functions of the market place in determining relationships between the cost and availability of funds in the various sectors of the market, short-term, intermediate, and long-term, would be in abeyance, and responsibility for efficient performance of these important economic functions would be transferred to the area of official discretionary action.

In conclusion, it needs to be emphasized once more that it is not contemplated that these new techniques will never be changed. The Federal open-market committee must always be prepared to tailor the techniques of its operations to the requirements of the economy. In the development of those techniques, situations may well arise when the Federal Open Market Committee will want to operate directly outside the short end of the market.

It must also be emphasized that the new techniques do not imply that the Federal Open Market Committee is unconcerned about developments throughout the securities market or that it is committed to dealing only in he short end of the market whatever may happen to prices and yields of long-term securities. The Federal Open Market Committee directive specifically and positively enjoins the executive committee to operate to correct a disorderly situation in the market for United States Government securities if one develops. Such situations rarely do develop in efficiently functioning markets. History indicates, however, that there are occasions when a market becomes clearly disorderly and in itself threatens economic stability. This happens when a selling or buying movement feeds on itself so rapidly and so menacingly as to prevent counteracting forces from developing within the market mechanism. Usually, these situations reflect a serious deficiency or excess of reserve funds and can be corrected by

operating to adjust the volume of reserves to the requirements of the economy. Sometimes, however, they occur in response to other factors. Under the Federal Open Market Committee's present directive, the executive committee is responsible for diagnosing such a situation if one develops and for dealing with it decisively without any restriction whatever as to sectors of the market in which transactions are initiated.

(4) What is the policy with respect to volume of money?

The policy of the Federal Reserve System with respect to the volume of money is to provide as nearly as possible a money supply which is neither so large that it will induce inflationary pressure nor so small that it will stifle initiative and growth. Put another way, the policy is to help maintain a volume of money sufficient to facilitate the consumption and investment outlays necessary to sustain a high level of production and employment, without leading to spending and investing at a rate which would outstrip the supply of available goods at prevailing prices and generate speculative conditions. Judged from this standpoint, the amount of money required varies with such factors as: the productive capacity of the economy; the state of business expectations; economic dislocations of various kinds; seasonal fluctuations; and changes in money turnover or velocity reflecting variations in liquidity and the demand for liquidity on the part of businesses and consumers.

In the past, the monetary supply has shown considerable fluctuation over the course of business cycles. It is the policy of the Federal Reserve System to counteract, insofar as possible, the tendency for excessive cyclical swings in the volume of money.

An economy which is expanding requires an increasing supply of money to facilitate its growing volume of transactions. Additions to population and productive capacity and a growing complexity of economic organization give rise to increased needs for cash balances. It is the policy of the Federal Reserve System to foster growth in the money supply in accordance with these needs.

Like any other modern monetary system, the monetary system of the United States is complex. In view of its complexities, it is not feasible to rely upon any mechanical formula for the determination of the volume of money appropriate to a given economic situation. This subject is one requiring continuous examination and study—historically, currently, and prospectively—of the various changing forces affecting the economy's need for money.

Our monetary organization and its complexities were discussed at considerable length in the reply of the Chairman of the Board of Governors to question 28 of the questionnaire addressed to him in 1951 by the Subcommittee on General Credit Control and Debt Management, under the chairmanship of Representative Patman. They were also treated again in an article under the title "The Monetary System of the United States" published in the Federal Reserve Bulletin for February 1953.

(5) Has monetary machinery (a) worked flexibly, and (b) has the market demonstrated flexibility in its responses to changes in policy? For example, how has the policy of "active ease" been reflected in the level and structure of interest rates, the volume of credit, and the roles of various types of lenders?

The monetary machinery since mid-1952 has worked flexibly, and the market has responded flexibly to changes in credit and monetary policy. The effectiveness of credit and monetary policy is due in part to its adaptability to changing economic circumstances. During late 1952 and early 1953, inventories were rising, the Federal cash deficit was increasing sharply, consumer installment indebtedness was growing rapidly, capital outlays were being made on a large scale, credit demands generally were very strong, and forward commitments were taking on a speculative hue. With the economy already operating at virtually full capacity and producing in excess of final takings from the market, these developments constituted a threat to long-term stability and growth. Accordingly, Federal Reserve policy from mid-1952 to late spring 1953 was directed toward restraint of further increases in spending financed by bank credit. With abatement of inflationary pressures in the late spring of 1953, the Federal Reserve readapted its policies to promote orderly realinement of activities and to foster a climate favorable to resumption of economic growth.

The influence of credit and monetary policy can be traced through observations of changes in five interrelated factors: the availability of credit relative to demand, the volume of money, the cost of borrowing, capital values, and the general liquidity of the economy. Examination of each of these factors helps to illustrate the points of "flexibility" and "responsiveness" raised in this question.

In considering these factors it is important to keep in mind that credit and monetary action is only one of the many factors, although an important one, affecting the general level of economic activity. The influence of credit and monetary policy in any period is necessarily conditioned by various other policies and programs of the Federal Government, by economic and political developments abroad, and by public responses to a variety of unpredictable events. Also, the effectiveness of credit and monetary policy in a particular period needs to be judged in the light of broad experience and observation. One of the difficulties with such judgments is that financial and institutional practices are constantly changing so that close comparison with past periods may not be entirely appropriate. These changes result in financial adjustments which differ in responsiveness and degree of lag from one period to another.

Availability of credit

Changes in the availability of credit, while not subject to statistical documentation, may be observed in a general way from the terms and conditions which lenders require in granting credit, from their passivity or aggressiveness in seeking out new outlets for loan funds, and by the response that borrowers experience to their applications for credit. During the period of credit tightening through late spring of 1953, for example, the very large demands for credit exceeded the substantial volume of funds available for lending and lenders had to adjust their operations to this fact. Some lenders, particularly banks, tended to favor short-term credits and reduced their longer term lending.

Other actions to discourage undue borrowing were adopted by various lenders. Commercial banks tended to require larger minimum deposit balances from borrowers. Insurance companies tended to write more restrictive call provisions and other features into their private-placement agreements. Mortgage lenders generally tended to favor paper with shorter terms and to require larger downpayments. Also, lenders cut back their activities for developing new credit outlets, became reluctant in many cases to accept new borrowing customers, and reduced the volume of their lending to borrowers who were marginal in terms of risk and longrun profitability. These tendencies became more pronounced as the tightening movement progressed.

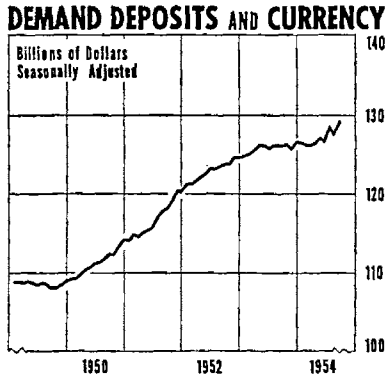
With credit easing after the late spring of 1953, these developments were reversed. In general, lenders found themselves with more funds available relative to the demand than earlier, and were under pressure to keep such funds fully invested. As a result, uses of credit were promoted that under tighter money conditions had been postponed or curtailed. The volume of new security issues was maintained at a very high level throughout the period of business decline, and a number of these issues, particularly State and local government revenue issues, were of a type that would not have been brought out in the earlier period of restraint. Mortgage credit became available on more liberal terms with respect to downpayment and maturity, and lending commitments to builders again came to be readily arranged. Consumer credit standards and terms also eased, although with more lag than in the case of mortgage credit. Commercial banks, moreover, became more aggressive in term lending and tended to lengthen somewhat the maturities of their investment portfolios as well as to widen the area of their investment interest. In some cases these liberalizations went further than had been attained in the preceding period of credit ease.

Volume of money

The accompanying chart shows the movement in demand deposits adjusted plus currency in circulation, seasonally adjusted, since mid-1952. Federal Reserve restraints on the expansion of bank credit during the period of inflationary threat from mid-1952 to late spring of 1953 were effective in curbing growth in the money supply at a time when pressures for bank credit and monetary expansion were very strong. During this period, the demand deposit and currency holdings

of individuals and businesses increased by $3 billion, or about 2½ percent. This compares with a growth of over 6 percent in each of the preceding 2 years.

Over the past year and a half, the money supply increased further even though business activity declined over the first half of that period. Demand deposits and currency of businesses and individuals leveled off during the second and third quarters of 1953, after allowances for usual seasonal movement, rose moderately thereafter through mid-1954, and subsequently increased sharply. Over the year ending September 1954, the money supply expanded by $3 billion, or approximately 2½ percent. This expansion, which reflected primarily an increase in bank holdings of Government securities, is in contrast to the behavior of the money supply in most previous periods of business decline. In some previous recession periods the money supply contracted, reflecting a significant liquidation of bank credit as a factor of economic recession. Under such circumstances, curtailed liquidity put consumers and businesses under pressure to reduce their spending, thus contributing to further recession in activity.



Cost of borrowing

The accompanying table of selected market interest rates since mid-1952 shows the changes that have taken place in the cost of borrowing. Reflecting the combined influence of heavy credit demands and restrictive Federal Reserve policy, interest rates began a general advance in the second half of 1952. The advance accelerated in early 1953, with peaks for this movement reached in June. Thereafter, the interest rate movement was reversed as Federal Reserve policy shifted from one of restraint to one of actively fostering credit ease. Market interest rates declined appreciably through the early part of 1954 and subsequently have shown little change.

The movement in interest rates spread throughout the credit market, affecting all types of credit paper and securities, although in different degree. For example, rates charged by banks on customer loans were more sluggish in their response on the downside than were open market rates. However, the responsiveness of market interest rates to the policy of "active ease" was very marked; the decline in money and capital market rates after mid-1953 was as sharp and widespread as in the comparable phase of any other business downturn since World War I.

Selected money rates

[Monthly averages]

	U. S. Government securities			Prime commercial paper	Bank rates to customers	Corporate bonds			Municipal bonds
	Bills	3 to 5 years	Long-term old series			Aaa	A	Baa	
1952—June	1.700	2.04	2.61	2.31	3.51	2.94	3.20	3.50	2.10
July	1.824	2.14	2.61	2.31		2.95	3.19	3.50	2.12
August	1.876	2.29	2.70	2.31		2.94	3.21	3.51	2.22
September	1.786	2.28	2.71	2.31	3.49	2.95	3.22	3.52	2.33
October	1.783	2.26	2.74	2.31		3.01	3.24	3.54	2.42
November	1.862	2.25	2.71	2.31		2.98	3.24	3.53	2.40
December	2.126	2.30	2.75	2.31	3.51	2.97	3.22	3.51	2.40
1953—January	2.042	2.39	2.80	2.31		3.02	3.25	3.51	2.47
February	2.018	2.42	2.83	2.31		3.07	3.30	3.53	2.54
March	2.082	2.46	2.89	2.36	3.54	3.12	3.36	3.57	2.61
April	2.177	2.61	2.97	2.44		3.23	3.44	3.65	2.63
May	2.200	2.86	3.09	2.67		3.34	3.58	3.78	2.73
June	2.231	2.02	3.09	2.75	3.73	3.40	3.67	3.86	2.99
Change: June 1952 to June 1953	+.531	+.88	+.48	+.44	+.22	+.46	+.47	+.37	+.89
1953—July	2.101	2.72	2.99	2.75		3.28	3.62	3.86	2.99
August	2.088	2.77	3.00	2.75		3.24	3.56	3.85	2.88
September	1.876	2.69	2.97	2.74	3.74	3.29	3.56	3.88	2.88
October	1.402	2.36	2.83	2.55		3.16	3.47	3.82	2.72
November	1.427	2.36	2.85	2.31		3.11	3.40	3.75	2.62
December	1.630	2.22	2.79	2.25	3.76	3.13	3.40	3.74	2.59
1954—January	1.214	2.04	2.68	2.11		3.06	3.35	3.71	2.50
February	.984	1.84	2.60	2.00		2.95	3.25	3.61	2.39
March	1.053	1.80	2.51	2.00	3.72	2.86	3.16	3.51	2.38
April	1.011	1.71	2.47	1.76		2.85	3.15	3.47	2.47
May	.782	1.78	2.52	1.58		2.88	3.15	3.47	2.49
June	.650	1.79	2.54	1.56	3.60	2.90	3.18	3.49	2.48
July	.710	1.69	2.47	1.45		2.89	3.17	3.50	2.31
August	.892	1.74	2.48	1.33		2.87	3.15	3.49	2.23
September	1.007	1.80	2.51	1.31	3.56	2.89	3.13	3.47	2.29
October	.987	1.85	2.52	1.31		2.87	3.14	3.46	2.32
Change: June 1953 to October 1954	−1.244	−1.07	−.57	−1.44	−.17	−.53	−.53	−.40	−.67

Capital values

Changing interest rates have also affected the economy through the recapitalization of future income, that is, through lowering or raising the dollar value of existing capital assets, particularly long-lived assets. This response has been especially noteworthy in the securities markets where prices of outstanding bonds and investment-type stocks have registered the influence of interest rate movements as well as, of course, of other factors. The attached table shows the percentage changes in values in selected types of capital asset over the past 2½ years.

From mid-1952 to mid-1953, the increase in yields and consequent decline in prices of United States Government securities and corporate and municipal bonds reduced significantly the market value of investors' portfolios of such securities. Stock prices also showed moderate decline over this period despite prosperous business conditions. These developments were an influence helping to damp down the boom in capital outlays in this period.

Since mid-1953, rising prices of bonds and stocks have reflected in part the influence of falling interest rates. This movement in values has tended to help sustain private capital expenditures during the period when business activity in other lines was receding somewhat in consequence of the work-off of excess inventories and reduced defense expenditures following the settlement in Korea.

In some investment areas, such as the farm and existing residential real estate areas, values declined somewhat despite falling interest rates. These declines reflected the overriding effect of other factors, for example, the reduction in agricultural income in the case of farm real estate values and the increasing supply of new homes in the case of residential real estate values. Even in these areas, however, there is reason to believe that the higher capitalization factor helped to cushion the decline in market values.

Percentage changes in selected capital values

	June 1952–June 1953	June 1953–October 1954
Government bonds (long-term)	−7	+9
Corporate bonds (high-grade)	−6	+8
Municipal bonds (high-grade)	−12	+10
Preferred stocks (high-grade)	−9	+14
Common stocks [1] (Standard & Poor's series)	−3	+33

[1] Values of common stocks are, of course, particularly affected by important variables other than the capitalization factor. These include, for example, changes in earnings and dividends and changes in expectations as to general business developments.

General liquidity of the economy

Changes in the volume of money and other highly liquid assets and in the value of existing assets affect the liquidity of businesses and individuals and influence their willingness to spend and invest. They also affect the liquidity of financial institutions and their willingness to lend and invest.

The restrictive credit policy from mid-1952 to last spring 1953 caused existing assets to decline in liquidity. This development influenced consumers and businesses to screen expenditures more carefully either because they were reluctant to dispose of interest-bearing securities at the prices currently prevailing, or because they were encouraged by rising yields to save and invest in securities or other savings forms. Also, the desire for liquidity was heightened by the fact that access to credit was not as assured as it had been earlier. This put a greater premium on holding cash balances and other liquid assets rather than spending. The relative stability of prices over this period, moreover, fostered confidence in the value of the dollar so that holders of deposits and currency did not feel pressed to make expenditures immediately in anticipation of higher prices.

In contrast, falling interest rates in the recent period of monetary ease tended to make individuals and businesses, as well as financial institutions, more liquid and increased the proportion of their assets that could be sold at cost or profit. This is particularly true of investment portfolios where the rise in prices of marketable United States Government bonds, corporate bonds, State and local government bonds, and corporate stocks made holders more willing to lend and to spend. The fact of ready availability of credit, furthermore, reduced the requirements of businesses and individuals generally for liquidity.

Concluding comment

Viewed as a whole it appears that credit and monetary policy exerted a wholesome restrictive influence in the 1952–53 period of boom and a desirable cushioning and sustaining influence in the economic decline which followed. In so doing, it made a necessary and positive contribution to stable economic growth.

UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS,
Washington, November 26, 1954.

HON. RALPH E. FLANDERS,
Chairman, Subcommittee on Economic Stabilization of the Joint Committee on the Economic Report, Congress of the United States, Washington, D. C.

MY DEAR MR. CHAIRMAN: For Secretary Humphrey, I am transmitting the Treasury's replies to the questions your subcommittee directed to us on October 26, 1954, with respect to United States monetary policy and debt management in recent periods.

Both Secretary Humphrey and I are pleased to participate in your subcommittee's review of recent thinking and experience in this important field. The

past 2 years have given us our first real test in a long time of the contribution that a flexible money and credit policy can make to economic stability and growth.

As you know, the Secretary is currently attending the Conference of Ministers of Finance or Economy in Rio de Janeiro, but he still hopes to attend your subcommittee's hearings on December 7. In any event, I shall be there.

Sincerely yours,

W. RANDOLPH BURGESS,
Under Secretary for Monetary Affairs.

Enclosures.

MONETARY POLICY AND DEBT MANAGEMENT

REPLIES BY THE TREASURY DEPARTMENT TO QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON ECONOMIC STABILIZATION OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT, NOVEMBER 1954

Question 1. What role did monetary policy play in the period of relative stability following the Treasury-Federal Reserve accord in 1951, in the months of boom late in 1952 and early 1953, and in the recession of 1953–54?

This question is being answered fully by Chairman Martin of the Federal Reserve Board, in his reply to the same inquiry. On the debt-management aspect of your question, however, we are glad to add a few comments from our own experience since this is the area where final responsibility lies with the Treasury, rather than with the Federal Reserve.

Early 1953

When we came to the Treasury in January 1953, we were faced with the problem of developing a constructive program for the effective management of a public debt of more than $265 billion in an economic environment during the early months of 1953 where inflationary pressures were still running high.

Production was at a record high in the spring of 1953 and was exceeding sales, causing a threatening accumulation of inventories in the hands of manufacturers and distributors. Defense expenditures were high and plant and equipment expenditures were setting new records. Unemployment was at extremely low levels and industry was spending large amounts for overtime employment.

The Nation's resources were fully utilized and any further sizable expansion of credit could result only in uneconomic competition for scarce labor and materials at the risk of further price rises. At this time, consumer credit was expanding rapidly and business loans were continuing to increase as compared with the normal expectation of seasonal contraction. New corporate and municipal security issues were at a record high and new mortgage financing was running ahead of previous years.

Together with the prospect of a large Federal deficit, all of these factors created inflationary pressures. In addition, controls over prices and wages had just been lifted. This was a situation that called for monetary and credit restraint, and that is exactly what the Federal Reserve was applying.

Treasury action in debt management in the first half of 1953 was carefully planned so as to tie in with a Federal Reserve monetary policy of credit restraint. Debt-management decisions in this period were geared to a program designed to offer securities attractive to nonbank investors and by so doing avoid the inflationary potential of increased bank ownership of Government securities. In February, instead of offering investors who held a maturing certificate merely an exchange into another 1-year certificate, the Treasury gave investors the opportunity to go into a 5-year 10-month bond. The market response to the bond offering was encouraging and indicated that there was demand for securities beyond the 1-year area.

As the Treasury approached its spring financing and realized that more money was needed than had previously been expected, the Treasury offered a billion dollars of 3¼-percent 25- to 30-year marketable bonds for cash—the first long-term marketable securities issued since the end of World War II financing. In addition, close to half a billion dollars of the 3¼'s were issued in exchange for those series F and G savings bonds which matured in the calendar year 1953.

The Federal Reserve policy of credit restraint, together with these debt-management actions, permitted the heavy credit demands in the market to make a natural correction through the operation of a rising level of interest rates, continuing the trend of 1951 and 1952. The Treasury, in doing its borrowing, paid the rates required by the market in recognition of the principle that the Federal Reserve should be free to exercise appropriate monetary and credit policy.

Monetary and debt-management policy in the first part of 1953 played an important part in checking the inflationary ground swell.

The period since May 1953

By the early summer of 1953 the situation changed. Business demand for funds lessened and inflationary pressures receded. There were some evidences of slowing business activity. In this new environment monetary and debt-management policies were directed toward increased availability of credit for appropriate business demands. As a result of the successful use of these policies, inventory liquidation was able to proceed in an orderly fashion without fear of a tightening up on loans and capital expansion was encouraged. Interest rates fell and the path of legitimate credit growth was smoothed.

In its refunding operations in June, and again in August, the Treasury issued only 1-year certificates in exchange for maturing issues to avoid any tightening effect on the money market as it adjusted to its new environment. The only major Treasury cash financing in that period was an offering of $5.9 billion 8-month tax-anticipation certificates to cover the seasonal low in Treasury receipts during the second half of the calendar year.

Monetary policy during the late months of 1953 and during 1954 has stressed active ease in the money market. The Treasury, therefore, has refrained in the past year and a half from issuing long-term securities. It has purposely done its financing so as not to compete for or reduce the long-term money available for private capital investment or for State and local highway, school, and other construction projects. This policy has contributed appreciably to maintaining a high level of economic activity during the last year or so.

Treasury debt management policy, therefore, has been tied in very closely with monetary policy throughout the last 2 years, first in helping to restrain inflation and then in helping to avoid deflation. The successful restraint of inflationary forces eased the task of monetary and debt management policy in avoiding deflation.

The Federal Reserve and Treasury actions of these past 2 years have conformed to the principles stated by your own Joint Committee on the Economic Report, through Senator Douglas' subcommittee in 1950 and Representative Patman's subcommittee in 1952, which concluded that "* * * we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored even if the cost should prove to be a significant increase in service charges on the Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes."

That freedom has been restored, just as President Eisenhower promised it would be in his first state of the Union message in early 1953:

"Past differences in policy between the Treasury and the Federal Reserve Board have helped to encourage inflation. Henceforth, I expect that their single purpose shall be to serve the whole Nation by policies designed to stabilize the economy and encourage the free play of our people's genius for individual initiative."

Long-run debt management objectives

In the same date of the Union message, President Eisenhower also suggested that the long-run objective of Treasury debt-management policy was to "properly handle the burden of our inheritance of debt and obligations." At the same time that we have been working closely with the Federal Reserve in pursuing policies which would lean against inflation or deflation, the Treasury has also made progress toward its long-term objective of working toward a better balanced maturity structure of the public debt—one that will contribute, along with budgetary and monetary policies, to high employment, rising production, and a stable dollar.

When the present administration came to the Treasury in January 1953, the debt was too heavily weighted in the short-term area. Short-term securities tend, by their very nature, to be very liquid—almost like money. When they are relied upon too heavily, they can add substantially to inflationary pressures.

A large volume of short-term debt also means that the Treasury has to be almost continuously in the market refunding short-term securities. When the Treasury has to engage in so many financings every year, it means that the Treasury's impact on the money market is almost continuous, either through the

planning of a new financing, the financing itself, or the secondary market response to it. This tends to limit the effectiveness of Federal Reserve credit control operations. The greater the space between Treasury financings, the less will be the likelihood of this sort of interference.

In addition, Federal debt ownership should be broadly distributed among the various investor groups in the economy—and within those groups as well. In a democracy like ours, it is important that citizens participate in its responsibilities as well as its benefits. With a direct stake in their Government's financial operations, either through individual or group investments in Government securities, they will tend to take a more active part in seeing that the Nation's affairs are managed in their best interests. That is one of the most valuable functions that the Treasury savings bond program is performing today.

A widespread debt—in terms of maturities as well as holders—contributes to the effectiveness of monetary policy aimed at promoting economic stability. When the Federal debt is widely distributed, action taken by the Federal Reserve to tighten credit during inflationary periods or to ease credit during deflationary periods will tend to be more effective as its impact is transmitted through all parts of the money market.

Improvement in debt structure

The Treasury has made progress in improving the structure of the debt during the past 2 years, although improvement has at times been slow because of the need for adjusting our financing to the economic situation of the moment.

The first step in spreading out the debt was taken in the February 1953 refunding, but a more important step was the issuance of the 3¼ percent long-term bond in May. Treasury debt extension was postponed temporarily in the summer of 1953 as the market was unreceptive and short-term bank financing contributed to maintaining the volume of money. In the later months of 1953, however, the Treasury was able to make several modest moves toward lengthening the debt. On three occasions securities were offered which were attractive principally to commercial banks who were interested in lengthening out their own portfolios of intermediate-term Government securities. In this way, $7 billion of the debt was extended for periods ranging from 3½ to nearly 8 years.

Debt extension of this type was neutral with respect to Federal Reserve monetary policy. No useful purpose would have been served in flooding the commercial banks with more short-term securities than they wanted. Yet through issuance of intermediate-term securities, the Treasury was able to improve the maturity structure of the debt without competing directly in the long-term market for funds that were needed to support a high level of capital expansion in the economy.

The record of debt management in 1954 follows essentially this same pattern. Commercial banks again expressed interest in lengthening out their portfolios and this gave the Treasury the opportunity to spread the debt further through the use of intermediate-term securities.

In February 1954 investors exchanged $11 billion of maturing issues into 7-year-9-month bonds. In May, August, and October, a total of $13 billion more intermediate-term bonds and notes were issued—partly for cash and partly in exchange for maturing securities. The Treasury's latest refunding offer of 8-year-8-month bonds in its December financing has just been announced (November 18) and we have every reason to expect that the new bond will be well received. This is the longest bond offered since the 3¼'s in the spring of 1953. Even before we include the new December bond, the Treasury has issued $33½ billion of securities in 1953 and 1954 which were beyond the 1-year area.

As a result of these operations from January 1953 through November 1954, the Treasury reduced the amount of marketable debt maturing or callable within 1 year from $74 billion to $63 billion—a decline of $11 billion. The Treasury debt in the over-5-year category rose by about $8½ billion during this period, and will increase again in December. Furthermore, the average length of the marketable debt has risen in 1954, marking the end of a steady 6-year decline which virtually ended in 1952 and leveled out in 1953.

It is also significant that during 10 out of 12 major financings during 1953 and 1954 (excluding seasonal borrowing in anticipation of tax receipts), the Treasury offered investors securities longer than 1-year certificates. This is quite a contrast to the 2 preceding years, when on only 2 occasions out of 13 were marketable issues offered outside the 1-year area.

Question 6. Has the debt management policy of the Treasury—both as to objectives and techniques—been consistent with the monetary policy of the Federal Reserve throughout the period since mid-1952?

In the reply to question 1, we have already discussed the role that debt management has played in the past 2 years to complement monetary and credit-control action taken by the Federal Reserve, first in the period through the spring of 1953—when inflationary pressures were still running strong and credit restraint was appropriate—and then later as the inflationary tide turned and an easier Federal Reserve money policy encouraged the free availability of credit for legitimate needs.

Fiscal and monetary policy—with an independent Federal Reserve working in harmony with effective budgetary, tax, and debt policy—is the mainstay of our program for sound money in America. This is a major plank in the program of the Eisenhower administration. It is not surprising that it was also a major plank in the reports of both of your predecessor subcommittees studying these matters. It is a fundamental of good government.

In 1950 your Subcommittee on Monetary, Credit, and Fiscal Policies, headed by Senator Douglas, concluded that—

"We recommend not only that appropriate, vigorous, and coordinated monetary, credit, and fiscal policies be employed to promote the purposes of the Employment Act, but also that such policies constitute the Governments primary and principal method of promoting those purposes."

And again in 1952 your Subcommittee on General Credit Control and Debt Management, headed by Representative Patman, agreed in these words:

"We believe that general monetary, credit, and fiscal policies should be the Government's primary and principal means of promoting the ends of price stability and high-level employment and that whenever possible reliance should be placed on these means in preference to devices such as price, wage, and allocation controls and, to a lesser extent, selective credit controls—all of which involve intervention in particular markets * * *."

We believe in this policy. Under the present administration, the Federal Reserve has been free to pursue a flexible credit policy conducive to stability and economic growth.

Independence does not mean isolation. We have worked very closely with the Federal Reserve Board, with the Federal Reserve bank officials, and with their staffs all along the line. We know of no occasion in the past 2 years when debt management decisions were not completely consistent with Federal Reserve monetary policy.

Question 7. What considerations should dictate the maturity distribution schedule of the Federal debt, first, as to the long-run ideal to be pursued and, second, as a practical operating matter, giving weight to timing and contemporary conditions?

In the reply to question 1, we discussed our long-term objectives of gradually moving more of the debt out of short-term securities into the hands of long-term savers. In the same reply, we also discussed our shorter-run objectives in terms of managing the debt in a way that was consistent with monetary policy. A few additional comments here are in order.

The Treasury's long-term objective of achieving a better debt distribution cannot—and should not—be defined in terms of any specific maturity pattern. Changing economic conditions require changing perspectives, and debt-management policies, like budgetary and monetary policies, can best serve the Nation's interests if they are flexible.

An ideal maturity structure of the debt cannot be suddenly achieved or rigidly maintained. Improvement in the maturity structure of the debt is the composite result of a multitude of financing decisions over the years. We are working with a complicated debt structure which is already in existence. We do not have the opportunity to set up an entirely new debt structure, so progress must necessarily seem slow at times. As President Woodrow Wilson said in his first inaugural address:

"We shall deal with our economic system as it is and as it may be modified, not as it might be if we had a clean sheet of paper to write upon; and step by step we shall make it what it should be * * *"

In the attainment of an improved debt structure, the Treasury cannot arbitrarily set the maturity distribution of the debt by dictating the terms under which it will borrow. The market for Government securities is to a large extent compartmentalized. Many investors are interested only in short-term securities,

others prefer long-term securities, and still others want a more diversified portfolio. The market expression of demand for various types of securities from a wide variety of buyers has a powerful effect on the maturity structure of the debt.

Like other borrowers, the Treasury must meet the test of a free money market. The success of Treasury financings is dependent on its ability to offer attractive securities at those times and in those areas where market demand exists. The Treasury may be able to encourage investors to lengthen or to shorten their portfolios by offering them a choice of two issues, one of which may be a little more attractive to some investors than the other. But it is the investor who makes the ultimate decision as to which security he will take. He may decide not to take either one.

There are many ways in which the problem of improving the structure of the debt may be approached. For example, the average maturity of the debt can be lengthened by the same amount by putting out a billion dollars of a 30-year bond or a larger amount of a shorter bond. Yet the particular economic circumstances of the moment may make the shorter alternative an obvious choice if the long bond would work against Federal Reserve monetary policy rather than complement it.

The experience of the last year and a half is again a case in point. During the transition to a lower level of Government spending, it has been important to economic stability that the Treasury not put out any long-term bonds which would interfere with the availability of long-term funds for capital investment. Under circumstances such as these, improvement of the structure of the debt may be slowed temporarily.

Obviously, an ideal debt structure must achieve proper balance between short, intermediate, and long-term debt. A certain amount of short-term debt is necessary and desirable to meet basic liquidity needs of commercial banks and for nonfinancial corporations, who are building up reserves for taxes and other short-term needs. But the amount of short-term debt should be kept low enough so that it does not undermine action taken by the monetary authorities to restrain undue credit expansion.

Furthermore, a high level of short-term debt already outstanding could create difficulties for the Treasury in an emergency requiring a substantial expansion of short-term debt.

Question 8. Are the benefits and costs to commercial banks of handling Government transactions clear enough, or can they be made clearer, to determine whether or not the banking system is being excessively compensated or undercompensated? What about the Treasury cash balance—its size and management? Should the Government receive interest on its deposits with commercial banks?

This question calls for a brief description of the Treasury depositary system.

The Treasury doesn't make deposits in its tax and loan accounts in commercial banks in the same way that the individual goes into a bank and deposits money. What the Treasury does is to authorize the banks to act on its behalf as a system of pipelines through which taxpayments and the proceeds from the sale of Government securities flow from the public on their way to Treasury accounts at the Federal Reserve banks, against which checks are drawn to meet Government expenses.

Most of the money that follows this route starts as a deposit in the commercial banks in their customers' accounts. The payment of taxes or the purchase of Government securities thus involves the transfer of a deposit from the account of an individual or corporation to a Government account.

Some Treasury deposits in the banks are new deposits, which are created when a bank buys Government securities from the Treasury and pays for them by giving the Treasury a deposit in the bank. But the newly created deposits don't stay in the banks very long, because the Treasury begins to draw them out after a few days to pay its bills. When the Treasury pays its bills, the people and business concerns who get the checks deposit them in their banks and thus restore to the bankings system the funds withdrawn by the Treasury. The round trip is completed.

Treasury deposits in commercial banks from these two sources are almost continually on the move. Semiweekly calls for withdrawal of Treasury balances in the larger accounts, for example, frequently run 25 percent to 50 percent of the outstanding balance. The average balance of almost $4 billion in these tax and loan accounts last year looks like a great deal of money—and it is. But it doesn't

seem quite as big when you compare it with the more than $5 billion of budget expenditures the Treasury has to meet each month.

The extensive use of this commercial bank pipeline system provides the most effective method yet devised for maintaining a smooth flow of funds from the public to the Treasury and back again into the channels of trade through Government disbursements with a minimum of economic disturbance.

Whenever the Treasury calls in money from the commercial banks and puts it in the Federal Reserve banks, bank reserves are reduced. Then as the Treasury spends the money, the disbursement out of the Federal Reserve causes bank reserves to go up again. By leaving most of our money on deposit in commercial banks rather than at the Federal Reserve, the amount of time between the withdrawal and the restoring of bank reserves is narrowed to a practical minimum. If the uneven flow of Treasury receipts were permitted to go directly to the Federal Reserve, the banks would have to maintain enough idle reserves to stand the load of these heavy withdrawals. Their lending capacity would, therefore, be reduced and interest rates would tend to rise. As it is, the general public and the whole economy benefit from the more efficient use of these Government funds.

The principal reason, therefore, why the Treasury carries deposits in commercial banks is to assure an orderly flow of funds through the financial community and avoid jolts and jars. It is in the public interest.

Bank services

The banks perform a great many services for the Treasury. They sell a large proportion of Treasury savings bonds; they service many of the E-bond payroll savings plans; they receive subscriptions for marketable Government securities and handle maturing issues presented for redemption or exchange. Banks participate in the weekly sale and distribution of short-term Treasury bills.

In fact, the banks are the principal salesmen for all the vast billions of Treasury securities. The deposits they thus retain (even briefly) are their incentive for a vigorous sales effort. Without this arrangement the Treasury could have to pay commissions for selling its securities. Banks also handle remittances accompanying employers' withheld tax receipts when they are deposited in the Government's account.

These and many other services are performed by the banks without compensation other than the value of the Treasury deposit. It should be emphasized that the size of the Treasury's deposit in any given bank is the result of that bank's own activities in selling and buying Treasury bonds, handling the flow of taxes, etc.

Interest on demand deposits

The question whether or not the Government should receive interest on its demand deposits with commercial banks is related to the broader question of interest on all demand deposits. The payment of interest on demand deposits was specifically prohibited by the Banking Act of 1933. This applies to Federal Government tax and loan deposits, which average around $4 billion, and to the $1½ billion balances that the Treasury carries in general bank depositaries. It also applies to the $10 billion of State and local government demand deposits, and to the $100 billion demand deposits of individuals and businesses.

The prohibition of payment of interest on demand deposits was partly due to the belief that some of the serious bank failures of the twenties and early thirties resulted to a considerable extent from the weakening effect of excessive interest payments by banks for competitive reasons. At the time of the Banking Act of 1933, an added burden was also being placed on the banks in the form of assessments for Federal deposit insurance. More important still, interest payments on deposits forced the banks to charge higher rates for loans in order to cover their costs. A resumption of interest on demand deposits would exert pressure on banks to charge higher loan rates.

It is almost impossible to make a useful analysis of the cost and income of the banks attributable to Government operations; they fluctuate widely, differ from bank to bank, and involve such a large part of bank activities. Bank profits have not been high, however, compared with other kinds of business and compared with the need to build up capital funds to protect their customers' funds.

Senator FLANDERS. Following the announcement of these hearings on November 12, the subcommittee was asked as to whether or not the Council of Economic Advisers had been given an opportunity to

present its views on this important subject. The Council was given an opportunity, but declined at this time. In order that the record may be clear on this subject, however, I will insert at this point, without objection, correspondence between the staff director of the Joint Committee on the Economic Report and the Chairman of the Council of Economic Advisers.

Without objection, that will be inserted.

(The correspondence above referred to is as follows:)

OCTOBER 1, 1954.

Dr. ARTHUR F. BURNS,
Chairman, Council of Economic Advisers, Washington 25, D. C.

DEAR ARTHUR: Before Senator Flanders left for California last week he asked me to explore the possibilities of 2 or 3 days of hearings in early December on United States monetary policy—recent thinking and experience. There has been a desire on the part of some members of the subcommittee to meet with the Federal Reserve Board of Governors and the Federal Reserve bank presidents more or less informally to discuss monetary policy. This could be arranged with convenience in early December during the fourth quarterly meeting of the Board and bank presidents here in Washington.

I have prepared the attached very preliminary and very confidential plan for 3 days of hearings along the lines expressed to me by Senator Flanders. As always on such studies we like to give the Council of Economic Advisers an opportunity to be heard either in executive or open session on the subject under consideration. You will note that on the attached plan we have tentatively reserved time to hear from you. We would, of course, like to hear you but will be guided by your wishes as to (1) whether you appear or not and (2) whether you wish a closed session or an open session.

In addition to your letting me know your desires in this connection as soon as possible, we would appreciate any suggestions or observations which you may have at this time with respect to the questions that will be considered in the study and the first-day panel participants. We will welcome any and all of your suggestions.

With best regards,

Sincerely yours,

GROVER W. ENSLEY, *Staff Director.*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS,
Washington, October 11, 1954.

Mr. GROVER W. ENSLEY,
Staff Director, Joint Committee on the Economic Report,
Congress of the United States, Washington 25, D. C.

DEAR GROVER: Thank you for your letter of October 1, in which you set out tentative plans for hearings by the joint committee, to be held early in December, on recent monetary happenings and policies in the United States.

I appreciate the position taken by the joint committee in leaving it up to the Council to decide whether or not to testify.

The month of December is going to be an especially busy time for the Council, and after weighing all sides of the question I have reached the conclusion that it would be best for me not to appear during the December hearings. My conclusion is reinforced by two facts: First, that the Economic Report is likely to convey the Council's general thinking on monetary policy; second, that any questions that members of the joint committee may have about the Council's stand could be cleared up if I testify next year, as I did this year, at the hearings dealing with the Economic Report.

Sincerely yours,

ARTHUR F. BURNS.

Senator FLANDERS. I regret that Congressman Richard M. Simpson, a member of this subcommittee, is unable to attend these hearings; he is in Geneva participating in the General Agreement on Tariffs and Trade Conference. Senator Fulbright, another member of this

subcommittee, also is participating in international discussions at the United Nations in New York and it is unfortunate that he, too, can't be with us. They both have expressed interest in the subcommittee's inquiry, however, and I am sure will look forward to reading the hearings and the summary of this proceeding.

I do not view these hearings as resulting in a special subcommittee report but subject to the will of the subcommittee will view them as part of the educational functions of this committee. The hearings will be published, and I am sure will take the same place on this subject of monetary policies and debt control that the previous hearings have taken in colleges, on the shelves of economists, on the shelves of others who are technically interested and technically concerned with the problems that we are discussing today.

I am sure that these hearings also will assist the committee in the formulation of the committee's annual report to the Congress which is due on March 1.

The plan of the hearings was set forth in the announcement of November 12. It includes a panel discussion today composed of recognized monetary technicians and, I might add, of widely varying points of view, from universities and from financial institutions.

Tomorrow morning we will hear from Secretary of the Treasury Humphrey and W. Randolph Burgess, Deputy to the Secretary of the Treasury. Tomorrow afternoon we will have a roundtable discussion on monetary policy questions with the six members of the Board of Governors of the Federal Reserve System and the presidents of the 12 Federal Reserve banks participating.

They are holding their regular fourth quarterly meeting in Washington the first part of this week, and it seemed advisable, in view of the interest we have in getting their opinions, not to ask them to make a separate trip to Washington when they were coming anyway, at a time which seemed convenient to the members of the committee.

Before getting into the panel discussion this morning, I wonder if other members of the subcommittee wish to make any introductory remarks.

There is one other matter before I ask for preliminary comments from other members of the committee. With the approval of the subcommittee it would be my plan, unless other plans and better plans are suggested, to hold this session until 12:30, to meet again at 2 and continue in session until about 4. I would hope that the presentations of the panel could be completed this morning, with perhaps a little time left for discussion, and that we could spend the afternoon in discussion, particularly of the members of the panel with each other with such observation, comment, and questioning as the members of the committee, both the subcommittee and the main committee, may see fit to interpose.

Is there any suggestion from other members of the committee or the subcommittee with regard to the procedure or by way of introductory remarks?

Representative PATMAN. May I say a word, Mr. Chairman?

Senator FLANDERS. Yes.

Representative PATMAN. First, I commend the chairman for calling this meeting. I think it is a very fine thing. I think it is well arranged, and I am particularly glad that the Open Market Committee will be with us tomorrow afternoon.

I assume that is what he had in mind in suggesting that all the presidents of the Federal Reserve banks be here along with the members of the Federal Reserve Board. All the presidents are either now or have been or will soon be members of the Open Market Committee, and for all practical purpose they are functioning as members of the Open Market Committee.

Senator FLANDERS. That is true.

Representative PATMAN. And I assume that we will be privileged to ask these distinguished gentlemen questions after they have finished, and that they will return this afternoon for any further questioning that we desire.

Senator FLANDERS. That is the plan. The plan is to have the Treasury represented tomorrow morning, and in the afternoon we will have as long a session as may be necessary. I wouldn't call it off at 4 o'clock if the discussion is still lively. Let's keep going tomorrow afternoon until we have made a good try at clearing up the various points of interest in open market operations.

Representative PATMAN. Tomorrow seems to be a very crowded day, with Mr. Burgess and Mr. Humphrey being heard in the morning. If we are crowded in the afternoon, will there be an opportunity to have the members of the Open Market Committee back on Wednesday?

Senator FLANDERS. I think we might even run through into the evening if that seems necessary.

Representative PATMAN. Mr. Chairman, I ask unanimous consent at this point to put in the record excerpts from our hearings in the past in which I have made request, representing the Democratic members, for the personal appearance of the Open Market Committee before the Joint Committee on the Economic Report.

Senator FLANDERS. That we will be glad to do.

(The documents above referred to are as follows:)

BACKGROUND INFORMATION ON THE APPEARANCE OF THE OPEN MARKET COMMITTEE OF THE FEDERAL RESERVE SYSTEM BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT, SENATE OFFICE BUILDING, WASHINGTON, D. C., DECEMBER 7, 1954

JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT

CONGRESS OF THE UNITED STATES.
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Tuesday, February 2, 1954, Washington, D. C.

The joint committee met, pursuant to notice, at 10:20 a. m., in room 1301, New House Office Building, Representative Jesse P. Wolcott (chairman), presiding.

Present: Representative Wolcott (chairman), Senators Flanders (vice chairman), Carlson, Sparkman, Douglas, Fulbright; Representatives Simpson (Pennsylvania), Talle, Bender, Patman, and Bolling.

Also present: Grover W. Ensley, staff director; John W. Lehman, clerk.

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STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY, ACCOMPANIED BY HON. MARION B. FOLSOM, THE UNDER SECRETARY OF THE TREASURY; AND HON. W. RANDOLPH BURGESS, DEPUTY TO THE SECRETARY

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Representative PATMAN. Now, then, Mr. Chairman, I want to make a request that we invite the entire Open Market Committee before this committee. Tomorrow, I understand from the agenda, we have Mr. Martin. Of course, Mr. Martin

is the Chairman of the Federal Reserve Board. But Mr. Martin is just the head of one group that is part of the Open Market Committee. The Open Market Committee, under the laws passed by Congress, has tremendous power. It is composed of the Board members of the Federal Reserve System, and five Presidents of Federal Reserve banks. I believe that this is worthy of the serious consideration by the chairman and should be granted for several reasons.

No. 1, the five Federal Reserve bank presidents that are on this Committee are selected by the private banks. They are not directly under obligation to the Government at all. They are constituents, we can almost say, of the private bankers in the district where they operate. There are five of them. To have just the Chairman of the Federal Reserve Board here, I think is incomplete. I do not think that he is in a position to answer. Particularly is that true now when the Board has only six members.

Chairman WOLCOTT. Mr. Patman, I wonder if you would withhold your request until you have heard Mr. Martin tomorrow, and ask the chairman of the committee to give further consideration to your request, following that, if you still think it is necessary.

Representative PATMAN. I shall be very glad to yield to the request of the chairman, but I know now, Mr. Chairman, that he cannot speak for the five presidents of the Federal Reserve banks. He does not have the power to do so. And since we know that he does not have this power, I would just suggest that it might be a fine thing to have all the members of the Board of Governors and the five presidents of the bank here for a panel discussion.

Chairman WOLCOTT. Would it not be better if we delayed any decision in that matter until after he testifies?

Representative PATMAN. Certainly. Thank you very much, Mr. Chairman. I will propound the other questions to him in writing.

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Wednesday, February 3, 1954.

Chairman WOLCOTT. The committee will come to order.

We have with us this morning William McChesney Martin, the Chairman of the Board of Governors of the Federal Reserve System, and with him are Mr. Young and Counselor Cherry.

* * * * * * *

Representative PATMAN. I will defer as usual to the judgment of the chairman.

Now, one other line of questioning which I hope will be brief, and I will be through.

I notice you state here on page 11 that—

"It is and must be closely coordinated with debt management. * * *

"But, so far as credit and monetary policy is concerned, we are on our own in the Federal Reserve System."

What do you mean there, that you are on your own? That you are kind of footloose and fancy free and the System can do anything it wants to do, and nobody is the master except the Federal Reserve System? Is that the reasoning, Mr. Martin?

Mr. MARTIN. No. That is what I commented on earlier. I think that we have the sole responsibility for monetary and credit policy, and we have to exercise our own judgment.

Now, the monetary function is like the function of the judiciary, as I answered at the time of your questionnaire, Mr. Patman, and I could do no better than at that time. It requires objective judgment free of private pressures and free of political pressures.

Representative PATMAN. Or presidential pressure or congressional pressure?

Mr. MARTIN. Exactly.

Representative PATMAN. All of them?

Mr. MARTIN. All of them.

Representative PATMAN. In other words, you are free, almost another branch of the Government?

Mr. MARTIN. No. You have delegated to us——

Representative PATMAN. The Congress has.

Mr. MARTIN. The Congress has delegated this to us.

Representative PATMAN. That is the reason I asked the chairman yesterday, and I hope he does not talk me out of this one—I asked that the Open Market

Committee appear before our committee, because we ought to be able to see one time in our lives the people who are actually running the monetary credit policy of the Government.

Chairman WOLCOTT. I am afraid I am going to have to——

Representative PATMAN. The Congress has delegated the power to the Open Market Committee, which you state here, and correctly so. Since we have delegated that power, which the one-hundred-and-sixty-million-and-some-odd people gave to the 531 Members of Congress, to 12 people, I would just kind of like to see them at one time.

I make the request, Mr. Chairman, again, that we call them before this committee.

Chairman WOLCOTT. You said you would like to see them at one time.

Representative PATMAN. I would like to see them before this committee.

Chairman WOLCOTT. We have a problem with respect to the witnesses. We have a tentative program right up through the 16th, and then the staff and the members are going to have a terrific job to do to get this report out by March 1. That is what has been bothering me.

Representative PATMAN. Don't you think this is more important than everything?

Chairman WOLCOTT. I do not agree with you that the presence of the Open Market Committee is more important than the present study during which we will have other witnesses on the economic report. As I see it now, we would have to cancel some of these very important panel discussions which we are going to have next week to make room for the Open Market Committee. I think that perhaps the presence of these panels representing labor and agriculture and business and industry and finance generally—I thought, anyway, that their presence would be of more help to us than the Open Market Committee. That is what is bothering me right now. As for myself, I have not made any definite commitment.

Representative PATMAN. All right. I will not insist on it now, but I do want you to consider it, because they are "it."

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Friday, February 5, 1954.

Chairman WOLCOTT. The committee will come to order.

Representative PATMAN. Mr. Chairman, may I make a request at this time?

On behalf of the Democratic members of the Joint Committee on the Economic Report, Senators Sparkman, Douglas, Fulbright, and Representatives Hart, Bolling, and myself, it is requested that the chairman call before this group the Open Market Committee of the Federal Reserve System for questioning.

Chairman WOLCOTT. Well, the chairman will give consideration to the request.

Senator DOUGLAS. The chairman will, of course, with his customary fairness, hold a meeting of the committee to decide?

Chairman WOLCOTT. I do not see any reason why we should not hold any meetings. If we can get the committee together for that purpose, I don't see any reason why we should not hold a meeting. But today, you know, we are running a little short because of the committee hearings in the Senate on several matters before committees of which members of this committee are members.

Banking and Currency, for example, in the Senate this morning, is working on confirmation of members of the President's Advisory Council.

Representative PATMAN. May I supplement that, Mr. Chairman, with one brief statement: Mr. Sproul, in making a speech last Monday a week, I believe it was January 25, emphasized the fact that the Open Market Committee of the Federal Reserve System are on their own; that they are almost a separate branch of Government; that they are entitled to any credit for good that is done, and they should be charged with the responsibility of anything that is not good.

He made a very courageous statement of his viewpoint, and on the day before yesterday, when Mr. Martin was before this group, he stated emphatically that the Open Market Committee was responsible for anything that has happened; in other words, and with reference to any change of hard money and high interest policy, they accepted all responsibility for it.

Since they consider themselves kind of off to themselves they have complete charge, according to their own statements, of the financial and monetary policy of our Government, we are just spinning our wheels talking to anybody else. They are the people we should talk to.

Chairman WOLCOTT. I want to say that there is perhaps no reason why the Open Market Committee should not come before this committee. But, as I said the other day, I do not want that subject to get to be a disproportionate problem before the committee in the study that we making.

Now, we are up against time. We are expecting to devote the next 2 weeks to open hearings, principally panel discussions, on these problems that the President has raised in his economic report.

There will be then not more than a week in which the staff of this committee will have to get to do some very intensive work on the report if we are going to meet the deadline by March 1, and I hope we can meet that deadline.

Now, I am certain that there will be no opportunity in the mornings to get the Open Market Committee or any other witnesses, in addition to those which we have set out in the agenda, to appear before this committee. I thought that, perhaps, if it was convenient to the committee, if we could work it in on an afternoon, that we might try to do it. But we have got to take into consideration, of course, the fact that the House and the Senate will be in session in the afternoon. I, frankly, do not look forward with any pleasure to evening sessions, and I am going to try to avoid as many evening sessions as I can before this committee at all times.

Now, if we can get a reasonable number of members of the committee here on some afternoon, as far as it is convenient, where it does not interfere with their work on the floors, then we can give consideration to it. But I think it would be a grave mistake to interrupt the continuity of this schedule that has been set up, with the hope of an entire morning, as we would have to give to the Open Market Committee, because I think you would put a disproportionate weight on the testimony that they would give.

I think we all know about what they would testify to anyway. But that is a matter that the committee can decide when we have a substantial number of the committee here, and I will be very glad to take it up then and see what they want to do.

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Thursday, February 18, 1954.

Chairman WOLCOTT. The committee will come to order. We are continuing the discussion of the President's economic message, and this morning, as a summary, we have with us three outstanding economists: Edwin G. Nourse, Martin Gainsbrugh, and Alvin H. Hansen.

Representative PATMAN. Mr. Chairman, may I propound a parliamentary inquiry?

Chairman WOLCOTT. Mr. Patman.

Representative PATMAN. In behalf of the Democratic members, I wanted to ask the chairman if he could give us an idea about our request to have the Open Market Committee before this committee.

Chairman WOLCOTT. As far as the chairman is concerned, he has not changed his mind with respect to it. He still has the same doubts that he has already expressed.

I shall put it this way: The question of open-market operations seems to me a little disproportionate for us to devote an entire day or 2 days to that question. We have to get this report out by March 1. We have to do a very quick job if we are going to do it. Personally, it is my ambition that in this respect we break precedent, or set a record. As far as I know, this committee has never gotten out its report by March 1 even though the statute requires it. I though that possibly we might be able to establish precedent this year for future reports and get it out by March 1. We have made such good progress so far toward that end that I would be reluctant to suggest that we devote another 2 days to a subject which, as I said, has become disproportionate to the whole subject.

So, I would prefer that we wait until such time as we can take a little time with them. I might say to members of the committee that whatever loose ends there are which we will not be able to pick up in working on this report, we might as well continue with a subcommittee. If such a subcommittee thinks it is advisable or essential that we have the Open Market Committee before us, then they may do so.

We know also that the makeup of the Open Market Committee will change materially on March 1. I don't know whether we should have the present Open

Market Committee down here only to have a new committee come in on March 1 or whether we should wait until March 1 to have the new committee.

Representative PATMAN. May I suggest that I am in accord with the chairman's views on getting out the report, and I shall not do anything to deter him in that respect. I know that I am speaking the wishes and will of the other Democratic members in saying that.

But at the same time, it is not necessary that we hear from the Open Market Committee before we get out the report. We shall have a reasonable time after we get out the report. I am not suggesting that it is necessary to have them to get out this report.

Chairman WOLCOTT. I might suggest, Mr. Patman, that a very short time after we get out this report, you and I are going to be busy with the Commodity Credit Corporation and the new housing bill. We have hearings on the Credit Corporation bill next Wednesday and immediately following that, hearings on the housing bill.

Representative PATMAN. I realize that, Mr. Chairman.

Chairman WOLCOTT. So, I wonder if you and I want to devote that much time to the Open Market Committee during the House committee hearings on commodity credit and housing.

Representative PATMAN. I think the Open Market Committee has much to do with the credit situation. In other words, the Congress has delegated to them important powers, and I do not believe it would be bad to have them appear at least once before a congressional committee that has never seen them to my knowledge.

Chairman WOLCOTT. May we leave it this way, that at the first opportunity when the committee thinks it advisable we will have the Open Market Committee down here.

Representative PATMAN. Does that mean within the next month or so, or something like that?

Chairman WOLCOTT. If we were to set up a subcommittee following these hearings to pick up what loose ends we have, then the subcommittee can have them before them.

Representative PATMAN. We do not want to withdraw our request. We still want to urge the chairman at the earliest opportunity to have the Open Market Committee before this committee.

Chairman WOLCOTT. Do you not think perhaps it might be better to await the new board?

Representative PATMAN. That new board, Mr. Chairman, is somewhat of a fiction. It is kind of one-third of a member each time.

Chairman WOLCOTT. Maybe it is an important one-third.

Senator FLANDERS. This morning we have eight economists drawn from universities and financial institutions. They were supplied a week ago with the Treasury and Federal Reserve replies to our questions. We would like each member of the panel to give a summary of his views on monetary policy during the past 3 years, this summary not to exceed 10 minutes.

Now, there are 8 of you—8 times 10 is 80 minutes or an hour and 20 minutes. Two of these documents are a little lengthy. They cannot be disposed of in 10 minutes, and I am wondering whether the members of the committee present would feel like going through with these, even the longer ones, without much interruption, so that we can have the documents all presented during this morning's time. I will leave that to the desires of the committee.

Representative PATMAN. We will leave it to the chairman.

Senator FLANDERS. I think, then, perhaps we might well do that. And if either of those with the two longer documents feel that they can shorten them in any way by giving a synopsis of certain paragraphs or pages, it may leave time for discussion this morning.

Following the opening presentation, we will proceed more informally, giving individual panelists an opportunity to expand their

remarks or to raise questions with respect to other views and to give subcommittee members an opportunity to question the panel.

I may say that individual members of the panel may insert in the record that portion of their prepared statements which they did not have time to present orally today.

Now these panel members will be called on alphabetically. I don't know of any fairer way to arrange that, whether it will present the proper contrasts or opinion, I am not sure, but we will proceed alphabetically. I will list them first and then call on them in turn.

The first is Mr. Lester V. Chandler, professor of economics at Princeton University, in Princeton. I may say parenthetically that he was the economist for the Douglas subcommittee.

John D. Clark, director of the American National Bank, Cheyenne, Wyo., former member of the Council of Economic Advisers.

Seymour Harris, professor of economics, Harvard University, Cambridge.

James N. Land, senior vice president, Mellon National Bank & Trust Co., Pittsburgh.

C. Clyde Mitchell, Jr., chairman, department of agricultural economics, University of Nebraska, at Lincoln.

Edward S. Shaw, economist, the Brookings Institution, Washington, D. C., on leave from Stanford University, Palo Alto.

Rudolf Smutny, senior partner, Salomon Bros. & Hutzler, New York.

Frazar B. Wilde, president, Connecticut General Life Insurance Co., Hartford.

Now, bearing in mind the desirability of getting this all in during this morning's session, and hoping to have a little time to spare for discussion, I would urge those reading their documents to take advantage of the provision for putting the whole statement in the record, and where it seems possible, summarizing passages or pages.

The first one in the list alphabetically is Prof. Lester V. Chandler, professor of economics at Princeton.

STATEMENT OF LESTER V. CHANDLER, PROFESSOR OF ECONOMICS, PRINCETON UNIVERSITY

Mr. CHANDLER. Monetary and debt management policies since the Federal Reserve-Treasury accord of March 1951, may be evaluated on two different planes. One plane might be called that of "grand strategy"—the selection of major objectives and the formulation of general programs of action for the attainment of those objectives. The other plane would be that of "tactics"; this would call for an evaluation of the many individaul actions taken—the accuracy of the analysis of current economic conditions, the accuracy of economic forecasts, and the timeliness and appropriateness of each policy action. In the short time available for this opening presentation, I shall confine my remarks to a few aspects of what I have called the grand strategy level.

As is well known, the outstanding event during this period was a change in monetary objectives, which necessitated the development of new action programs appropriate to the new objectives. For nearly a decade prior to March 1951, the dominant objective of our national monetary policy had been to stabilize interest rates, or at

least to hold their fluctuations within very narrow limits. This was a demanding objective which at times forced the neglect of all others. Any tendency toward higher interest rates forced the Federal Reserve to create enough new money to prevent the rise, no matter how inflationary the injection of the new money and loan funds might be. Conversely, this objective called for a reduction of the money supply whenever interest rates tended to decline, whatever might be the effects on employment, production, and price levels.

The most important thing that has happened since March 1951, has been that considerations relating to the behavior of employment, production, and price levels have replaced interest rate stability as the dominant determinants of monetary and debt management policy. This does not mean that the behavior of interest rates is unimportant; it means only that interest rates should be allowed to change—and be forced by a positive monetary policy to behave—in a way that will contribute most to attaining the desired behavior of employment, production, and price levels.

It follows, of course, that the monetary and debt management policies followed since the "accord" must be disapproved by those who believe that the dominant objective of monetary policy should be stability of interest rates, whatever else may be happening in the economy. Their criticisms need not be based on any real or alleged errors in tactics by the Federal Reserve or the Treasury; these critics must necessarily disapprove the shift of basic objectives. Those who insist on desirability of perpetually low interest rates must disapprove of all restrictive policies, no matter how well justified by other considerations. And those who advocate stable interest rates at a high level must surely disapprove of the actively easy money policy which has been in effect for well over a year.

For my part, I approve of the shift of objectives that has occurred since March 1951. This is not because I believe that monetary and debt-management policies can alone assure the attainment and maintenance of a satisfactory behavior of the economy. It is only because I think that flexible monetary policies can make important contributions, whereas a policy dominated by the objective of stabilizing interest rates will often, if not usually, accentuate instability of business activity and prices.

It may be in order to make a few comments concerning the types of policies that would be appropriate to the new objectives. A shift to the objective of promoting economic stability and growth does not imply any decrease in Federal Reserve responsibility for developments in the money market; nor does it imply that Federal Reserve policies should be any less active. It is necessary to make this point because of some puzzling official statements during the period which created confusion and left the impression that the official policy was to be one of passivity—of allowing the forces of private supply and private demand to determine conditions in the money market.

High officials in the Treasury Department have at times suggested that interest rates should be determined by the market forces of demand and supply, and the Chairman of the Board of Governors made a memorable speech describing the transition to "free markets," which was to include a "free money market." This was, in my opinion, an unfortunate choice of words. There are some respects in which the money market should probably be largely free of continuing official

control. For example, most of us would prefer to rely largely on competitive market processes to ration and allocate the supply of credit among the various competing demanders. But to allow the total supply of money and loans, and the price of loans, to be determined by private demand and private supply would negate the very idea of central banking. Central banks exist because we are not willing to allow the total supply of money and credit, and the cost of credit, to be determined by the unregulated forces of private supply and demand. The basic function of a central bank is to regulate the total supply of money and credit and the terms on which they are made available. It should be clear that the Federal Reserve can make its maximum contribution to economic stability and growth only by recognizing its continuous responsibility for money market conditions, and by taking whatever positive actions that may appear conducive to the attainment of its objectives. There will, of course, be times when the forces of private demand and private supply will produce in the money market exactly those conditions that seem most desirable, and when no current Federal Reserve action will be required. But there will probably be many more occasions when the forces of private demand and supply will produce inappropriate conditions so that an active, and perhaps even an aggressive, Federal Reserve policy will be required. A successful policy of economic stabilization cannot be a passive policy.

It also needs to be emphasized that a shift to the objective of promoting economic stability and growth does not mean that the Federal Reserve should cease to be concerned about the behavior of interest rates, nor that its control of interest rates should be any less precise than was its control during the pegging period. The Federal Reserve's mistake during the pegging period was not that it controlled interest rates; the mistake was in stabilizing interest rates—in making stability of interest rates an overriding objective and in sacrificing all other objectives. To be successful in promoting economic stability and growth the Federal Reserve should use its power to control interest rates, but use the power to bring about those changes in interest rates which will best promote its purposes.

Chairman Martin quite properly emphasized, in his answer to your questionnaire, that the effectiveness of Federal Reserve policy does not rely solely on interest rate behavior. When the Federal Reserve increases or decreases the free reserves of the banking system, the supply of money may be increased or decreased in many ways other than by a reduction or rise of interest rates—by more restrictive or less restrictive rationing of credit by lenders, by changing standards of creditworthiness, and so on. Yet, interest rate behavior is important, and the Federal Reserve should take the responsibility of forcing the interest rates to behave in a desirable way. In some cases it may succeed in doing this solely by regulating the volume and cost of bank reserves; in others it may need to exert a direct effect on the prices and yields of long-term securities by purchasing or selling them. For example, there may be times when long-term yields remain undesirably high despite large excess reserves in the banking system. At such times the Federal Reserve may usefully buy long-term bonds, thereby tending directly to drive their prices up and their yields down.

Chairman Martin may be right in arguing that technical considerations relating to the broadening and deepening of the long-term market for Government securities justified the policy of confining

open-market operations to the short maturities during the transition period. It was, however, reassuring to note in his answer to your questions that this is not necessarily a permanent policy, and that we may hope that in the future the Federal Reserve will feel free to buy and sell long-term governments when such operations promise to be useful in promoting economic stabilization.

Senator FLANDERS. Thank you, Professor Chandler.

The next on the list is our old friend, Dr. John D. Clark, who was a former member of the Council of Economic Advisers, and appeared many times before us in that capacity.

Dr. Clark.

STATEMENT OF JOHN D. CLARK, DIRECTOR, AMERICAN NATIONAL BANK, CHEYENNE, WYO.; FORMER MEMBER OF COUNCIL OF ECONOMIC ADVISERS

Mr. CLARK. Thank you, Mr. Chairman.

We now have three official descriptions of the economic situation when our monetary authorities undertook their unhappy experiment with a repressive monetary policy in the spring of 1953. Two come to this committee from the Treasury Department and the Federal Reserve Board. The third is the statement of the President himself, in the White House release of August 12.

The Treasury says that in the early months of 1953 inflationary pressures were "running high." In the next paragraph it says that production was exceeding sales, a condition which hardly fits into the description of inflation. Otherwise, in its reply to the committee as well as in the many self-approving statements issued by the Secretary, the Treasury sticks to its story that in the first quarter of 1953 we faced inflation pressures serious enough to require the action which halted economic expansion.

The Federal Reserve Board gives only faltering support to this rationalization of fiscal and monetary policy in the spring of 1953. It opens its response with the statement that a series of circumstances "threatened to develop into an unsustainable boom." This is indeed a new standard of an economic situation requiring rigorous anti-inflationary action.

Later in its report, the Federal Reserve discredits its own speculative fears about economic stability early in 1953. Reviewing conditions in the period April 1952 to April 1953, the Board finds that credit and monetary growth "corresponded closely to the capacity of the economy to absorb more money without inflation." Then comes the flat statement that "inflation was prevented" and that "prices remained relatively stable." So there was neither monetary inflation nor price inflation in the spring of 1953, according to the Federal Reserve, but only a fear that things were too good to last.

To the President, the first half of 1953 represents "the greatest prosperity we have yet known," and he does not conceal his yearning for a return to the happy economic conditions to which he fell heir. Neither the Treasury's sense of present danger nor the Federal Reserve pessimism about a coming storm clouded his assurance that our prosperity was real.

These conflicting evaluations of economic conditions in early 1953 fail to explain why our new fiscal managers set out to upset the

business boom as soon as they entered office in January 1953. An extraordinarily stable price level certified to the soundness of a condition of rising employment, production, and consumer buying. Yet men who 2 months before Inauguration Day were advertising their intention to use fiscal and monetary policies as antiinflationary instruments would not look at the real economic facts when they came to power.

They found eager collaborators in the Federal Reserve Board, which had read the election reports. Never since the war, and for a long time before, had the Federal Reserve failed to assist an important Treasury offering by supporting the market. This continued to be its policy even after it had discontinued steady pegging of the market price of Government bonds in 1951. But November 1952 changed all that. The large refunding operation on December 1 was given no support.

The market, thus advised that the monetary authorities were not averse to and would not act to halt the rise in interest rates for which the financial district had long hungered, promptly started the upward rush of rates which did not end until the crisis in the following June. To keep it going until the new team taking over the Treasury could swing into action, the Federal Reserve raised discount rates in January. The tiny increase of one-fourth of 1 percent could itself have little effect upon credit. Its purpose was to show that the Federal Reserve intended to follow the market, not lead it as it had been doing for years.

Experience with fiscal and monetary policy in the last 2 years has not taught us much that we did not know. The tightening of credit and increasing interest rates smothered a business boom, as such policy is intended and expected to do. The quick reversal of that policy and the return to one of low interest failed to forestall the induced recession. For a long time cheap and easy credit has had no effect in inducing economic expansion, as the Federal Reserve learned 20 years ago, and so reported.

The fundamental issue between the supporters of monetary policy as a prime anti-inflationary instrument and the old Council of Economic Advisers still remains. In November 1950, we placed before the joint committee our view, in which President Truman concurred, that an important inflationary movement should be met by increasing the facilities and volume of production. This process requires cheap and ample credit, and until the volume of output increases, inflationary pressure will increase and must be curbed by other than monetary measures of the kind which increase the cost of capital.

Our objection to the use of monetary policy was, of course, that the one and only way it reduces prices is by bringing about less employment, less output, and less demand for goods and services than would otherwise exist.

This characteristic of monetary policy as an anti-inflationary instrument can hardly be denied, but advocates of that policy believe that the monetary authorities can use their power with such finesse that the inflationary movement is stopped but no real damage is done. Our view was that gentle measures are futile, and strong action is dangerous.

Very great damage has been done this time, and it is clear that the President is unhappy over the economic decline, quite apart from the fact that it has cost his party the control of Congress. But the Treas-

ury and the Federal Reserve seem to be complacent. They do not quite subject us to the stupid and once common argument that the recession is a "healthy corrective movement," but they seem to feel that way and they constantly compliment themselves that they have done well in not bringing on a real depression.

It seems that no lessons have been learned by the monetary authorities and that we must expect that unless the Congress intervenes they will continue to yield to the obsession with the danger of inflation which sticks out of this and every other Federal Reserve report and is shared by the officers currently in control of the Treasury.

They have shown a willingness to bring economic expansion to an end when there is no inflation and they only fear inflation may be coming. But even when they acknowledge that business needs to be invigorated, they are willing to engage in only meager action because they are forever beset by the fear that they will find inflation creeping into the economy.

This haunting fear of inflation will foreclose resort by them to the only remaining recovery action in the field of monetary policy—a return to the normal legal requirements for bank reserves. The recent grudging decreases even when all public officials were eager to induce greater economic activity illustrate the deep reluctance of the Board to restore the normal legal reserve requirements and its determination to hang on to the extra requirements despite the passing of all circumstances which would justify their imposition. The Board is not even moved by the fact that if normal reserve requirements are restored, the Board will have a much wider margin within which to maneuver whenever the new inflation it is always expecting does arrive.

I do not know whether restoring normal legal reserve limits and the freeing of 40 percent of the large sums now in reserves would furnish the extra push to the economy which has been needed since the business slide-off ended 10 months ago. But the other possible sources of a major and quick-acting push upon the economy require legislative action in the very fields where legislation moves most slowly. Restoration of normal legal reserve requirements is the only program which can be adopted overnight. It is the one program in the field of monetary policy which can add to the fresh stimulus to economic expansion which is coming right now from the resumption of full-scale automobile production and the collateral improvement in the steel industry.

Above all, it is a program which can bring trouble only if it first produces great benefit, and if inflationary trouble does then develop, the program can be quickly reversed. By this I mean that reducing reserve requirements can bring inflation only if it first brings about larger employment, higher personal income, and greater demand for goods. Even then, there need be no increase in price levels if freer and cheaper credit has induced the necessary increase in the output of goods.

A final word about recent developments which indicate the passing of the illusion that the Federal Reserve and other so-called independent commissions are not subject to executive control. If orders can be given to the Tennessee Valley Authority and the Atomic Energy Commission, even to the point of forcing reversal of commission action, we may be sure that the Federal Reserve Board will be forced, if necessary, to fall in line with any national economic policy

which the President determines upon. It may be, Mr. Chairman, that with a little urging from this committee he will tell the Federal Reserve to give the economy a real shot in the arm, and he will take his chance with a little inflation for a change.

Representative PATMAN. Mr. Chairman, I ask unanimous consent to insert in the record at this point a letter from Dr. Clark that was published in the Washington Post this morning.

Senator FLANDERS. Without objection, it is so ordered.

(The letter above referred to is as follows:)

STIMULUS TO ECONOMIC GROWTH

For the fifth time in a few years, the Joint Congressional Committee on the Economic Report is today beginning an inquiry into the usefulness of monetary policy as a method to stabilize the economy.

This indicates a precarious status for a policy which only a few years ago seemed to be thoroughly accredited, and less than 2 years ago was the most loudly proclaimed of all of the policies of the new team then taking over the Treasury.

The joint committee has become increasingly cool to the idea that the way to halt inflation is to choke off a business boom by making credit tight and costly. The study by the Douglas subcommittee led to a unanimous recommendation in January 1950 that vigorous use of monetary policy should be "the Government's primary and principal method of promoting" the economic stabilization which is the purpose of the Employment Act of 1946.

The more ambitious inquiry by the Patman subcommittee, with much the same membership, brought a divided report in June 1952 with the majority nodding approval of monetary policy in theory, but sharply criticizing its practical operation.

When the full committee concluded its study in February 1954 of the actual use of restrictive monetary policy to smother the fine business boom which the new administration inherited in the first quarter of 1953, the majority report did not have one word to say about monetary policy or about the most dramatic and important economic experiment of the preceding year. In separate statements, several of the minority members challenged Treasury and Federal Reserve policies.

Now that unemployment, the normal result of the successful use of monetary policy as an anti-inflationary instrument, has brought about the loss of administration control of the Congress, it will be interesting to observe where the joint committee goes.

It will be unfortunate if the new subcommittee holds to its agenda and postpones discussion of the current economic situation and of appropriate recovery programs until after the annual economic report of the President has been received late in January. The historical survey it proposes is important, because history is being distorted, but of far greater immediate importance is the problem of getting the economy off the dead center upon which it has stuck since last January.

In the 1949 recession, the downward slide of industrial production from October 1948 to July 1949 was immediately followed by a recovery movement which with almost no hesitation persisted until industrial production reached a new postwar high in June 1950, before the Korean outbreak. In the current recession, the drop in industrial production continued from July 1953 to January 1954. The January 1954 index figure was 125, in October last it was 123, and in the intervening months it was either 125 or slightly lower.

Why this difference in the course of the economy, and what does it portend? May we, like the Government officials who each month assure us that recovery is just around the corner, be complacent, confident that if we are patient the normal and powerful forces of expansion which are inherent in our economy will sooner or later carry us off the economic plateau and in the right direction? Or should we fear that the stalemate is permitting the process of progressive deterioration which used to turn recession into depression to overcome the potency of the new stabilization policies which have twice since the war sustained the economy against forces of deflation?

Experience in the postwar economy is too limited to enable the joint committee to find wholly satisfactory answers to these questions, but the committee can reach a conclusion about the wisdom of national action without further delay.

For the third time this year, a powerful stimulus to economic expansion has appeared. Neither the substantial reduction in personal income taxes nor the extraordinarily liberal credit program for housing proved to be strong enough, by itself, to give the economy the necessary push. We did not supplement either of these stimuli, when it was new and most powerful, with additional impulses toward recovery. Now we have the entire automobile industry joining in a full production program, with a corollary expansion of steel production and with three weeks of Christmas shopping upon us.

We cannot know whether this combination of powerful forces will itself get the economy into forward stride again. That depends largely upon the consumer, and his verdict on the strange new car models has not yet been given. But we do know that this is the last occasion for months to come, when private enterprise will be developing powerful new stimuli to economic activity. After 3 weeks of Christmas shopping we will face a season of declining employment, of heavy tax payments, of decreasing money supply, and of declining business borrowing. The Federal Government will then have to carry the full burden of formulating and supporting recovery programs, if recovery is still around the corner.

Surely, it is the part of wisdom and prudence to exploit the fine opportunity we now have to join the impetus arising from potent Government action to powerful forces of recovery in the private economy. That opportunity will be lost if we await the annual economic report of the President.

JOHN D. CLARK, *Washington.*

(Mr. Clark formerly was vice chairman of the Council of Economic Advisers.)

Senator FLANDERS. The next speaker is Prof. Seymour Harris of Harvard. Mr. Harris.

STATEMENT OF SEYMOUR HARRIS, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY, CAMBRIDGE, MASS.

Mr. HARRIS. Mr. Chairman, since my paper is one of the longer ones, I shall spare you the dull period of listening to it. I would like to summarize my position and save you some time, if that is agreeable, and put my paper into the record. Is that agreeable, Mr. Chairman?

Senator FLANDERS. I am very glad that you feel able to do that, Professor Harris.

Mr. HARRIS. Let me begin by saying that in the last few years it seems to me that the Federal Reserve has had inflationary jitters, the Treasury has had a strong inflationary neurosis. Now, I say that this is true, both in 1952–53, and 1953–54.

In the first place, there was no price decline in 1951, 1952, 1953, after March 1951, and therefore one could very well argue that there was no case for an anti-inflationary policy. In the first half of 1953 there was a cash surplus for the Government. There was no evidence at all of inflationary pressures, with the possible exception of the rise in inventories.

Despite that fact, in the first half of 1953 the Treasury raised its rates to such an extent that within a period of 5 months the rate of interest rose on long-term Government securities as much as they had risen in the preceding 7 years.

Now, I will say possibly the Federal Reserve's bark is worse than its bite. If you look at the total policy, there were a number of anti-inflationary policies during this period. For example, they related on borrowing by the Federal Reserve on securities and real estate credit, and they did not reduce the excess reserves of member banks, and

for this reason, though the Federal Reserves were claiming a strong anti-inflationary policy, actually it wasn't quite so strong as claimed and did less damage, therefore.

Now, when we look at the antirecession policy which began in about May 1953, what do we find? We find that there was a reversal of policy, and for this both the Treasury Reserve and the Federal Reserve deserve credit. They acknowledged their sins and are ready to give us an expansionary policy; but unfortunately again they are too fearful of inflation.

For example, in the year ending September 1953 there was a rise of deposits of $1 billion, or less than 1 percent, in the period when the GNP dropped by 3 percent, and relative to a full employment economy by 6 percent. During this same period we had a fall in the annual rate of Government spending of $9 billion, and we have also since the peak had a fall in private investment of $10 billion. To offset that, we have a reduction of taxes with a lag at an annual rate of about $9 billion.

In March 1954 we reached a peak of 3.7 million unemployed, which is roughly equivalent to 5 million in my own accounting of unemployment.

Now, during this period of inclusion of hourly cuts and those unemployed but not so counted concern about the economic situation, the Federal Reserve gave us an average excess reserve in 1954 of $700 million. I would like to compare this figure with the more than 5 billions of excess reserves in 1939, when required reserves were only one-third as large. In other words, relatively speaking, the Federal Reserve gave us one-twentieth as large excess reserves as compared to the 1939 situation.

Now, some may say, of course, that monetary policy doesn't do much good in recession, and I think that there is probably a good deal of truth to this, but the Federal Reserve makes no such claim, and if they are really using monetary policy, why don't they give us a couple billion dollars of excess reserves.

Again the chairman made a point that I would also like to make very strongly, namely, there is an awful lot of nonsense in the Treasury and Federal Reserve statements about the free market. There is no such thing as a free market in money. As a matter of fact, where would our monetary system be without the $24 billion of earning assets of the Federal Reserve.

Total member bank reserves are only $19 billion. You can imagine where our monetary system would be without the $24 billion of earning assets of our central bank.

Now, you may ask: Why does the System fear to such an extent controlling the rate of interest? Because actually this seems to be their great fear. They are afraid to control the rate of interest. Note their statement on intermediaries when they seem so willing to relinquish much of their control over the rate of interest.

Modern theory of employment and output holds that above all the authorities should control the rate of interest, and by controlling that they control, to some extent, the total amount of investment, and if the authorities control the total amount of investment, to that extent they stabilize the economy and allow it to grow, and if they do not do this, then they endanger all other markets, and if we want freedom

in all markets we don't want freedom in the rate of interest, the money market.

In relation to this point, there seems to be a general view in recent years that the main objective of controlling the price of Government securities has been to maintain the price of Government securities. Now, this, to some extent, has been true and particularly from 1945 on we experienced some inflation that we might not have had if this policy had not been carried through.

But I think it is a great mistake to assume that our major objective was to control the price of Government securities. The major objective was to control the rate of interest, and the way to control the rate of interest was to control the Government security market, and if you control the rate of interest then, of course, you also to some extent control investments.

It is a great mistake also to assume that there was a miraculous change in policy in 1951, because, as a matter of fact, in the preceding year the Government was just as much interested in employment and output as was any other government.

I am not trying to make this a political speech. The only point I am trying to make is that Government also, for many years, had been interested in employment and output, and we might criticize the administration on the grounds that before 1953 they gave us a little more inflation than we might have had, but not on the grounds that they were not interested in maintaining employment and output.

I am very much surprised to hear the Federal Reserve announce that they are no longer interested in the long-term rate of interest. At least, what they are telling us is that what they are really trying to do is to control the short term of interest, and hoping that this will in turn control the long rate of interest and that they do not generally intend to deal in long-term Government securities any more.

This is a surprising position. I am very much pleased that Mr. Smutny also made a point of the difficulties involved for the dealers of Government securities resulting from the concentration on the short-term rate.

There also seems to be a theory held by these authorities that it is almost immoral for banks to hold Government securities. This is certainly not my theory, and anybody who has studied American economic history knows this is the most absurd theory, because if you go back, for example, to the 1940's and take the situation in the early 1950's, you would find there has been a tremendous increase in the supply of money. That has made a rise possible and was a condition for the national income of 8 times and real national economic income of 4 to 5 times.

Now, what made this possible? What made this possible was the purchase of Government securities by the banks, because of the total rise of earning assets by banks during this period, two-thirds were in public securities.

And I would also like to point out that there it is not immoral for the banks to hold short-term issues or is it unwise to allow a large amount of short-term issues to be outstanding because, as a matter of fact, one of the great revolutions in the Government market has been the increase in short-term issues, which has been going on ever since the twenties, and this has been one of the great contributions to bring-

ing the rate of interest down from 4 percent in the twenties to 3 percent in the thirties and 2 percent in the forties.

This also has been a revolution and has had a great effect on our economy, and I think has made capitalism stronger since it reduced what Lord Keynes used to call the dead hand of debt.

When we consider the objectives of the authorities, the Treasury objectives, for example, what were they going to do early in 1953?

Actually what these people were trying to do was to get Government bonds out of the banks, and I would like to suggest this is a silly policy. At any rate, what did they accomplish?

From 1945 to 1952 Government bonds held by banks declined by 30 percent. From the end of 1952 to the latest month that I could get figures for, the amount of Government bonds in the banks increased by 6 percent, so they obviously failed here.

The Treasury also wanted to lengthen the average maturity of debt. I don't have the latest figures, but I wanted to point out that, as a matter of fact, the short-term securities held by the banks are as large, that is, securities less than 1 year, than they were at the end of 1952, and the average maturity of the entire debt actually increased in 1953, though there might have been some reduction in 1954.

So, in a general way, Mr. Chairman, may I conclude, and within 10 minutes, may I say that I believe that to some extent the Treasury was responsible for our recession. To a smaller extent, the Federal Reserve was.

Now, I think there are some extenuating circumstances. The Treasury was new at this job, and I think they were a little too anxious and ambitious to bring us back to a free market.

I do hope that they will learn their lesson and learn this is not a free market.

I also want to agree with the point that somebody else is going to make presently, namely, that the Treasury policy is going to increase the cost of financing the debt, and this is a dubious policy for a Treasury that is so strong for balancing the budget.

And one final point, namely, when you look at the total volume of earning assets for 1952 to 1953, for example (fiscal year), you find actually the Federal Reserve, and luckily, policy failed because of an increase in earning assets of $30 billion, only $3 billion were commercial bank assets, and this suggests the Federal Reserve has a job to do in trying to control the policies of noncommercial banks.

(The prepared statement submitted by Mr. Harris is as follows:)

SUMMARY STATEMENT OF SEYMOUR E. HARRIS, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY, ON MONETARY AND FISCAL POLICY SINCE THE MIDDLE OF 1952

(Comments on the statements of Secretary Humphrey and the Federal Reserve Board)

SUMMARY OF SUMMARY

Whereas, in the first half of 1953, the Federal Reserve suffered from inflationary jitters, the Treasury seems to have contracted a genuine inflationary neurosis. Whereas the Federal Reserve attacked the mythical inflation with a scalpel, the Treasury used a sledge hammer. Whereas the Reserve authorities neutralized their anti-inflationary policies to some extent by recourse to modest inflationary policies, the Treasury within a period of less than 6 months raised the rate of interest by as much as it has risen in the preceding 7 years. Whereas throughout the years 1953 and 1954 the Reserve authorities carried through their

policies with due humility and expression of the uncertainty of results, the Treasury expressed no such doubts.

The Treasury, much more than the Reserve, can therefore be held responsible for the rise of rates in 1953, for the imposition of an anti-inflationary policy in the midst of a period of price stability and even price declines, in a period of Treasury cash surpluses, and hence can be blamed to some extent for the insuing recession.

In the period of antirecession policy beginning in May 1953, both the Reserve authorities and the Treasury wisely reversed their policies. And they deserve credit for doing so. But their policies were not sufficiently bold. By March 1954, the official unemployment had reached 3.7 millions and an accurate estimate of total unemployment would be at least 5 millions. Yet the Reserve authorities provided an increase of excess reserves of but a few hundred million dollars, and excess reserves averaged but $700 million in the first 10 months of 1954. What danger would be involved in raising the excess even to $2 billion? (Compare the excess reserves of $5.2 billion in 1939, when required reserves were but one-third those of 1953–54 and hence relatively the excess reserves were 20 times as large as in 1954. Commercial bank deposits in the year ending September 1954 had increased by but $1 billion, or less than 1 percent, and GNP had fallen by 3 percent in the first 9 months of 1954. Yet here where a sledge hammer should have been used, a scalpel was applied. There was still too much fear of inflation. With GNP 5 to 6 percent ($18 to $21 billion) below the full employment level, the authorities provided us with $1 billion more of bank deposits. Fortunately a reduction of $3 billion in personal taxes in 9 months (annual rate) prevented a more serious drop. The reduced taxes at least in part offset a decline of $9 billion in Government purchases (annual rates).

In part the trouble seems to lie in a fear on the part of the Federal Reserve (and Treasury) to control the rate of interest aggressively. Rather the Reserve authorities insist that they merely offset undesirable movements in rates; and they restrict themselves even within these narrow limits to influencing the short-term rate. Modern developments in the theory of money and output seem largely to have escaped those responsible for monetary and debt policy. They seem to consider the control of the rate of interest on Government securities merely as an attempt to raise artificially the price of these assets rather than (as they should) consider the control on this rate as a means of determining the rate of interest generally and hence influencing investment and output and thus increasing the probability of freedom in all markets.

The Treasury started with a bang. They were going to reintroduce the free market; to raise interest rates so that banks would dispose of securities and other purchasers would be attracted; and they would increase the maturities of securities. There seemed to be no realization in their repeated statements of the association of bank purchases of Government securities and the required provision of adequate supplies of money. For example from 1914 to 1951, issues of $66 billion of Government securities to the banks were twice as important as new loans in contributing towards a rise of $132 billion in bank deposits, in turn contributing toward a rise of national income of 8.6 times (4 times in real income).[1]

At any rate the policies of the Treasury failed. There is no evidence that the higher rates increased the market for Government securities net. (The reduced income accompanying higher rates would tend ultimately to have the opposite effect.) Whereas banks disposed of 30 percent of these Government securities from 1945 to 1952, from 1952 to 1954 they actually increased their holdings. Even the program of converting short-term into long-term securities was not clearly successful. The percentage of issues maturing in 1 year actually rose. Unfortunately the Treasury does not seem to be aware of the revolutionary changes in rates, with their significance for economic output and Government finance—a decline from 4 percent in the twenties, to 3 percent in the thirties and 2 percent in the forties. This is intimately tied to increased needs of liquidity and the great rise in popularity of short-term issues.

I. ROLE OF MONETARY POLICY SINCE BOOM OF 1952

July 1952–April 1953

The Federal Reserve claims that its policy was a restrictive one from the middle of 1952 to April 1953. Evidence of restrictive policies is to be found, according

[1] See my statement in the 1952 hearings on Monetary Policy and the Management of the Public Debt, pp. 380–389.

to the Reserve authorities (statement of November 26), in the limitation of open market purchases of Government securities to $1.8 billion in the second half of 1952 to meet seasonal needs of banks; the sale of $800 million net of United States Government securities in January–April 1953 to keep member banks in debt to reserve banks and hence force banks to be more cautious in lending; and a rise in discount rates and buying rates on bankers' acceptances in January 1952.

This policy of the Federal Reserve raises certain questions.

One, was there a boom the premise upon which this policy was based? In 1951, the wholesale price level was 114.8; in June 1952, 111.2; by April 1953, 109.4. The cost of living, was also remarkably stable. In fiscal year 1952 (ending June 30), the Government's operations were not inflationary. Its cash budget was in balance; and in the first half of calendar year 1953 there was a cash surplus of $2 billion. There was also little evidence of inflation on the stock market. Then where was the boom? Indeed, the index of industrial production had risen from a low of 193 in July 1952 to 235 in December 1952 and 243 in March 1953. But surely a rise of output accompanied by stable or declining prices is no evidence of a boom. The Federal Reserve and the Treasury seemed to have had inflationary jitters.

Second, fortunately despite its large claims of an antiboom policy, it is not at all clear that Reserve policy conformed to its professions. Perhaps the best test of effectiveness of Federal Reserve policy lies in its effects on member bank reserves and notably on excess reserves. Excess reserves in June 1952 amounted to minus $192 million (deficiency of reserves), but ranged (average daily figures) from a minimum of $535 million (April 1952) to a maximum of $778 million (September 1952) from July 1952 to April 1953. That the policy (fortunately) was not as restrictive as claimed is evident in the continued rise of bank deposits (demand), a rise of $7 billion in the second half of 1952. A seasonal decline followed in the first half of 1953. It is also of some interest that in September 1952 the Board suspended regulation of real-estate credit and in February 1953 reduced margin requirements for purchasing or carrying securities from 75 to 50 percent—these are scarcely restrictive policies.

May 1953–October 1954

In this period the Federal Reserve's objective was to treat an expected recession by introducing monetary ease. In May–June 1953, the System purchased $900 million United States securities and in July–December 1953, $1.7 billion; in July 1953, through a reduction of reserve requirements, the Reserve authorities freed an estimated $1.2 billion of reserves and in the summer of 1954, an additional $1.5 billion of reserves were freed. (Though the latter was offset to some extent by sales of securities.)

Clearly the policy of the Reserve System was in the right direction at this time and carried through with adequate humility and admission of uncertainties of effects of policies. The only criticism I can make at this time is, was it enough? By March 1954, unemployment had risen to 3.7 million (more than 2 millions above the 1952 minimum); and if allowance were made for cuts in hours, the partially unemployed, those with jobs but unemployed (not counted as unemployed), the total might well be over 5 million.

Member bank reserves were allowed to decline during most of 1953, though this was offset by relaxation of reserve requirements; and after a rise of reserves in the latter part of 1953 they moved downward again in 1954. The important variable to watch is excess reserves. They fluctuated very little from May 1953 to October 1954 ($591 million in May 1953 to a peak of $936 million in January 1954 and generally around $700 million; $705 million average in first 10 months of 1954). Indeed, member banks' borrowing declined to some extent, though this writer believes the Federal Reserve exaggerates the significance of this factor as a contractionist force. Total Federal Reserve credit changed insignificantly net over the 16 months ending October 1954. It is well to compare the excess reserves of $700 million in 1954 with the $5.2 billion in 1939, the $3.1 billion in 1941, and amounts substantially in excess of $1 billion during the war. Was not the Federal Reserve again excessively fearful of inflation and, therefore, inadequately concerned with unemployment?

II. POLICY RESPECTING VOLUME OF MONEY

In the opening paragraph of its reply to question 4 (Memo of November 23, 1954), the Federal Reserve presents an admirable statement of the objectives of monetary policy: to provide a supply of money "which is neither so large that it will induce inflationary pressure nor so small that it will stifle initiative and

growth * * * sufficient to facilitate * * * outlays necessary to sustain a high level of production and employment * * *." This statement marks a great advance over the theory upon which the System was established, namely, accommodate credit to the needs of trade or even over the objective of the 1920's, (though not often publicly admitted) of stabilizing prices.[2]

But some questions may be raised concerning policies pursued or even avowed in the light of this admirable objective. Thus in the year ending September 30, 1954, demand deposits rose by but $1 billion, or less than 1 percent. Is this sufficient to match expected annual growth of 3 percent? That GNP declined by 3 percent in the first three quarters of 1954 vis-a-vis the corresponding period in 1953, is all the more reason for making the most effective use of monetary policy. Would it hurt to raise excess reserves to $2 billion?

Control the rate of interest? The Federal Reserve response to question 3 (why the shift of emphasis "from maintaining orderly conditions to the view of correcting disorderly situations?") is disturbing to this reviewer of Federal Reserve policy.

It is a widely accepted view today that the fundamental job of the central banking system is to influence the total supply of money as a means of determining the rate of interest. Moreover, this indirect method of control should be implemented by direct purchase and sales of long-term Government securities—we cannot depend merely on the interrelations of short- and long-term rates to accomplish our objectives.

Then here are our objections to the Federal Reserve policy as suggested by the reply to question 3:

1. The Reserve wrongly fears a control by the monetary authority in cooperation with the Treasury of the return on Government securities (question 3, pp. 1–3, 22–24). They seem to lose sight of the fact that control of the return on Government securities is not only a means of pegging the price of these assets but, more important, it is a means of controlling prices of all long-term assets and hence influencing investment and contributing toward freedom in all other markets. Free markets are not likely to persist without adequate output, in turn dependent on rates of interest and investment. The primary objective is to control the rate of interest, not to depress rates of interest on Government securities. But I hasten to add that the monetary authority also has some responsibility for maintaining prices of Government securities in a world where Government finance is of first-rate importance—though this objective should be related to other objectives of monetary policy.

2. It is absurd to assume that the money market is a free market. The Federal Reserve has created $24 billion of reserves primarily through the purchase of securities. This has provided not only the cash required to put money into circulation but has contributed in an important way toward the $19 billion of member-bank reserves which are the basis of the deposits of the country. Where would we be without the Federal Reserve and without the Federal Reserve determination of monetary supplies?

3. It is difficult to understand why, out of deference to the intermediaries in the Government security market who are supposed to give the market breath and stability and who through arbitage operations are supposed to assure a consistency of prices of different issues of Government securities, the Federal Reserve should sacrifice its initiative and control of the market. The major objective is to determine interest rates, not merely offset undesirable changes in rates as is proposed at one point (question 4, pp. 20–21), and the way to do this is through Federal Reserve operations.

4. At least we can say for the Federal Reserve that, though it disclaims any intention to take the initiative, nevertheless through purchases and sales it sometimes does. Moreover, in its statement of policy with respect to the volume of money, the authorities say they take into account such factors as productive capacity, state of business expectations, and "changes in money turnover or velocity reflecting variations in liquidity and the demand for liquidity on the part of business and consumers" (question 4, p. 1). No better intent to influence the rate of interest could be found than a determination to offset increased liquidity by the creation of additional money.

III. TREASURY DEBT FINANCING

Apparently the Treasury moved in at the beginning of 1953 even more convinced than the Federal Reserve that inflation was the great danger. It made

[2] See my Twenty Years of Federal Reseve Policy, 1933, especially vol. 1.

clear its objectives at the outset: (1) Free the Government bond market, with rates of interest to be determined by the free market; (2) the resultant higher rates would move securities out of the banks into the hands of the public and thus destroy deposits and cut inflationary pressures; (3) there would follow a great lengthening in the maturity of the Federal debt.

The Treasury showed little of the humility of the Federal Reserve. At the very outset a spectacular rise in short-term rates was put into effect. The famous April 3¼-percent bond issue followed, an issue which for a while demoralized the bond market. Indeed, whereas the Federal Reserve used a scalpel, the Treasury had produced a sledge hammer. The resultant rise in interest rates contributed to the recession which followed. (A supplementary statement to be submitted to the Joint Committee of announced objectives of the Treasury should be compared with Secretary Humphrey's statement of November 1954.)

Treasury policy was based on certain misapprehensions.

First, the threat of inflation was not serious if present at all; and hence the economy should not have been jeopardized by a sudden major rise in rates.

Second, the response of additional purchases of securities to any practical rise of rates is not likely to be large. (Purchases depend on alternative attractions, for example, the pull of the stock market, which the authorities stimulated by reducing margins and, in 1954, by reducing interest rates; and purchases seem to depend on income even more than upon rates of interest. But higher rates cut income.)

Third, the vogue of short-term securities is explained by the vast expansion of deposits, the need of tax anticipation securities, etc. Though at one point the Treasury pays lip service to this need of tailoring securities to market needs, the general meaning gleaned from Treasury statement of policy is that short-term issues are dangerous. The fact is that, in the last generation, adapting securities to market needs has brought a large rise in the proportion of short-term securities and contributed greatly toward reducing rates of interest from the 4 percent level in the twenties, to 3 percent in the thirties, and to 2 percent in the forties. The resultant savings on Federal Government interest payments are about $3 billion yearly.

Let us see how much the Treasury has accomplished.

1. Has the Treasury succeeded in forcing Government securities out of the banks (and thus deflating deposits)? The answer is no. In fact the record from 1952 to 1954 is much worse than from 1945 through 1952.

U. S. Government securities held by commercial banks

[Billion dollars]

		Change	Percent change
End 1945, 90.8	End 1952, 63.4	−27.4	−30
End 1952, 63.4	August 1954, 67.0	+3.6	+6

Source: Federal Reserve Bulletin, November 1954.

What is more, other borrowers were apparently not influenced greatly by higher rates. For example, here is the percentage of Government securities held by insurance companies and savings and loan associations (latest figures available, Federal Reserve Bulletin, November 1954):

Securities held as percent of assets

	December 1952	June 1953	August 1954
Life-insurance companies	14.0	13.3	11.2
Savings and loan associations	7.9	8.1	6.8

2. Has the Treasury succeeded in achieving substantial lengthening of maturities? The answer is "No." (Again, I rely on the last published figures, exclusive of the late November refunding.)

Major changes in Federal securities, 1945–54

[Billion dollars]

	December 1945–December 1952		December 1952–October 1954	
		Percent change		*Percent change*
Short-term bills and certificates	−16.7	−30.0	−0.8	−2
Intermediate notes	+7.5	+33.0	+5.9	+20
Marketable bonds	−40.7	−37.4	+4.4	+6
Nonmarketable bonds	+9.1	+16.0	−.9	−1
Special issues	+19.15	+96.0	+3.1	+8

Source: Federal Reserve Bulletin, November 1954.

In making this comparison we should allow for the fact that the first period covers 7 years, the second only 21 months (one-quarter as long). But it is clear that the Treasury in reducing short-term issues has not been as successful as the previous administration. In fact the short-term issues were 19.8 percent of the debt outstanding in 1945, 14.4 percent at the end of 1952, and 13.5 percent at the end of October 1954. Against this it should be noted in favor of the Treasury that there was a rise in the marketable bonds outstanding (but contrary to objectives, in the hands of banks). But also note the large rise in notes outstanding. The average maturity, however, declined from 10.77 years in 1946 to 6.77 years in 1953; but there was no improvement in 1953.[3]

Finally, the Treasury had to yield on its objective of raising rates. Here it had a large success in the first half of 1953, though unfortunately a success in a mistaken policy; but it had to retrace its steps and help depress rates in 1954. Instead of seeking to issue long-term securities at higher rates of interest, the Treasury now introduced a new policy, and a much improved one: they would not issue long-term securities which might compete with the long-term private issues.

Before the issue of April 1953 of 3¼-percent 30-year bonds, the Treasury had issued a 6-year 2⅜-percent bond in July 1952 and a 5-year 2½-percent bond. The 3¼-percent issue marked a dramatic rise in rates.

Interest rates moved as follows:

	Taxable Treasury bonds		Moody's AAA corporate bonds
Average 1945	2.37		2.83
December 1952	2.75		2.97
	(*a*) 12–20 years	(*b*) 20 years and after	
June 1953	3.09	3.29	3.40

Source: Treasury Bulletin.

It will be noted that whereas the yield of taxable Treasury bonds rose by 0.38 percent in 7 years, 1945 to 1952, aside from the additional rise associated with the rate on long-term bonds, the rise in the 6 months, December 1952 to June 1953, was 0.34 percent, or almost as much as in the preceding 7 years. The later rise in corporate bonds was even more spectacular.

(The following statement was submitted in response to the chairman's invitation to the panelists to extend their remarks in the record.)

SUPPLEMENTARY STATEMENT BY SEYMOUR E. HARRIS

On the invitation of Senator Flanders, I make the following comments (unfortunately, I have not had the time to prepare an additional statement promised in my written evidence):

1. I emphasize again that what monetary policy can do in a depression is distinctly limited. But in a boom more may be attained. Hence I suggest that

[3] CED, Managing the Federal Debt, 1954, p. 10.

excess reserves should be increased. Not as much as Dr. Clark proposed, but at least enough to increase purchases of assets. If the banks then purchase more Government securities, they will then move on to other assets as the price of Government securities rises; that is, the return declines. But what of the stock market? asks Senator Goldwater. The market may be rising too much. If this is so by all means deal with the market directly. Why are margins 50 percent now?

2. I stress again the point that continued rises of output are likely to mean some inflation. Bottlenecks, wage inflation, other factors raising short-period real costs are relevant. In periods of 15 million unemployed or even 4 million, the effect of rising output is likely to be some increase of prices—more in the latter condition. Those responsible for policy have to weigh the gains against the losses. Our objective should be growth and stability; but we are likely to be confronted with some inflation as we grow. I doubt that any fiscal or monetary policy of 1955 vintage will stop the small but steady inflation except at the expense of material unemployment. Is it worth the risk?

3. Then note that the major expansion of loaning assets by far in 1952–53 and 1953–54 (fiscal years) was made by noncommercial banks—not really under Federal Reserve control. They saved us from a much greater recession—and saved us from excessive caution of the monetary and Treasury authorities.

4. Much was said about the importance of the rate of interest. Mr. Wilde argued it did not matter; Mr. Smutny that it did. In my opinion, it depends. It is important for long-term contracts (e. g., housing) and can be decisive when there is not too much pessimism around (e. g., 1954–55).

5. Indeed, as Professor Chandler says, monetary policy should not be used to correct structural maladjustments. But it is also well to remember that structural maladjustments are associated with price-cost relationships. And when prices exceed costs (in, say, slightly inflationary periods) the same industries that would have been considered structurally maladjusted now become adjusted.

Senator FLANDERS. You did well, Professor Harris, and we appreciate it.

The next speaker is Mr. James Land, senior vice president of the Mellon National Bank & Trust Co. of Pittsburgh.

Mr. Land.

STATEMENT OF JAMES N. LAND, SENIOR VICE PRESIDENT, MELLON NATIONAL BANK & TRUST CO., PITTSBURGH, PA.

Mr. LAND. Monetary policy since mid-1952 has made significant contributions to economic stability.

It is clear that the measures of monetary restraint taken in the latter part of 1952 and the first part of 1953 had a retarding effect on the volume of residential construction, and it is equally clear that the policy of active ease in the money market which was initiated in June 1953 has stimulated residential construction.

In the field of State and local public construction, there have been somewhat similar results. Some projects were postponed or delayed during the period of relatively tight money because of the difficulty of financing under the conditions then prevailing. The advent of easier and more readily available money turned the tide the other way and the volume of State and local public construction is now rising at a faster rate.

Money conditions also probably influenced the timing of business expenditures for new plant and equipment, although to a lesser extent than in the case of residential and public construction.

In these various areas of the economy, particularly in residential construction, monetary regulations cut something off the peak of the boom which culminated in the spring of 1953 and helped to some extent to fill in the succeeding valley.

Twenty years ago easy money was largely ineffective in stimulating business. Water was put before the horse, but the horse would not drink.

This time the horse has been drinking.

Throughout the recent period of changing business conditions, commodity prices on the whole have been unusually stable. Monetary regulation undoubtedly contributed to this stability.

Those who are directing monetary and related fiscal policy are entitled to a large measure of satisfaction over the results they have been able to achieve through the application of such policy.

From the standpoint of the future, however, there is cause for grave concern in some of the difficulties which were encountered in applying a policy of monetary restraint.

In its efforts to acquire greater freedom to restrain monetary expansion, the Federal Reserve, late in 1952 and during the first several months of 1953, modified its policies with respect to United States Government securities, seeking only to prevent disorderly markets rather than to maintain orderly markets. Among other things, it abandoned the practice it had previously followed of assisting in the United States Treasury's refunding operations by bidding a small premium in the market for each maturing issue (other than bills) and exchanging all of the securities so purchased for the new refunding issue.

The Treasury was confronted with several large refunding operations in the latter part of 1952 and the first part of 1953 and in addition it had to raise a considerable amount of cash. This financing was accomplished under increasingly difficult conditions, reflected in declining prices for Government securities, including new issues.

The relative aloofness of the Federal Reserve, the record over several months of new issues successively selling below their issue prices and the prospect of heavy seasonal deficit financing by the Treasury combined to produce on the 1st day of June 1953 a near panic in the Government securities market. It was only with considerable difficulty that the Treasury was able to sell an issue of bills on that date. In part the market disturbance was an overreaction by the public to various policy statements made by Federal Reserve and Treasury officials in preceding months. The public would have had a better balanced viewpoint if it had attached more importance to the fact that the Federal Reserve had begun to buy moderate amounts of Government securities in May 1953.

The unfortunate events of June 1, 1953, made drastic action necessary, and this took the form of heavy open-market purchases of Treasury bills by the Federal Reserve during June, followed in July by reductions in the percentage reserve requirements of member banks. In early July the Treasury was able to sell quite successfully a certificate issue of nearly $6 billion.

The change in Federal Reserve policy which was made largely under the compulsion of the crisis of June 1, 1953, coincided fairly closely with a downturn in business, and this made continuation of an easy money policy appropriate.

But suppose the boom had gone on unabated. Would the Federal Reserve have been able to reinstate an adequately effective policy of monetary restraint? I doubt that it would, in view of the con-

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tinuing large financing needs of the Treasury. In my opinion, the events which culminated on June 1, 1953, indicate that monetary regulation by the Federal Reserve must be to a very substantial extent the prisoner of the Treasury's necessities when the Treasury is compelled to engage in large and frequent operations to refund maturities and finance deficits.

It is cause for satisfaction that the present Treasury administration regards lengthening of the debt as one of its primary objectives. The issues which it has put out for this purpose have been limited largely to the 2½- to 9-year range, but refundings of this character can accomplish a great deal in the way of reducing the number of maturities per annum.

We have apparently learned to use the accelerator of easy money quite successfully. What we now need to do is to create the conditions under which the brake of monetary restraint can be more successfully applied in the future when appropriate.

If we use the accelerator too much, and the brake not enough, we shall drift into renewed inflation.

Senator FLANDERS. Thank you, Mr. Land.

Now we have C. Clyde Mitchell, Jr., chairman of the department of agricultural economics at the University of Nebraska, in Lincoln.

I may remark that the University of Nebraska has a wonderful collection of elephant fossils, and if anyone is driving through Lincoln, Nebr., I urge them to stop and see two things:

One is the wonderful State capitol, built without debt, and the other is that marvelous collection of elephant fossils.

They show the growth of the elephants in the first period of a kind of a long-nosed thing which apparently grubbed in the mud in the Nile Delta, up to the present magnificent specimens which now roam the earth.

Now we will return to our order of the day.

Senator DOUGLAS. Mr. Chairman, would you forgive a question. I have not had the privilege of inspecting this collection of elephant fossils, but do they show the reason for the decline and disappearance of the elephant from North America?

Senator FLANDERS. They, sir, give no untrue record of history.

Mr. MITCHELL. We suspect it is the Nebraska winter, Senator Douglas.

Senator FLANDERS. Now, Mr. Mitchell.

STATEMENT OF C. CLYDE MITCHELL, JR., CHAIRMAN, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF NEBRASKA, LINCOLN, NEBR.

Mr. MITCHELL. In agriculture the American ideal of the expanding, prosperous economy is failing in the most obvious fashion. Monetary policy of the past 3 years must bear a great deal of the blame. While objecting to the restrictive monetary policy of the immediate past, however, I desire to expand my objections to a broader subject—the economic theory of which monetary policy is only a part——

Senator FLANDERS. Excuse me just a moment. I note that yours is one of the longer presentations.

Mr. MITCHELL. You can trust me, Senator, to keep it to 10 minutes.

Senator FLANDERS. I am sure I can trust anyone from Nebraska.

Mr. MITCHELL. Thank you.

Continuing my statement: I desire to expand my objections to a broader subject—the economic theory of which monetary policy is only a part—concepts accepted by the Federal Reserve Board and the administration—concepts of capital formation and economic growth which are entirely unsuited to our Nation.

If America intends to make a national policy of full-employment work, we are going to have to revise some widely accepted but highly unrealistic ideas about our economic system. One of them is a belief that underlies all the opinions presented by the Federal Reserve and Treasury officials, a belief that something called the free market rate of interest should be a major factor in determining when and how much our Nation should expand its economic growth.

Monetary policy is too important to be entrusted to the market. There are three good reasons for this statement, either one of which would be sufficient to justify it. In the first place, it is quite certain that the real world does not fulfill the conditions necessary to create the type of free market in which the traditional economic theory would have meaning; the theory, that is, of capital formation through prior saving and its regulation through the interest rate. There is thus no valid justification in economics for preferring the so-called free price rather than a controlled price for capital funds.

In the second place, the traditional idea that a modern nation's capital-goods expansion is brought about through prior saving is incorrect, both in theory and in the actual history of modern civilization. In truth, for society to plan and govern its capital formation in essential lines, and to set whatever rates of rental it desires for such funds, are completely sensible politico-economic behavior.

Third, we have discovered, particularly since 1951, that whenever we attempt to use the so-called indirect methods of control on capital formation, they either do not work or work badly. This is particularly true with regard to agriculture. National welfare demands that there be made available to agriculture within the next few years, at low interest rates, very large increments of capital funds. Other industries whose rapid capital growth is also essential are in the same position. These essential industries should not have been penalized with higher interest and curtailed fund availability in the past 3 years, and should not in the foreseeable future.

To develop these arguments in any detail would require far more time than is at my disposal. In this brief argument and in the longer paper you have before you, therefore, I am devoting major attention to arguments that seem to me to have been not so often presented.

Last February, before this committee, I objected to the administration's proposal for agriculture on the grounds that it was based on unrealistic economic theory and that it was not designed to fulfill the responsibilities placed upon the administration by the term of section 2 of the Employment Act of 1946.

My criticism of our Nation's monetary policy since the accord of 1951 follows identical lines. This policy has been based on the same incorrect economic reasoning and likewise is not consistent with the aims of an expanding economy.

The accord of 1951 placed the power of decision over an important factor of economic growth in the hands of men and institutions

devoted to the belief that there is something deeply significant and valuable in the way the price of rented money is set in the market. This belief led these men and these institutions to take action which struck hard at two classes of citizens—farmers, and low- to middle-income home builders. The excuse for this widely advertised hard money policy was twofold: (1) that we were in an inflationary period, (2) that the so-called indirect methods, particularly those resulting in across-the-board curtailment of investment funds and in higher interest, are the best way to slow down inflation. Underlying these two was the implicit assumption that inflation is unquestionably something we must prevent.

I should like to object to these two excuses and to the underlying assumption:

(1) Whether we were in an inflationary period or merely a period of healthy prosperity consistent with reasonably full employment is a highly debatable subject. The definition of the terms "prosperity" and "controlled inflation" are practically indentical. People who would benefit from a stable or falling price level considered the situation inflationary, whereas people who would benefit from reasonably full employment and a generally bullish economy considered it healthy prosperity. Certainly for agriculture, the past 3 years have brought severe losses. Farmers will never agree with administration spokesmen that we have, to use their words "shifted from unsustainable inflation to stability." For farmers, the shift has been from moderate prosperity to depression. There is no other word that can describe a drop of 14 percent in net income from 1951 to 1954 (from 14.5 to 12.5 billion dollars).

(2) My objection to the second excuse (that "indirect methods" should be used) is one with which your committee is familiar; I shall merely summarize it. Indirect methods to control capital formation work badly, bearing particularly hard upon some of the most essential and "conservative" industries in society, for example, farming and home construction. For our Nation to follow an expanding—economy goal and carry out the ambitious terms of the Employment Act demands that interest rates for capital-goods formation in worthy industries remain at low level, preferably trending downward, but certainly never rising.

If speculative and too-rapid capital formation in certain lines ever needs to be curbed, for example, the building of race tracks, Mr. Chairman, let it be curbed by direct means, such as materials rationing, instalment-credit curbs, and other selective controls. On the developmental side, capital funds for the things which America urgently needs may often have to be directed positively and selectively. This is consistent with the social and economic planning which is normal in our complex society. That capital funds for such essential purposes should be rationed through the supposed impersonal operation of something called the free-price system is not an inevitable nor even a necessary rule of our society. Yet our present national monetary policy assumes, first, that ours is a free-price regulated economy and, second, that interest, the price for which money is rented, must be set by the impersonal market.

I suggest that we look at the world around us—that we recognize that through political action our society itself decides (or condones the decision by various private groups) upon many prices and production decisions—perhaps most of them. Our general policy—if there be one—is something like this: We leave many decisions to private interests, of course, but we do so not becouse of any basic trust in the "natural laws" which force private interests to decide correctly. We do so mainly because most of these decisions left to private interests do not impress us as being important enough, or the private controls obnoxious enough, to warrant intervention.

Whenever society decides that intervention is necessary in any case, there is no valid appeal from this decision, certainly not to anybody of absolute principles with which economics can supply us.

Whenever we are faced with a serious situation that demands the creation of new capital goods, we create those goods. Whenever institutional rearrangements are necessary, to print money or expand credit to aid in construction, we make them. Because our Nation, and indeed all modern technological civilizations, always have a great deal of underutilized capacity within them, even in wartime, this can customarily be done with little or no increase in prices.

In the material in appendix I, below, I suggest that the process of capital growth in our economy, and particularly in agriculture, needs to be understood and used in the national interest to achieve planned expansion of our economy.

I object also to the underlying assumption that inflation must always be prevented. There are two main types of inflation: (1) That with rather full employment, as in the United States during recent periods, and (2) that with unemployment—like the Chinese type. I take it for granted that most economists now recognize that the only type we could have in this country is the former, the best answer to which always lies in increasing production, and in increasing capital funds available to the specific lines in which production must be most rapidly increased.

It is unfortunate that the same word, "inflation," is also used to describe the wild price flight that takes place when the technological productive capacity of a country has been wrecked by physical means. Most economic textbooks, failing to recognize the reasons for the Chinese type, imply that it will come about as an inevitable result of letting the United States type "go too far." Nothing could be further from the truth.

The only plausible objection to the full-employment type of inflation in this country is that it can bring about changes in the distributive shares going to various classes of our people, particularly upsetting to persons and institutions on pensions and other fixed incomes. I have discussed this problem at greater length in appendix II, below. I can summarize by saying that our society, if it decides that mild, controlled inflation is a safer policy for implementing the Employment Act than rigid price stability, is perfectly capable of handling the problems such a policy creates, including the problems that prosperity creates for fixed-income classes.

(The unread portion of the statement submitted by Mr. Mitchell is as follows:)

APPENDIX I. THE ROLE OF CREDIT IN AN EXPANDING ECONOMY, WITH PARTICULAR REFERENCE TO AGRICULTURAL CREDIT

I. SUMMARY OF THIS APPENDIX

1. Economic progress in welfare terms (goods and services), is assumed to be the goal toward which social planning is directed. The United States has expressed in the Employment Act of 1946 the intention to pursue a course of economic progress in an expanding economy.

2. Such progress will continue to result, as it has in the past, mainly from the association of more (and more efficient) capital equipment with the factors of labor and management.

3. Productive credit assists in bringing about that association (of more capital equipment with the labor and management factors). Availability and use of credit which facilitates the creation of more capital equipment is therefore a condition of progress.

4. Serious deficiency in credit availability to various people engaged in agriculture is one important factor standing in the way of efficient production. If the United States is successfully to maintain an expanding economy, these deficiencies must be made up rather rapidly.

5. Tentative suggestions are made in this article that new and different methods of supplying credit to agricultural producers will be needed in the next few years. These methods at first glance appear to be radically different from those employed by agricultural credit institutions, particularly before 1933. They are different from those envisioned in traditional economic theory which frowns on capital goods accretion in the absence of prior moneysaving. However, a closer examination indicates that with regard to capital goods formation: (1) the areas of the American economy which have made the most progress have benefited from considerable cultural fiat and social action with regard to production credit, and (2) the traditional theory of capital goods formation contains basic logical faults and probably never deserved the adherence of economists in the first place. In short, it is possible that these suggestions are realistic rather than radical and involve only the extension to agriculture of ideas long accepted in industrial production.

6. More rapid progress in the field of agricultural capital formation will probably result from social action programs additional to and of a more comprehensive nature than have been tried in the past 20 years. Methods should be found to establish competent farm producers in a well-equipped productive operation at the time in their lives at which it is most likely that they will be able to produce efficiently.

7. If plans along the lines of these suggestions are put into effect, they will change the nature of the obligations which the farm producer owes to the rest of the community. A tentative exploration is made in this article into the nature of these changes.

II. A SHORT EXCURSION INTO TRADITIONAL IDEAS OF CAPITAL GOODS FORMATION

A. Robinson Crusoe and his fish net

The earliest economic thinkers were impressed with the way in which division of labor and specialization could increase the production of any group of workers dramatically, beyond that amount the workers might contrive without specialization. These theorists recognized the influence of capital goods upon increased productive efficiency, and correctly reasoned that an increase in the production of capital goods was a necessary condition of economic progress. For various reasons, the fathers of economic thought devoted far less attention to the technological conditions of capital goods creation than they did to economic conditions, rather narrowly defined. In the famous story of Robinson Crusoe, who built a fish net to increase his haul of fish beyond the amounts he could catch with his bare hands, theory took what is perhaps a wrong turn. In order to feed himself while he spent 2 or 3 weeks weaving the net, Crusoe first needed a supply of food. He saved berries. Saving thus appeared to the theorists to be necessary prior to the construction of capital goods.

B. Capital goods formation limited by savings

From this interpretation of fishing technology grew the idea that capital goods formation is limited by money savings. Basic to the theory of capital goods formation are the assumptions of the logical system in which capital goods formation is only one part: The laissez-faire system of distribution, in which prices serve as the directing force for economic decisions and bring about both efficiency in production and equity in distribution of the products of man's work. These assumptions can be summarized in the phrase "perfect competition in a perfect market," and include, subsidiarily, mobility of factors of production, and the economic man.

Given these assumptions, in a free society, full and efficient employment of all factors of production would be assured as if by an unseen hand. For society to progress, new capital goods needed to be introduced into the system. Such introductions could be made only by those who could save money. Capital goods formation was therefore conceived to be limited by moneysaving. Moneysavers were changed from the usurious devils of a slightly earlier age into benefactors of society, by the writings of Adam Smith and his followers.

C. Forced savings

If money means benefaction, then could a ruler, by printing a great deal of money, become a great benefactor? For a long time the people in charge of printing paper money have been intrigued by the tremendous power in the finger with which they push the starting button of the printing press. It appeared that at a motion of this finger they could bring into being great warships, buildings, dams, highways, and national monuments. But simple intelligence convinced almost everyone that such magic could not possibly be true; that these impressive accomplishments were the product of artisans and laborers and engineers rather than the button-pushers in the printshop.

In fact, the button-pushers, toiling not and sweating not, were deemed to be a rather irresponsible crew in aspiring to perform magic feats. Economic logicians took pains to point out the danger of letting the printing-press operators direct such important human activities as calling forth warships and buildings. Given the assumptions of the economic system which the theoreticians believed described our world, of course, the printing-press operators were positively dangerous. Although they might print money which called forth in the construction of capital goods, their action took the entire matter of saving out of the hands of those fortunate members of society who could save, and forced everyone, particularly the poor people, to save whether they wanted to or not, or whether they could spare anything from their meager existence or not. The printing-press money forced savings by pushing prices up, particularly of the things that the poor people have to buy. This early discovery that money printing might get new industries built was therefore never given adequate study because it was almost from the start believed to be irresponsible and sinful.

D. Capital goods formation in an underemployed economy

However, the theoreticians discovered that in the real world, money can sometimes be printed and put into circulation to build new capital equipment without raising prices or forcing anyone to save. This can happen whenever there are resources which are not being fully utilized in the economy. If the amount of underutilized resources is large, governments can print large amounts of money, or credit-creating institutions can create large amounts of credit, and large amounts of new capital goods can be built, using the slack resources.

The admission by present-day economists educated in the classical tradition that it is possible to bring about the creation of new capital goods by social action (printing money or expanding credit) without prior moneysaving by capitalists and without forced saving by consumers generally, points out a serious limitation in the usefulness of traditional theory. It constitutes an admission that society, acting through laws and other institutional factors, can direct our economy and do it well. Society can do it better in the real world, from a goods and services standpoint, that the automatic and impersonal forces of price and competition which (by the theoreticians at least) have been depended upon for 200 years. The theoreticians excuse themselves by admitting that the real world exhibits underemployment of resources, which the theoretical world ruled out. However, a few modern economists are reexamining the original idea, and ask if the building of the first fish net did not itself require underemployed resources. How did Robinson Crusoe manager to store up enough

berries for his 3 weeks of net-making? He must have lived in a surplus-producing area—a partially underemployed economy. In a society fulfilling rigorously the assumptions of the classical theory, it is entirely possible that there never could have been any capital-goods creation. It is probable that in every society, everywhere, enough underemployed resources exist (or can be freed by adoption of new techniques) to allow great amounts of progress through social redirection of resources.[1]

E. Capital formation by social dictate

Whether or not we believe that the theory of capital-goods formation through prior-savings was faulty from its beginning, most economists today acknowledge that society quite properly engages in the process of dictating a great part of the capital-goods formation that now takes place.

Whenever our society makes the decision that certain things must imperatively be built, those things are built, whether or not anyone had previously saved enough money to build them. The wartime expansion of our Nation's capital equipment is an excellent example, of course. The doubling of capital equipment in the last 15 years has occurred mainly because of social direction. That social direction included the creation of funds, the allocation of scarce materials, Government construction of plants, guaranteed or supported prices, preferential tax treatment, and many other similar measures. An exact measurement is impossible of the extent to which America's capital goods have increased due directly and indirectly to social action. The chief economist with a large American corporation argued that I was wrong, in an article I wrote in 1953 in which I said that "more than half, and perhaps almost all" of America's doubling of capital goods has occurred because of social action. He conceded the war plants had been built with RFC and other direct Federal money, but concluded that the balance, much more than half, was expansion from private funds. But that misses the point. Those private funds, profits of American business, were as large as they were because of definite decisions made by the American people. The decision to fight the war and to build war-related industry was a social decision. Once that decision had been made, most profits became automatically guaranteed for some years to come, not only in the war industries but also in all the less- and non-essential industries. Practically all of these industries enjoyed the most tremendous prosperity they had ever known. Savings from the net profits of private corporations did of course finance a great deal of the growth, but most of these net profits resulted directly from social decisions completely outside of the realm of a society governed by the laissez-faire doctrine.

There can be no doubt that a great deal of such net profits resulted from the existence of patents, trade-marks, price fixing, and other modifications of pure competition which society has decreed or acquiesced in. There can be no doubt that rapid tax writeoffs, coupled with the fact that the Government directly influences about one-fourth of the total income flow in the Nation, now guarantee business stability at a high-profit level for much of the so-called private enterprise sector. I should like to repeat my 1953 statement to which the aforementioned business economist objected: "The doubling of capital equipment that has taken place in the past 14 years has occurred very greatly (more than half, and perhaps almost all) because of the creation of funds beyond the amounts saved by capitalists, and certainly beyond the amounts capitalists could have saved had our economy been competitive in the classical sense." In other words, the funds for capital-goods creation were funds created by society, or allowed to be created because society has not thought it wise to force business to be classically competitive. In other words, the United States has through social programs directly created or has underwritten the creation of most of our capital goods. The effect of this great increase in capital equipment has been a tremendous increase in physical productivity, in goods and services, of the American economy. The results are undoubtedly better, in the physical-productivity sense, than a purely competitive society could have achieved.

III. THE CHANGING RATIO OF CAPITAL VALUE TO LABOR IN THE 20TH CENTURY

During the course of the industrial development of modern society, the money investment in capital equipment per worker has of course increased greatly. The average cost of capital equipment associated with each worker in American industry is more than $10,000; it is almost twice this amount in railroads and utilities.

[1] A better understanding of these factors can enable us to do a more realistic job in aiding the underdeveloped areas of the world to industrialize themselves.

Investment in capital goods per worker has increased greatly in the past half century as the size and complexity of industrial operations have increased. The worlds of finance and industry have long been organized in such a way as to provide these large amounts of capital equipment without requiring either the laborer or the entrepreneur to make prior savings of large amounts of money funds. Indeed it is almost an axiom of business that new industrial enterprises be started with little or no money. (The entrepreneurs are expected to have production ability, but even that is not necessary—engineers can be hired.) Promotional ability is perhaps the main requisite to starting industrial enterprises, and on so precarious a basis (in the technological sense) funds are raised from investors. The promoters usually receive no-value common stock for their promotional efforts; the cost of physical plant and working funds are supplied by investors in preferred stocks and bonds. Competent studies, such as were made by Berle and Means and others, have shown that complete control, i. e. ownership of all common stocks, of America's largest industries was achieved with an investment of only about 7 percent of the real construction cost of the industries—the other 93 percent was furnished by investors who received securities bearing little or no right of control over the industries.

Great physical performance of the American industrial system has characterized past years, and profitable financial performance has characterized most of them. These two factors have adequately justified the optimistic hopes of an institutional system that permits entrepreneurs and laborers with ideas and abilities, but without money, to associate themselves with thousands of dollars worth of capital equipment during the best and most productive periods of their lives. To take the different course suggested by Robinson Crusoe economics would be unthinkable—to require an industrial entrepreneur to work up the ladder from a common laborer to a skilled laborer to a small backyard shop to a larger shop to a small factory to a larger factory, buying the more expensive equipment in each case from the money savings he had made by abstaining from spending part of his income in the prior stage. He would be senile before he had saved the price of one forging hammer.

America's Horatio Alger folklore to the contrary notwithstanding, that is not the way an industrial economy makes progress.

Progress is made because society has made a complex chain of decisions, some legal, some institutional, which bring entrepreneurs and workmen together to work, during the most productive period of their lives, with capital goods which society has decreed shall be created.

Modern societies have learned, though most elementary economics texts avoid this fact, that economic growth is self-financing. As the conservative London Economist editorialized, in discussing the "lessons of the war," we have learned that "anything that is possible physically is possible financially." This is true because in modern societies, there are always rather highly flexible elements of underemployment of many resources, even in the times of greatest emergency, and further because when banks and governments create funds the prospect of economic growth so increases property values as to justify the creation of the funds.

Of course a recognition of this process does not mean that governments or banks can safely create money by whim. If the new money is not matched by real physical growth and productivity increase, inflation results. In some cases of forced-draft increases, as in war, considerable effort must be expended in areas of stress by controlling some prices, allocating some materials, and altering some of labor's mobility. However, the generalization is a safe one that our technological ability to increase our capital equipment (and therefore our productivity) makes it possible for us to finance the increases. This is the exact reverse of the teaching of traditional economics.

Acceptance of this more modern way of looking at the problem of progress and growth underlies the Employment Act of 1946. That act expresses with the highest ceremony possible in our society, formal act of Congress signed by the President, and implemented by a top-rank professional staff, that we have to a large extent adopted a new theory of economic development, that we as a sovereign Nation will do whatever is necessary to maintain an expanding, growing economy.

IV. CAPITAL GOODS FOR AMERICAN AGRICULTURE IN THE FUTURE

If this is a realistic picture of the changed and more realistic explanation of the tremendous technological progress made in the Western World, and in the United States in particular, to what extent has agriculture shared in these

changed concepts? As compared with industry, agriculture has shared very little. This generalization is not intended to belittle the great significance of the social action programs of the last 20 years. Price supports, incentive payments, farm credit at reasonable rates, supervised credit of FSA-FHA, road building and the REA's—all of these have helped many farm producers to adopt new methods, invest in new capital equipment, and greatly increase their productivity. However, as between industry and agriculture, with regard to their ability to do an adequate job of meeting the challenge of an expanding economy for the next 2 or 3 decades, the gap is still great. In considering how to improve the physical efficiency and productivity of America's farms in the future, I should like to direct attention to some new methods of expanding the amount of capital equipment available to farmers.[2]

Agriculture is the main residual area in which the "save first before building" idea prevails. Twenty years of social and political concern with the farm problem has partially changed this idea, but in the main too many people still think that there is an agricultural ladder, and that the task of climbing it need not be materially eased by Government.

I submit that the same general type of technological and financial revolution that has brought our industrial society to the place it is today needs to take place in agriculture.

On the most successful farms the physical revolution has already taken place. The farm that can support a family in decent middle-class living now requires an investment of more than $40,000. About the maximum that a farmer can borrow for such an enterprise, without parental or other family assistance, is 50 percent. Raising $20,000, or even $10,000, is a difficult matter for most American farmers. For the young farmer it is usually impossible.

To improve agricultural productive efficiency for the America of the future will require that methods be found to enable competent farm producers to associate themselves with adequate capital equipment early in life, when their vigor and ambition are highest.

As in the case of industrial America, the association should prove successful. A farmer who can thus associate himself should ordinarily achieve physical productivity high enough to pay his initial loan off within about 20 years. In such cases, the increased productivity has amply justified the loan. If, however, the prevailing farm-finance pattern of today is continued, those 20 years of highest physical ability must often be partially wasted on inadequate and ill-equipped farm enterprises.

V. IF SOCIETY TAKES A HAND

American planners should consider whether or not we should participate in the process of making capital funds available to increase farming efficiency in an expanding economy to an extent beyond anything contemplated in present laws and institutions. To this end, capital funds up to 90 or 100 percent may need to be supplied to farmers who give evidence of being good entrepreneurs. Implicit in this proposal is, of course, the proposal that some measure of competence be devised and applied to applicants for funds.[3]

Much of the new investment funds thus made available would be from sources outside of agriculture. Whether the loans come from private financial institutions, private institutions with Government guaranties, or Government lending agencies, they will inevitably be more impersonal than is customary in present farmer-country banker relationships. Outside credit will probably require, and probably should receive, considerable guarantee of stability, as far as interest and principal payments are concerned. This stability feature in industry has been important in the wide acceptance of the principal of outsiders furnishing capital funds. If the principle is extended to agriculture, income stability of farmers becomes a very important factor. Incomes in agriculture need to be made more stable from two standpoints: (1) The quality of the entrepreneural decisions needs to be kept high to insure productive efficiency on the individual farm, and (2) farm incomes need to be stabilized to avoid great variations.

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[2] Although "equity" to farm people in access to social capital is important, productive efficiency is the matter here under consideration.

[3] Lest this be considered too radical a departure from American practice, we should remember that society through both public and private action has often furnished 100 percent of the capital funds required by promoters to set up new industries. These promoters very often would not have been able to give even a fraction of the evidence of technical ability that we have customarily required for the smallest rehabilitation loan of the Farmers Home Administration.

If society takes a hand in the provision of capital funds for agriculture, it will undoubtedly demand a hand in the selection of the farm enterpreneurs and in periodic examination to see how they are discharging their stewardship.[4]

Furthermore, if society takes a hand in the selection and examination of farm enterpreneurs, we will need to devote considerable study and understanding to the problem of keeping social participation democratically responsive and maintaining the greatest possible decentrallzation of authority and freedom of action of the individuals concerned.

Finally, if society decides to take a hand in such matters, it will have to safeguard itself from possible adverse consequences of its action. For example, stability in land prices and proper land use would undoubtedly need to be achieved through legal action—otherwise easing of agricultural credit could result in wild bidding up of land prices, or land might be ill used for one short-run purpose when social considerations would require it to be used differently for long-run conservation ends.

CONCLUSION TO APPENDIX I

If agricultural productive efficiency is to keep up with the demands of our expanding economy, entirely new arrangements must be devised for providing capital funds to farm operators. The point has been made here that the prospects for growth justify the creation of capital funds by the Government and by banks, in much the same manner as the capital funds have been created for America's industrial growth. Both the amount of funds created and the interest rate charged for the rent of these funds are subjects for social decision. There is no valid reason for letting either of them fluctuate adversely as long as capital growth is needed in important industries.

APPENDIX II. PRICE STABILITY AS A GOAL?

We economists are almost all honest men; we all are sincere in our quest for roughly the same goals (adequate production, decent income, and maximum possible individual freedom); why is it then that we arrive at such widely different recommendations? One of the main reasons is that we start with completely different assumptions as to the nature of man and society, and we inevitably arrive at different answers. For example, if we start with an assumption that is implicit in the work of most American economists that prices are the proper governor for most economic decisions, the conclusion is bound to follow that a policy which promises more price freedom at any point is always better than a policy which promises less. This is a common feeling of economists, whether they are discussing farm prices or the price at which money is loaned. I think it is only fair to point out that even though the overwhelming majority of professional economists probably believe such things, they are not true.[5] In our complex society decisions are made under the influence of a number of forces other than price; most of the prices which show up as a part of America's economic transactions are themselves influenced by forces which are either modifications or violations of, or excluded by definition from, the free market as it must be defined by traditional economic theory.

American political reality has agreed with the foregoing analysis as to the factors that should influence economic production and distribution for many decades—not just since 1933. The economists have ordinarily disagreed. Who has been more nearly right, the American governmental processes, or the economists? Economists should at least keep their minds open. The prima facie case for a self-regulated society whose major activities are directed by free market prices has been wrecked both by logic and by experience.

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[4] In industry, society has in some cases demanded such a hand, and in some cases not. SEC regulations, public-utility regulations, wage-and-hour laws, and hundreds of other welfare measures are examples of society taking a direct hand in management. An indirect hand is taken in the many cases in which some businesses are assisted, others inhibited, by tariffs, patents, and various other oligopoly positions allowed or condoned by society.

[5] Most of the economists have invested many years of their lives in learning the analytical tools of the pure competitive, laissez-faire, price-regulated economic system. They are undoubtedly swayed by the fact that retooling would be so costly for themselves that it would be personally cheaper for them to try to change the rules under which the American economic system operates. Furthermore, the alternative tools of the more realistic socio-politico-economic theories are usually ill regarded by economists—they are full of inexactness, psychology, sociology, political science, and other social ideas not nearly so clean and sharp as economics, which deals precisely with prices and quantities and uses calculus and geometry. So most economists prefer to hold on to the beautifully embellished but highly unrealistic theory based on the free-market assumptions.

Another questionable assumption most economic writers make is to assume that our national economic policy should be aimed at price stability. Again we find that economists and America have disagreed for well over a hundred years. America's political activities are influenced to a great extent by segments and groups in our population, some inflationary in their demands, some deflationary. In general, farmers, laborers, and entrepreneurs have been in the former category; in the latter have been white-collar workers, pensioners, and annuitants, both individuals and institutions whose wealth or income was measured in fixed dollar amounts.[6]

Any time a discussion of American policy begins with the assumption that a stable price level is a major goal of society, it is bound to conclude that any policy that does not work against inflation is an incorrect policy. Yet it is quite possible that America's physical production increases most dramatically in times of controlled but nevertheless continual mild inflation, with tremendous increments of created capital funds pumped into the system at specific points. Certainly the inflationist idea wins in the political arena every time it is clearly presented. The 85 percent of our people (approximately)[7] included in the segments which seem to prefer a little bit of inflation have in recent years been able (aided by the overriding urgency of depression and war) to stack the deck sometimes against the 15 percent who would have profited by stability or deflation.[8] Again, we must face the question: Who is right, the majority of the economists or the majority of the American people?

Of course, stacking the deck against the 15 percent is to be regretted. There have been various practical suggestions in their behalf. For example, school teachers and other future pensioners are now encouraged to put half their savings into common stocks and real property. Some people suggest that insurance companies should do the same. (None of these suggestions is helpful to low-income people who have no savings aside from their interest in retirement or social-security funds.)

Some economists nowadays sincerely believe that to attempt to maintain a stable price level is potentially very dangerous to our economy, and that the welfare of the 85 percent should not be tied inflexibly to a stability fetish to guarantee the purchasing power of bonds and retirement funds owned by the smaller group. The case for controlled inflation has not yet been proved, of course. A number of great problems (in addition to those of the endowed universities and pensioners) remains to be solved. But the case against controlled inflation has not been proved either.

In the stable-price economy beloved by the traditional economists, private decisions would govern where to, whether to, and how fast to expand America's industrial economy. It is ordinarily admitted by such economists that periods of stagnation and contraction might occur; but freedom from socialistic control has always assumed to be a benefit sufficient to offset a growth rate considerably below the feasible and desirable. If we intend to keep America fully employed, it is my opinion that we should maintain a slightly bullish pressure on price levels. This, interestingly enough, will probably make governmental intervention in capital growth less necessary, simply because it should minimize the occurrence of the types of crisis in which the Government is called on "to do something." There are numerous other good reasons for this expansive policy; for example, foreign trade expansion probably depends on it—imports will be received in America with far less business anguish in times of steady upward movements.

Even in an economy of controlled inflation, a large amount of decision making as to investment will nevertheless be retained in private hands. However, the total of all investment decision making will be kept expansionist, led by easy credit and such incentives as rapid tax writeoffs in specified lines, and pushed by Government contracts. In a stable-price economy, reluctant, nonexpansive corporate managers feel they cannot be badly hurt because of their reluctance, and might, if depression ensues, prove to be men of great wisdom and parsimony. In an economy of controlled inflation, such men are fools, and become less and less important as their neighbors seize the torch of industrial progress and development. The American people have recognized the truly incredible rate

[6] Here, too, we must recognize that economists have a vested interest in the traditional assumption. They customarily fall into one or more of the deflation-oriented groups because of fixed salaries and institutional jobs.

[7] This is, of course, an oversimplification, inasmuch as there are many people who have interests in both categories. Primary interest is the point here, however.

[8] In all modesty, this minority never publicly professes to want anything better than stability.

at which our industrial economy has developed under controlled inflation. They apparently do not feel that their personal freedoms have suffered too much in the process. When truly great performance is urgently needed, even imperative as in the case of war, there is never a serious question of whether to use controlled inflation; it is only a question of where to set the controls and where to pump in the incentives.

CONCLUSION TO APPENDIX II

At least two factors will press America in peacetime to continue mild inflationism: (1) The belief that the free world must dramatically outproduce the Soviet's rising industrial might; to do this, investment decision making needs a shove toward expansionism comparable in scope with what it got in the war. (2) The acceptance, both popularly and in law (the Employment Act), of the idea that the American economy is badly managed if it does not produce in peacetime for peaceful purposes the expanding volume of goods and services of which three wars have shown us capable.

One of the main—perhaps the main—argument of the Federal Reserve System and the Treasury for raising the general structure of interest rates is that such a policy is required "to fight inflation." This appendix has suggested that these institutions were probably fighting the wrong thing.

Senator FLANDERS. Thank you, sir.

You have kept within the normal time; you have propounded a number of questions which I find it difficult to keep from pursuing myself, but since we have agreed to go through the list, we will wait until later.

The next one in alphabetical order is Mr. Edward S. Shaw, of the Brookings Institution, on leave from Stanford University. Mr. Shaw.

STATEMENT OF EDWARD S. SHAW, THE BROOKINGS INSTITUTION

Mr. SHAW. It would take more courage and wisdom than I can muster to answer question I confidently and explicitly. So I take some comfort from the fact that official answers from the Treasury and the Federal Reserve are neither complete nor quite complimentary. The Treasury view seems to be that restraint was necessary in early 1953 and that the May issue of 3¼ percent bonds was a salutary measure of restraint. I understand the Federal Reserve to say that excess liquidity was removed after April 1951 and that monetary growth balanced real growth until "unduly severe" tensions developed in May 1953. In this view the 3¼ percent issue was a tension that needed offset by a roughly equivalent open-market-buying operation. Neither of these views recurs to the theme of the Council of Economic Advisers, in its report of last January, that signs of impending deflation were evident at the turn of 1952 to 1953.

My own ill-defined impression is that monetary restraint was skillfully balanced against forces of expansion in 1951–52; that monetary and debt restraints were pressed too hard and too long in early 1953; and that subsequent easy finance was at least congenial to the specific pattern taken by the late recovery. It is still too early for the casual observer to guess whether restraint has been renewed too quickly.

The reply of the Federal Reserve to question II is generally very lucid and instructive. I have a single quibble. The reply tells us why changes in legal reserve requirements are a defective instrument of control. It does not tell why so defective an instrument is used so frequently. There must, under some circumstances, be merits to balance the defects.

One does gain the impression that, in taking so skeptical a view of both variable reserve requirements and operations in long-term securities, our central bank is tending toward an immaculate, high-church, and 19th century view of its responsibilities.

One defect allegedly is that "* * * the results [of a change in requirements] affect simultaneously and immediately all banks in each reserve class." In many instances results so widespread would appear desirable on a money market as extensive as ours. Now that the Federal Reserve has denied itself access to the long-term market, the pervasive effects of change in reserve requirements may be especially valuable.

The large and infrequent changes in reserve ratios, which the Federal Reserve takes to be the result of defects in the instrument, may instead be responsible for those defects. Open-market operations of comparable magnitude can also be a shock to the markets.

Question III and the Federal Reserve's reply to it touch on fundamental issues in central banking theory. The Federal Reserve has made this decision: to deal only on the short end of the market; to lend no support during Treasury operations; to intervene in disorderly markets. The result, it is said, should be to develop a private middlemen's inventory of Government securities that will absorb minor market disturbances. Private enterprise will preserve orderly markets.

Then long rates may vary less in short periods, reducing market risks for all investors in long-term securities. This should mean an improved market for Treasury long debt. Changes in long-term rates should become a more reliable index of changes in the terms of trade between savers and investors and, hence, a more reliable guide for monetary policy. Other advantages to the Federal Reserve may be expected, including a reduction in the turnover of its portfolio.

The Federal Reserve has bowed off on the long market. It will no longer manipulate relative market supplies of long-term and short-term securities. That function passes to the Treasury. The Treasury proposes to push out long securities, at relatively high rates of interest, when excess liquidity is contributing to cyclical boom. It will borrow short, at low rates of interest, when more liquidity may soften a cyclical recession. Debt management is stepping into the market arena from which the Federal Reserve has withdrawn.

The Treasury, with a new look, to be sure, has apparently gained in a new accord, prestige lost in the accord of 1951.

There are disadvantages in this particular way of dividing responsibility between monetary action and debt management which are, after all, different techniques for attaining identical results.

It raises interest costs on the public debt, because long borrowing is done when long borrowing is dear. These extra costs appear to be in part a social cost of reviving the middleman function on the Government security market. The new technique may mean higher costs, too, because the Treasury, without central banking support, may need to put more favorable prices on its long-term issues. Finally, Treasury techniques for managing the rate structure are less agile than central banking techniques, so that the range of fluctuations in rates may not be reduced after all.

In recent years commercial banking has lost ground to other institutional channels for lending and investing. Money has become less

important among the financial assets that feed inflation. It is being superseded to a degree by savings deposits, savings and loan shares, insurance policies, and other vehicles of saving. Control by direct or indirect means of the institutions that create and issue these media is increasingly vital to economic stability. There has been some reason to believe in recent years that the Federal Reserve was developing indirect controls over nonmonetary financial institutions through its operations in long-term Treasury issues. Now it appears that the Federal Reserve has abandoned the experiment and is limiting its area of responsibility to the traditional commercial banking field.

Comments by the Federal Reserve on question IV and comments in other connections by the Treasury supply a clean-cut statement of national monetary and debt policy. Within the business cycle the range of fluctuation in interest rates is to be increased, by Federal Reserve action to stabilize the money supply and by Treasury policy of refunding on the cyclical rise. Over longer periods, the money supply is to grow along the narrow line that separates inflation from unemployment while the public debt is to be dispersed largely in funded form to investment-type portfolios.

The policy of cyclically variable interest rates is correct if it does not jeopardize the recoveries that constitute economic growth. I object only to refunding when it is most expensive. It should be the central bank, not the Treasury, that sells long-term securities in cyclical recoveries. Refunding ideally should occur in recession when a successful operation, supported by the banking system, can assist in reducing long-term rates of interest.

In response to question V, the Federal Reserve indicates gratification that the money supply did not contract in the recent recession. It traces monetary stability primarily to bank purchases of Government securities and suggests that hereafter the substitution of Government issues for private securities in bank portfolios will brace the money supply against the contractive forces of recession. My own impression is that the money supply held firm in part because the recession has been so mild. Private borrowing at banks continued strong. With incomes still high, the public continued to want large money balances. We should not be surprised in a more decisive recession if the public insists on economy in its cash balances, as it did in 1948–49. Nor should we be worried about a contraction in money balances if it is voluntary on the public's part and if, hence, it coincides with falling interest rates.

Two queries come to mind in connection with the Treasury reply to question VI. First, issue of a 5-year, 10-month bond in February 1953 is said to have been a measure of restraint on inflation, yet issues of comparable maturity in late 1953 are said to have been neutral with respect to Federal Reserve monetary policy. It is not clear why lengthening of the debt is at times a restraint and at other times neutral in the monetary sphere. Second, if the explanation for this anomaly is that the intermediate securities are placed away from banks in booms but in banks during recessions, one wonders whether it is necessary to pay the banks so well for lending capacity that would otherwise be idle.

In general, question VII has elicited a most helpful response from the Treasury. The doctrine officially laid down is a quite remarkable advance over traditional dogma that the only good debt at any time

is either long or long dead. I wish to question only the Treasury's excessive modesty in claiming that it must cope with a free money market. The bulk of official testimony in these replies has been that the money markets, short and long, are not free and cannot safely be left free. They are the segment of the economy that must be so controlled as to communicate to other segments the signals that inflation or deflation have gone too far. These markets cannot be regarded as free in any important sense when they are managed and manipulated by the instrumentalities of the central bank and the public debt.

The final question barely touches on the fringes of vital and highly disputatious issues. It has to do with a minor aspect of the relationship between banking and government. The maintenance of Treasury balances with commercial banks and the various agency services that the banks perform for the Treasury should be considered in the broader context.

Securities of the Federal Government were over 40 percent of all commercial-bank earning assets in mid-1954. Earnings and sale profits on Government securities approximated 30 percent of member-bank earnings in the first half of 1954, significantly more than enough to cover all taxes on all banking operations. The banks are deep in the business of monetizing public debt, and they are paid well for it. Private assets in their portfolios are sheltered by Government guaranties; excessive competition is restricted by Government authority; expensive services are provided by an independent agency of Government. The banks, in return, provide an efficient payments mechanism and a principal channel for allocation of the community's savings. My judgment is that such minor aspects of bank-Government relationships as are suggested in question VIII cannot be considered judiciously apart from aspects of much deeper significance.

Senator FLANDERS. Thank you, Mr. Shaw.

Our next witness is Mr. Rudolf Smutny, senior partner of Salomon Bros. & Hutzler, New York. I take it, sir, your firm deals actively in Government securities?

Mr. SMUTNY. Mr. Chairman, that is correct.

Senator FLANDERS. Thank you; you may proceed.

STATEMENT OF RUDOLF SMUTNY, SENIOR PARTNER, SALOMON BROS. & HUTZLER

Mr. SMUTNY. I would also like to say, Mr. Chairman, it is the first time in 38 years in Wall Street that I have been called an economist.

My approach to the problems here under discussion is that of the bond dealer who specializes in the institutional investment market, of which United States Treasury obligations constitute so large a part.

The unpegging of Government securities prices in March 1951, was long overdue. Pegged prices, being economically unsound, simply did not work. They destroyed the freedom of the market and made buyers and sellers largely dependent on the Federal Reserve banks. They encouraged some institutional investors to put short-term funds to work in the long-term market. They tended to lodge the initiative in the creation of reserve balances with the holders of Treasury securities, and, as a corollary, to deprive the Reserve authorities from

exercising their proper influence on the availability and cost of credit.

In the "pegged" market dealers were many times, for all practical purposes, merely messengers. At such times all market decisions rested with the Federal Reserve authorities. "Unpegging" the market restored its freedom of action, and broadened the scope of trading activity.

It seems to me that debt management and credit control policies during the past 2 years have, on the whole, been sound. My only criticism is that, during the transition period in the early part of 1953, the Government bond market was left without even interim token support from the monetary authorities. Moreover, and more important, it was needlessly subjected to many utterances regarding future financing policy which tended to upset market stability. It seems evident, too, that the price decline in Government securities at that time was sharper than was warranted by supply-and-demand factors. For example, during the period January–May 1953 Treasury 2½ percents of 1967–72 declined by 5.8 percent while high-grade corporate bond prices decreased by about 4.875 percent. The sharp break in prices of Government obligations naturally had an unsettling effect on the entire money and capital market.

Fortunately the situation was soon rectified, and from mid-1953 to the present time, the debt management policies of the Treasury and the credit policies of the Federal Reserve have been handled with consummate skill. They have been geared to assist the money and capital markets and to help direct the flow of capital into corporate securities and mortgages so that corporate capital expenditures, and business and residential construction might be stimulated.

While the supply of Government securities is very large, the present demand for long-term Government bonds is not impressive. There is, however, a very strong demand for short-term Government obligations with maturities of not more than 1 year. This is illustrated by the fact that from the beginning of 1954 through the first week in November, 40 major life-insurance companies, the leading institutional investors, purchased United States Treasury bonds to the extent of $360 million, which figure came to only 3.5 percent of their total investments of $10.5 billion. On the other hand, they acquired bills and certificates of indebtedness to an amount of $2,132 million, or 20.3 percent of the total.

The incidence of greatest demand, therefore, is in the short-term market, and a major sector of that market, United States Treasury bills, in the chosen medium in which the Open Market Committee operates to influence the reserves of the member banks, a factor which, from time to time, greatly intensifies demand-supply ratios in this short-term area. So long as the economy is as active as it is today, and building construction continues at a high level, it is doubtful whether institutions, other than banks, will be large investors in long-term Government bonds. Rather, they will endeavor, as in the immediate past, to acquire high-grade bonds and mortgages which afford a better return than that obtainable on United States Government obligations. The fact that, early in 1953, Government bonds decreased considerably in price and that their marketability was materially reduced has also lessened their popularity to some extent.

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However, I believe we should not overlook even a minor opportunity for issuing long-term bonds and lengthening the average maturity of the Federal debt. We know that many smaller institutional investors, such as public and private pension funds, and a wide variety of local governmental and labor-union funds are always in the market for offerings of the highest yielding marketable Treasury security, regardless of maturity. Over the period of time under discussion a moderate amount of long-term bonds could have been placed with such relatively small institutional buyers. And, I think, that had public offerings of even lesser amounts of long bonds been made they would undoubtedly have served to cushion the pronounced price mark-up in the general bond market which has since occurred as a result of the actions of the monetary authorities.

Now I should like to turn to the problem of reserve balances and Open Market Committee operations. The reserve balances of the commercial banks are the basis of our credit system. The most important factors which increase or reduce reserve balances and thus expand or contract credit are: Changes in reserve requirements by the Federal Reserve Board, borrowing by the member banks from the Federal Reserve, and open-market operations by the Federal Reserve banks. Right now, I believe, open-market operations ought to be reexamined in the light of recent experience.

As previously indicated the Federal Reserve banks in conducting open-market operations now deal exclusively in Treasury bills. Now the bill market is one of the most important segments of the money market. Through it financial institutions and industrial corporations provide for their liquidity. Banks must, of necessity, keep a large volume of bills on hand in order to cope with their daily cash swings. Many corporations keep their tax accruals in bills and use them to maintain their liquid assets. As a result of this pressing financial need for short-term paper there is a large and constant demand for Treasury bills. Hence, when the Federal Reserve conducts open-market operations in the bill market it can have a pronounced effect on yields.

This reliance on bills as the sole vehicle for open-market operations is doubtless due to respect for the traditional Anglo-American central banking practice of operating exclusively in "the nearest thing to money"; also, perhaps to a fear of even seeming to sponsor anything remotely resembling the discarded "pegs." However, under present circumstances open-market operations do not appear fully to be achieving the desired objectives. The volume of bank loans has consistently lagged, and the level of bank rates has remained unchanged. Many corporations have cut down on bank loans and built up their emissions of short-term paper. Therefore, when "the nearest thing to money" is in persistent and relatively short supply, and when open-market operations in bills in pursuit of a policy of "active ease" have merely resulted in declines in bill and commercial paper yields while leaving the volume of loans unchanged, it may be surmised that something more than operating in the bill market is needed.

An arbitrary increase in the supply of bills is not the answer. I think, rather, that it is to be sought in widening the scope of open-market operations to include securities other than Treasury bills. To this end the Federal Reserve should use its authority to buy and sell in the open market Treasury obligations with maturities, in the first instance, of up to 1 year, and should this prove ineffective, after suitable trial, then be authorized to operate up to 3 years. After all, the amount of Treasury securities due within 1 year, other than bills, is far larger than the entire Federal Reserve portfolio of Treasury securities.

I do not believe such a liberalization of open-market operations would do violence to the traditional central banking practice of operating solely in "the nearest thing to money." At the same time it would reduce undue pressure on the bill rate. I think we must all concede that, thus far, the policy of "active ease" has had a much more pronounced effect on the level of bond prices and the yields on short-term paper than it has had on the volume of commercial loans and the level of bank rates. I do not believe that the modest increase in the area of open-market operations here proposed would have any significant effect whatever on the long-term Government market. Certainly it could hardly be construed as a return to the unsound practice of pegging the prices of long-term bonds.

I would like to comment on just one more point, which, while not covered in the questionnaire, is, nevertheless, germane to this discussion. All of us—businessmen, bankers, economists, and public officials—have our jobs to do. We are all concerned, of course, with the overall well-being of the national economy. However, those of us engaged in the rugged competition of private enterprise have to think first of making a living and keeping solvent. We have to keep our eyes on the main objective, and, it must be confessed, the national economy is apt to become a rather remote concern. This is only natural. Nevertheless, I think we would all agree that concern for the well-being of the national economy is not the job of our public officials alone. Our own actions, therefore, ought, at all times, to take into account the public interest in our activities.

It is now amply evident, for example, that committing short-term funds in the long-term Government market did not, in the long run, serve the best interests of all concerned. Turning to more recent events, it now seems apparent that raising the prime rate at a time when conditions in the bond market were extremely critical was not the wisest course of action. I am proud to recall that, at that time, when Treasury 3¼ percents of 1938–78 fell to a discount while still "when issued," we at Salomon Bros. & Hutzler, and many other investment firms as well, ran advertisements in nationally circulated newspapers unequivocally recommending their purchase.

The lesson in recent financial history is clear for all to see. The job of managing the national economy is not solely that of the monetary authorities. It is our job, too. To do it well we must learn to practice the art of financial statesmanship and to conduct our private activities within the moral as well as the legal boundaries set by our public responsibilities.

(The tables and advertisement referred to in Mr. Smutny's statement follow:)

TABLE I.—*Life-insurance company investments (based on reports from 40 major companies)*

	Year 1954 through week ended Nov. 6	Percent of total
Mortgage loans:		
Farm loans	$274,689,200	2.6
Loans on dwellings and business property	3,370,030,554	32.1
Real estate: Real estate acquired for investment	117,897,175	1.1
Railroad securities:		
Bonds	235,625,813	2.2
Stocks	11,612,312	.1
Public utilities:		
Bonds	861,345,066	8.2
Stocks	220,193,326	2.1
Industrials:		
Bonds	1,733,065,752	16.5
Stocks	86,980,818	.8
Governments:		
U. S. Treasury bonds	361,662,104	3.5
U. S. Treasury bills	2,065,136,032	19.7
U. S. Treasury certificates	67,097,253	.6
U. S. Treasury notes	62,545,477	.6
Canadian Government bonds	108,572,375	1.0
Other foreign governments	16,162,554	.2
State, county, municipal	432,825,176	4.1
Miscellaneous:		
Bonds	458,338,238	4.4
Stocks	25,571,199	.2
Total	10,509,350,424	100.0
Recapitulation:		
Mortgages	3,644,719,754	34.7
Real estate	117,897,175	1.1
Bonds	6,402,375,840	60.9
Stocks	344,357,655	3.3
Total	10,509,350,424	100.0

TABLE II.—*Market yield on Treasury bills percent per annum*

	1953	1954		1953	1954
January	1.96	1.18	July	2.04	.72
February	1.97	.97	August	2.04	.92
March	2.01	1.03	September	1.79	1.01
April	2.19	.96	October	1.38	.98
May	2.16	.76	November	1.44	------
June	2.11	.64	December	1.60	------

TABLE III.—*Interest-bearing marketable public debt of the U. S. Government of selected maturities (as of Dec. 15, 1954—000,000)*

	Up to 1 year inclusive of Dec. 15, 1955 (excludes Treasury bills)		Treasury bills		1 to 3 years		3 to 5 years		1 to 5 years	
		Percent		*Percent*		*Percent*		*Percent*		*Percent*
Treasury bills	------	------	$19,509	100.0	------	------	------	------	------	------
Certificates of Indebtedness	$28,382	65.7	------	------	------	------	------	------	------	------
Treasury notes	12,218	28.3	------	------	[1] $10,063	58.4	$5,728	26.0	[1] $15,791	40.2
Treasury bonds	[2] 2,611	6.0	------	------	[2] 7,176	41.6	[2] 16,271	74.0	[2] 23,447	59.8
Total	43,211	100.0	19,509	100.0	17,239	100.0	21,999	100.0	39,238	100.0

[1] Includes 4 issues of 1½ percent notes amounting to $2,911,000,000 of which the Federal Reserve System owns all but about $200,000,000 thereof.
[2] Includes all Treasury bonds with a first redemption date within this period.

Holdings of U. S. Government securities, including guaranteed securities, of the Federal Reserve banks (as of Nov. 24, 1954—000,000)

	Amount	Percent
Up to 1 year	$15,804	64.4
1 to 5 years	6,321	25.7
5 years and over	2,428	9.9
Total	24,553	100.0

[This advertisement appeared in the New York Times, New York Herald Tribune, the Wall Street Journal, and the New York World-Telegram and Sun on April 20, 1953]

UNITED STATES TREASURY

3¼-PERCENT BONDS, DUE JUNE 15, 1983

(noncallable prior to June 15, 1978)

We consider these Bonds most attractive for all investors where the maturity meets their requirements.

We recommend that holders of Series F and G United States Savings Bonds, maturing this year, exchange them for the new United States Treasury 3¼-Percent Bonds. This exchange privilege expires April 30, 1953.

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Mr. SMUTNY. Mr. Chairman, I would like to request that my detailed answers to the eight questions be made a permanent part of the record.

Senator FLANDERS. Thank you, sir.

(The answers previously referred to follow:)

ANSWERS BY RUDOLF SMUTNY, SENIOR PARTNER, SALOMON BROS. & HUTZLER, TO THE QUESTIONS PROPOUNDED BY THE SUBCOMMITTEE ON ECONOMIC STABILIZATION OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT OF THE CONGRESS OF THE UNITED STATES

1. What role did monetary policy play in the period of relative stability following the Treasury-Federal Reserve accord in 1951, in the months of boom late in 1952 and early in 1953, and in the recession of 1953–54?

Answer: The 1951 accord between the Treasury and the Federal Reserve System paved the way for the effective employment of monetary policy, first, to combat the threat of further inflation; second, to promote economic stability; and third, to head off unduly deflationary tendencies in the economy. Pegged prices for Government bonds had a number of undesirable effects. They encouraged commitment of short-term funds in the long-term market. They promoted monetization of long-term debt, thus adding to inflationary trends. They tended to lodge the initiative in the creation of reserve balances with the holders of Treasury obligations rather than with the Federal Reserve authorities. They helped to make economic policy unwarrantedly subservient to Treasury finance. They deprived the market of freedom of action.

At the time of the accord we were still in a shooting war in Korea, and our economy was under severe pressure. Not only was there a considerable demand for goods and manpower on the part of the Federal Government for building up the Nation's defenses, but there was also a strong demand for capital and labor from the private sector of the economy to meet civilian requirements as well as to construct defense plants. After the outbreak of the Korean war wholesale prices rose by 17 percent from June 1950 to March 1951.

For a few months following the accord the Federal Reserve policy continued to be one of restraint. Thereafter, however, the policy might be termed one of

neutrality, since the authorities realized that to restrict the availability of bank credit might interfere with defense efforts. Approximately the same policy was followed by the Federal Reserve during 1952.

Toward the end of 1952, and particularly in the early part of 1953, the policies of the Reserve authorities underwent a considerable change. The policy of neutrality was again changed to one of restraint. In January 1953 the discount rate was raised from 1¾ to 2 percent, the first change in nearly 2½ years. Member-bank indebtedness increased from a general level of under $500 million in the first half of 1952 to over a billion dollars in the second half of 1952 and the first few months of 1953. These changes were accompanied by a considerable increase in money rates and a correspondingly sharp decline in prices of Government securities. The Treasury bill rate on new issues rose from 1.78 percent in October to 2.13 percent in December and 2.23 percent in June 1953. The price of the 2½-percent Victory bonds witnessed a decline of 5.8 percent from the end of 1952 to the begining of June 1953, one of the sharpest drops on record.

The credit policy followed by the Federal Reserve also led to a decline in the availability of bank credit. As the member banks became more heavily indebted to the Reserve banks, they became more hesitant to extend credit. Coupled with aggressive borrowing by the Treasury in active competition with private borrowers, this had a decided effect on the capital market. Rates of interest on mortgages increased. FHA-insured mortgages sold at substantial discounts and the flow of capital into private securities and mortgages was reduced.

While it is my opinion that the Federal Reserve authorities and the Treasury went perhaps a little too far and too fast in restraining credit expansion, their objectives were achieved. The forces of inflation were brought to a halt by the middle of 1953. This experience seems to demonstrate that if interest rates go high enough, and portfolio depreciation in financial institutions becomes sufficiently severe, inflationary booms can be halted.

When the Federal Reserve and the Treasury realized that the inflationary forces had run their course and that some deflationary pressures were becoming apparent, their policies were quickly changed. Member bank reserve requirements were lowered in July 1953 and again a year later. Open-market purchases were carried out on a large scale, with the result that holdings of Government securities of the Federal Reserve banks increased by over $2 billion from April to December 1953. Excess reserves increased by $333 million from the end of April 1953 to the end of April 1954 and by $656 million to the end of September. Prices of Government obligations, long term as well as short term, increased considerably. The Treasury restricted its borrowing and refunding operations to securities which did not compete with private borrowers, and hence stimulated the flow of funds into the building industry and capital investments by corporations.

While, of course, other factors and governmental measures also played an important role, the changed credit- and debt-management policies of the Reserve authorities and the Treasury contributed materially to the fact that the readjustment, despite the decline of $4.6 billion in national-security expenditures in fiscal 1954 and a reduction of $4 billion in business inventories in 1 year, did not go very far. The index of industrial production decreased by 10 percent from its peak in July 1953 to the lowest point reached in 1954. Unemployment did not exceed 3,725,000. Commodity prices, on the whole, remained stable and disposable personal income actually increased.

The credit policies of the Reserve authorities and the debt-management policy of the Treasury, from the middle of 1953 to the present time, have been skillfully handled. Reserve requirement changes have been used sparingly and banks have been encouraged to use their discount privileges freely. In so doing they have apparently been brought into direct touch with Federal Reserve thinking concerning general economic conditions and the banking policy appropriate to such conditions. If any criticism is to be made, it is that the change in policy in 1953 might have taken place a month or two earlier, and that some intervention by the monetary authorities in the Government bond market would have prevented such a drastic decline as took place.

2. How has the emphasis in the use of monetary instruments changed during the period since mid-1952? For example, how have the various instruments—open market operations, discount rates, and administration of discount operations, and reserve requirements—been used under varying conditions? Has there been any reliance on moral suasion during this period?

Answer. All the credit instruments at the disposal of the Reserve authorities have been used during the period since mid-1952. However, increasing use has been made of the discount mechanism, while open-market operations have been

used less actively. Similarly, changes in Reserve requirements were used only to supplement the policy of ease in 1953 and 1954.

In the early part of 1953, when inflationary pressures were rather strong, the Federal Reserve followed a policy of restraint. It made net sales of $900 million of Government securities in the first 3 months and raised the discount rate to 2 percent. During this period, considerable reliance was placed on moral suasion. Various utterances were made by high officials of the Federal Reserve System and the Treasury, all of which tended to depress the Government bond market and to curb the willingness of the banks to extend credit.

In my opinion, the moral suasion, if anything, went too far, and at times did more harm than good. If any lesson is to be learned from the experience of the early part of 1953, it is that the Federal Reserve and the Treasury should rely more on action and less on pronouncements. The actions can be studied and their consequences ascertained. The utterances are at times enigmatic in character and may be—and often are—misinterpreted.

The moment the inflationary pressures began to disappear and signs of an economic decline set in, the credit and debt management policies of the authorities underwent a considerable change. Reserve requirements were lowered in July 1953 and also in June-August 1954. The Reserve banks began to buy large amounts of Treasury bills in the open market, thereby enabling the member banks not only to repay their indebtedness to the Reserve banks but also to increase their excess reserves materially.

Since the middle of 1953 the policies of the Reserve authorities and of the Treasury have been handled with skill, and both have contributed materially to the stability of the economy.

3. What is the practical significance of shifting policy emphasis from the view of maintaining orderly conditions to the view of correcting disorderly situations in the security market? What were the considerations leading the Open Market Committee to confine its operations to the short end of the market (not including correction of disorderly markets)? What has been the experience with operations under this decision?

Answer: So long as the policy of the Reserve authorities was to maintain orderly conditions in the Government bond market, dealers and investors more or less knew what actions to anticipate on the part of the Federal Reserve. So far, nobody in authority has described what the term "correcting disorderly situations" means. The fact of the matter is that the Reserve banks have not intervened in the market for quite some time. Even in the first half of 1953, when prices of Government bonds declined sharply and their marketability was materially reduced, the authorities did not find it advisable to intervene. Apparently, they did not consider the Government bond market disorderly at that time. It would be helpful if some explanation were to be forthcoming from the monetary authorities as to what comprises a disorderly situation in the bond market.

Although the Federal Reserve Board in its annual reports makes public the deliberations of the Open Market Committee, it is extremely difficult for an outsider to analyze the considerations which led the Committee to confine its operations to the short end of the market. This answer can best be given by those responsible for the decision.

The experience with operations under this decision, in my opinion, has not been entirely satisfactory. As I stated in my opening statement to the committee, the policy of the Federal Open Market Committee of operating only in Treasury bills has caused bills to fluctuate widely at times, and has induced corporations to turn more to the commercial paper market than formerly, which has not helped to increase the volume of loans. Because the bill rate has fluctuated so extensively, bills have become a less desirable investment instrument for corporations, institutional investors and banks. This has also tended to reduce the earnings of the commercial banks. While it is evident that Federal Reserve policy should not concern itself with earnings of member banks, it must be borne in mind that the cost of doing business for banks has increased considerably and that a sound banking system is essential to the Nation's economy. The large commercial banks, in particular, play an important role in the money and capital markets.

The operations in bills imply that consideration about total bank reserves is sufficient; it does not recognize that such open-market operations have a magnified impact initially on a limited number of the (larger) banks, particularly those in New York City. Geographical differences are ignored, as well as differences between bank and nonbank buyers and sellers.

Since, in my opinion, the experience with Federal Reserve open-market operations confined exclusively to Treasury bills has not been satisfactory, I believe that the Federal Open Market Committee should be given the power to operate in all

Treasury obligations with, in the first instance, a maturity up to 1 year and then, if need be, up to 3 years. This would have a stabilizing effect not only on Treasury bills but also on the entire financial market. It would enable the Reserve banks to assist the Treasury more effectively, if necessary, in its refunding and borrowing operations.

4. What is the policy with respect to the volume of money?

Answer: As far as I can judge, from the point of view of an investment house actively engaged in the money and capital markets, the supply of money is ample. Since the middle of 1953, the Reserve authorities have followed a consistent policy of providing the member banks with adequate reserves to enable them to meet all the legitimate requirements of industry and trade and the Government. Money rates, on the whole, are easy. With the exception of fluctuations brought about by the flow of funds and the movement of gold and currency, money rates have been relatively low and have stimulated the flotation of a large volume of tax-exempt securities, as well as the sale of mortgages.

5. Has monetary machinery (*a*) worked flexibly, and (*b*) has the market demonstrated flexibility in its responses to changes in policy? For example, how has the policy of active ease been reflected in the level and structure of interest rates, the volume of credit, and the roles of various types of lenders?

Answer: The policies of the Reserve authorities and the Treasury have been highly flexible. During the first few months after the accord, and again in the latter part of 1952 and the first half of 1953, measures were taken to tighten the money market and to reduce the availability of bank credit. These measures were reflected fairly promptly in the movement of interest rates, as may be seen from the following figures.

Movement of money rates and bond yields, January 1951–June 1953

[Percent]

	Treasury bills (new issues)	Prime commercial paper (4–6 months)	Long-term Government's (2½'s)
1951—January	1.39	1.86	2.39
April	1.52	2.13	2.56
July	1.59	2.31	2.63
October	1.61	2.21	2.61
1952—January	1.69	2.38	2.74
April	1.62	2.35	2.64
July	1.82	2.31	2.61
October	1.78	2.31	2.74
1953—January	2.04	2.31	2.80
April	2.18	2.44	2.97
May	2.20	2.68	3.09
June	2.23	2.75	3.09

During the middle of 1953, the policies underwent a change and were directed toward easing the money market. The lowering of reserve requirements and Federal Reserve open-market purchases increased materially the volume of excess reserves. Money rates went down, as may be seen from the following figures:

Movement of money rates and bond yields, June 1953–October 1954

[Percent]

	Treasury bills (new issues)	Prime commercial paper (4–6 months)	Long-term Government's (2½'s)
1953—June	2.23	2.75	3.09
August	2.09	2.75	3.00
October	1.40	2.55	2.83
December	1.63	2.25	2.79
1954—January	1.21	2.13	2.68
March	1.05	2.00	2.51
May	.78	1.59	2.52
July	.71	1.43	2.47
September	1.01	1.31	2.51
October	1.03	1.31	2.52

Lower interest rates and increased availability of bank credit, as well as the changed debt-management policy of the Treasury, have had a favorable effect on the capital market. The volume of securities offered, particularly tax-exempts, has increased considerably, the mortgage market has improved, and lower interest rates on mortgages have helped to stimulate building activity.

6. Has the debt-management policy of the Treasury—both as to objectives and techniques—been consistent with the monetary policy of the Federal Reserve throughout the period since mid-1952?

Answer: The debt-management policy of the Treasury has been closely coordinated with the policies of the Reserve authorities. For example, when the policy was one of restraint, the Treasury cooperated by floating longer term issues (to mid-1953). Later, when active ease was desired, the Treasury shortened its new issues and made them more attractive to banks, thus aiding an increase in the money supply. The use of tax-anticipation series reduced the impact of seasonal changes in tax receipts on the money market.

Up to the middle of 1953 both were endeavoring, to the best of their ability, to tighten money. Since the middle of 1953 the policies of both have been geared to make money easy and to stimulate the flow of capital into corporate securities and mortgages. The cooperation between the Treasury and the Reserve authorities seems to have been carefully thought out and well handled. However, I do think greater boldness in the issuance of long-term bonds, such as the Treasury 3¼s, might well have been consistently undertaken. As a general thing, whenever a change in any matter of policy is contemplated, there is always a temptation to avoid action on the plea that "the time is not ripe." Since the end of the war there have been several periods during which truly long-term Treasury bonds could have been issued. Even during the period of time since mid-1953 the Treasury could, at each financing period, have offered a basket of issues which included, in each instance, a long-term bond whose dollar amount could have been left to the discretion of the market place.

Doubtless there would have been very little interest in such a long bond on the part of commercial banks, savings banks, and insurance companies. But pension funds, both public and private, and a wide variety of local governmental and labor-union funds are always in the market for offerings of the highest yielding marketable Treasury security, regardless of maturity, and it is conceivable that, over a period of time, a moderately large amount of long-term bonds could thus have been marketed. In addition, if such offerings had been made, a psychological check on the pronounced markup in the general level of bond prices which has since occurred would have been set. Violent swings in the bond market are not beneficial to overall economic stability and impose, besides, undesirable burdens on the long-term institutional investor.

7. What considerations should dictate the maturity distribution schedule of the Federal debt—first, as to the long-run ideal to be pursued; and, second, as a practical operating matter—giving weight to timing and contemporary conditions?

Answer: The long-run ideal in maturity distribution of the Federal debt would be, briefly, as follows: To have an adequate amount of bills and certificates outstanding to meet the liquidity requirements of the economy; to have an adequate amount of Government obligations with a maturity of 1 to 10 years to meet the needs of investors who desire to space their maturities; and, finally, to have a considerable amount of long-term securities primarily in the hands of ultimate investors, such as individuals, corporations, pension funds, and insurance companies. Because the Federal debt was increased so rapidly during the war, the existing maturity distribution leaves a great deal to be desired. Debt management is a very complicated affair, however, and has to be handled with extreme care. The problem should not be approached with preconceived notions or the desire to establish ideal conditions within a short time.

Debt management has an important effect on the flow of capital into corporate securities as well as into mortgages. The supply of capital is limited to the savings of the people, unless, of course, it is desired to monetize the debt, which is unsound and leads to inflation. Since the Federal debt is very large and the amount of marketable securities coming due within 1 year totals about $60 billion, it is evident that if the Treasury were willing to pay a high enough rate of interest it could preempt all the savings of the Nation. Obviously, such a policy would be undesirable and unsound.

The debt-management policy must be tailored to prevailing economic conditions. In periods when industry is not operating at capacity and there is more than normal unemployment, the Treasury in its refunding operations should not

compete with other borrowers for long-term funds. It should leave the capital market to private borrowers and political subdivisions. When private borrowers, such as industrial corporations, home builders, and the construction industry in general, borrow money, they use it for purposes which stimulate the economy. The same is true of borrowing by States and local governments for public works. When the Treasury, on the other hand, refunds matured or called obligations into long-term bonds, it merely mops up that amount of capital without favorably influencing the economy.

The short-term money market is usually the cheapest and most easily accessible source of funds. In principle, as far as the public debt is concerned, it would be desirable to keep it free for emergency needs, and for the execution of depression fighting financial strategy, as, for example, when the Federal budget is deliberately unbalanced in an effort to maintain or to stimulate economic activity.

Under existing conditions it would seem advisable for the Treasury to offer some long-term bonds as previously indicated. That is, a moderate amount to meet the requirements of State pension funds, labor-union funds, and smaller institutional investors, whose investments consist largely of Government securities. At present, private investors, and especially institutional investors, are more interested in obtaining a higher yield than prevails on Government securities, or, in buying tax-exempt obligations. The debt-management policy of the Treasury, particularly as regards efforts to lengthen maturities and to reduce the volume of the floating debt, must therefore be handled with great care and must be based on existing conditions and not on preconceived theories.

8. Are the benefits and costs to commercial banks of handling Government transactions clear enough, or can they be made clearer, to determine whether or not the banking system is being excessively compensated or undercompensated? What about the Treasury cash balance—its size and management? Should the Government receive interest on its deposits with commercial banks?

Answer: It is difficult for a noncommercial banker to make an authoritative statement as to whether the banking system is being excessively compensated or undercompensated. It seems clear, however, that the banks are rendering many services to the Treasury for which they are not being compensated. I might mention, for example, the handling of E, F, G, and H bonds, which involves a great deal of labor and which the banks are cheerfully doing as a patriotic duty. Also, the banks have been in the forefront in most bond drives and have otherwise rendered valuable services to the Treasury.

In view of the magnitude of the Federal budget, the Treasury should have a working balance of about $5 billion in order to be in a comfortable position. A large cash balance can be used to assist monetary policy. For example, it can ease the strain of heavy tax payments. Or, its manipulation can reenforce a contraction, for example, by shifting idle balances from commercial banks to the Federal Reserve. If there is a temporary monetary stringency, a large cash balance would enable the Treasury to postpone new financing until conditions improved.

It would not be advisable for the commercial banks to pay interest to the Government on its deposits. By the Banking Act of 1933 the commercial banks were prohibited from paying interest on demand deposits. This was done in order to avoid keen competition for deposits among the banks through the payment of higher and higher interest rates, which past experience indicated had had an adverse effect on banking policies and bank lending and investing activities. It would be unfortunate, indeed, if legislation were to be passed to enable the Treasury to obtain interest on demand deposits. This might lead to a renewal of the unsound practices which existed prior to 1933. In view of the large number of services rendered by the commercial banks to the Treasury, the insistence that the banks pay interest on Government deposits would undoubtedly have an adverse effect on their relationship.

There are other arguments opposing interest on deposits: One is that of favoritism, that the Government would be given better treatment than other demand depositors. Second, a cost-minded Treasury might be tempted to keep a maximum of funds with the bank to earn the interest, drawing them out just after payment days, instead of gradually as required. This would make for wide swings in bank reserves, especially at interest-payment days. And, at the same time, the banks' costs will have risen, since its interest payments to depositors (the Government) will be higher.

In my opinion, therefore, it would be unsound for the Treasury to require that it be paid interest on its deposits with the commercial banks.

Senator FLANDERS. Our next witness—I may say that all of you have cooperated in making your brief presentations.

Our next witness is Mr. Wilde, Frazar B. Wilde, president of the Connecticut General Life Insurance Co.

I am interested to note, Mr. Wilde, that you are in a present office or position which I once held myself, as Chairman of the Research and Policy Committee of the Committee for Economic Development.

STATEMENT OF FRAZAR B. WILDE, PRESIDENT, CONNECTICUT GENERAL LIFE INSURANCE CO., AND CHAIRMAN, RESEARCH AND POLICY COMMITTEE, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. WILDE. Mr. Chairman, I feel honored to try to be in your position, because I am not an economist, and I do not think that the work of our complicated civilization which we are now trying to run, is such that any one of us has enough knowledge to carry out on our own, so with the committee's permission I wish to make a brief statement with respect to this paper.

I have tried to make the following points: First, that a flexible monetary policy is useful and constructive and is within the general interest if it is operated by a central bank, and that bank is free to use its individual judgment.

I have said that I believe that a flexible monetary policy helps, and it has always helped in fighting inflation, and it can function in restraining unhealthy moves.

It has an equally valuable positive function in that it enables an increase of the money supply in proportion to legitimate growth demands of industry, trade, and commerce.

It is my opinion that the Nation could use a flexible monetary policy as an important instrument in contributing to our objectives of growth and high levels of employment without inflation, but this does not mean that we should place our sole reliance on monetary policy.

A given situation will require several measures, but a flexible monetary policy is important for at least three reasons. First, its timing is more flexible. This would contrast particularly with budget policy. Now, I feel that budget policy is an important part of any program for the prevention of inflation as a deterrent to sound growth. But there are political and economic obstacles to excessive reliance on budget surpluses as a means of controlling inflation. Monetary policy is the most sensitive and flexible instrument, and I do not believe that an adequate anti-inflation program is possible without it.

Second, as compared with direct controls or with selective measures, monetary policy has the merit of being a general, overall, impersonal instrument and, as a matter of fact, direct controls are not likely to be available except and save in time of war, and I think are an inferior instrument, even if they were available, and I do not understand the confidence that some of our panel members have if our country would permit select measures or direct controls, if they were to have this good instrument.

Thirdly, I believe that our recent experience with a flexible, two-sided monetary policy has been most encouraging and justifies its continuation; and I think we have demonstrated that monetary policy

can be of assistance in the development of a healthy boom, and without developing serious consequences.

In my opinion, the most important consequences of a flexible monetary policy are its effects upon the stability and growth of the economy. Monetary policy should not only attempt to counter the short-term inflationary and deflationary movements, but should gear the money supply to our long-run growth potential; and, I believe, therefore, that the policy should be judged in terms of these important effects and not in terms of who gets or who pays higher or lower interest rates.

As a matter of fact, it is exceedingly hard to trace the income distribution effects of a rise of interest rates and to make any judgment as to the desirability of these effects. There are a number of reasons for it.

First, the initial payers or receivers of interest are, for the most part, not the ultimate payers or receivers. The large financial institutions which receive interest as payments represent millions of depositors and policyholders; in other words, we are dealing with literally millions of people who are both debtors and creditors at the same time, which is a relatively new economic development in this country.

On the other hand, corporations and governments which pay interest represent millions of customers and taxpayers. You cannot trace and be dogmatic about who receives and who pays.

Now, secondly, the alternative to higher interest rates is not simply lower interest rates, but lower interest rates on a larger volume of credit. Interest rates are kept from rising when demand is active by an expansion of the volume of credit. It is not clear that financial institutions would earn more from higher rates than from lower rates on a larger volume. I make that point because there is an apparent belief on the part of some students that institutions are always narrowly and selfishly concerned with high rates as being more profitable. That is not necessarily true.

Third, along with higher interest rates usually go losses on capital accounts, that is, the market prices of investments decline. The net effect of this would vary for different investors.

In general, the net distributional effects of higher or lower interest rates are so diffuse and uncertain that they could not be a major factor in deciding upon monetary policy.

In my paper I have belabored inflation, urged that we should concentrate at all times on stability and upward growth instead of taking undue risks with inflation.

Now, that may be a personal bias, but I am always alarmed at the relaxation of my friends, many of whom, perhaps, may be skillful enough to take temporary advantage of inflationary conditions, but I read the history of the world, and I look at countries like France, which have capable people, who have great national resources, and the continual inflation of a country like that is one of the major deterrents to its growth. It cannot get capital for capital expansion which they need, when people have no confidence in the future value of the money.

I may be biased because of the fact that my business sells money for future delivery, and to me it is a pretty wicked thing to consider the possibility that people will make present sacrifices for future protection, and then get dollars of much lower value.

I am not talking about this country going into an extreme inflation, but I am talking about the continuous erosion, deterioration that can happen if we adopt what to me might be reckless monetary and fiscal policies.

I think it is quite unfair for large groups of the population, because it does lead to booms and busts of employment, with human suffering and money losses, which unemployment causes, and I am quite unable to be relaxed and optimistic about expansion with mild inflation as being a sound and safe thing to do.

I have developed the theme that the difficulty with providing flexible monetary policy is because there is quite a lack of public understanding of how it is and how it can best function. The history of the last few years to me is evidence of the great use of monetary policy and accompanying extensive criticisms.

It requires a combination of at least three major elements: Favorable, friendly, optimistic environment; sound, constructive fiscal policy; flexible, healthy monetary credit and debt management policy. These are the ultimates which in combination can lead to a steady growth which the country desires, and which we believe it can have.

I do say that this growth should be upward progressively; it cannot be in a straight line without any fluctuation. It will go above a straight line of growth and progress, and we will dip below it if we are going to have a free society, and I do not want to have a society that is entirely regulated and planned, because I do not think it is either good judgment or in the American spirit.

That is the end of my remarks.

(The prepared statement of Frazar B. Wilde is as follows:)

FLEXIBLE MONETARY POLICY AND INFLATION—STATEMENT SUBMITTED BY FRAZAR B. WILDE, PRESIDENT, CONNECTICUT GENERAL LIFE INSURANCE CO., HARTFORD, CONN., AND CHAIRMAN, RESEARCH AND POLICY COMMITTEE, COMMITTEE FOR ECONOMIC DEVELOPMENT

My name is Frazar B. Wilde. I am president of Connecticut General Life Insurance Co., Hartford, Conn.

The views expressed in this testimony are my own, and are based on some 20 years of experience in the management of an insurance company portfolio as well as a bank trustee. In addition to my business experience I have been for some years active in the work of the Committee for Economic Development, a nonprofit organization of businessmen conducting research on economic problems. Currently I am chairman of the research and policy committee of the CED. I have distributed to the members of your subcommittee copies of two policy statements that our committee has issued on the subjects of the present hearing. I do want to make it clear, however, that I am appearing today, in response to your invitation, as an individual and not attempting to register the considered current position of CED, which can only be done through its formal papers.

A central bank which recognizes its responsibility to contribute to economic stability and growth, and carries out its duty by following a flexible monetary policy, is bound to be unpopular. Many of the reasons for this are unrelated to the merits of a flexible policy as such. This is the climate in which any inquiry into central banking operations is inevitably conducted. If any useful results are to come out of such an inquiry, we must at the outset take this climate into consideration.

The principal reasons for this unpopularity are obvious, and yet are constantly forgotten by the critics. The most important of these arise out of the occasional need for restraining action on the part of a central bank.

Even those who accept a flexible monetary policy in principle frequently object in practice, when restraint is the order of the day. Since people do not like to be restrained, and since they seldom agree on the correct timing and on the extent

of credit restriction, even though they accept the idea in theory, we find our monetary authorities generally in hot water. The sound direction of a flexible monetary policy is always handicapped and troubled by basic human emotional characteristics.

The second reason arising out of the occasional need for restraint is that some do not believe in the use of a restraining monetary policy at any time. They question the effectiveness and the appropriateness of combating inflationary pressures by the use of general monetary and credit restraints and prefer other instruments. They feel that relatively low interest rates are appropriate under all conditions.

A third reason for the underlying unpopularity of a central bank is that a large part of the public finds monetary matters difficult to understand and is either indifferent to or confused about them. At any rate, it is easily swayed by the propagandist, whether he is the businessman or the politician.

A fourth reason is a historical tendency on the part of many groups in this country to distrust and to criticize banks and banking. By tradition, bankers are a convenient scapegoat.

For all of these reasons it is difficult to make a rational evaluation of central banking operations. We should remember too that it is even more difficult, in such an atmosphere, for a central bank to carry out successfully a flexible monetary policy. Unfair and excessive criticism is never conducive to good administration.

As a result, the central bank's imposition of restraint is in practice almost universally criticized and its expansion of the money supply, while more generally accepted, is often condemned as too little and too late. The unfortunate thing is that a good deal of such criticism comes from persons who believe implicitly in the theoretical virtues of a flexible monetary policy. Too often the practical result of these conflicts is an excessive reliance on easy money.

I. THE UNPOPULARITY OF RESTRAINT: 1950–51

A striking illustration of this principle—in terms of debt management as well as of central banking practices—appeared in the fall of 1950 and the early spring of 1951. By that time there was increasing criticism of the Treasury and Federal Reserve, who were collaborating at the insistence of the administration in maintaining pegged prices for Government bonds. While there was good reason to believe that the Federal Reserve, recognizing inflationary dangers, had wished to discontinue the practice at an earlier date, no important action had been taken up to the end of 1950. The majority of those who understood the crippling effect upon the Federal Reserve of maintaining a pegged Government securities market were in agreement that this practice should be discontinued. The Federal Reserve has a major role in contributing to the maintenance of a sound and growing economy, and fixed prices for Government bonds, which might have been justified during wartime, were wholly unwarranted 5 years after the war.

Those who believed that fixed prices should be maintained included several groups. There were those partisans who felt that to change this policy was a direct criticism of the administration. There were others who felt that low interest rates per se were desirable regardless of the actual and potential danger of inflation they created. Few, if any, who understood the true function of central banking and the need for freedom in operations, and certainly none who had respect for sound money, wanted the support program continued.

At long last, in March of 1951, an accord was reached permitting flexibility in Government bond prices. This involved some retreat in prices. Immediately there was a hue and cry, and it didn't all come from politicians.

The purchaser of a marketable bond, whether an individual or an institution, must be willing to accept the fact that in a free, capitalistic economy, security prices are certain to fluctuate. When there has been a heavy demand for investment funds or bank loans relative to supply, interest rates are bound to increase and bond prices must reflect this situation, other things being equal, by going lower.

Many buyers of Government securities had forgotten that this fluctuation is normal. They had been spoiled by the abnormal wartime condition of pegged prices which had existed for a long time. They grew to think that par and, in many cases, a premium over par was the natural price for their securities. This attitude is difficult to understand—in fact, quite incomprehensible—as to institutions whose buyers certainly know, or should know, the history of the market place. It is easier to understand in the case of individuals with little experience

in bond buying; but these, for the most part, were not the persons involved. The unsophisticated investor usually held E-bonds or some other nonmarketable security which did not fluctuate in price.

Many seasoned investors were most vociferous, particularly after the end of the war, in contending that in a free economy fixed prices and price supports should be abandoned everywhere. Then when the fixed price for bonds was withdrawn, some of these same people expressed dismay and unhappiness that it should happen to them and their institutions.

The fact is that many people who should have supported a flexible monetary policy, even if it affected their own institutions, failed to do so. This episode is an excellent example of the way in which human nature tends to resist, even against the arguments of reason, any restraining pressure on the economy.

II. THE CASE FOR A FLEXIBLE MONETARY POLICY

In my opinion the Nation should view a flexible monetary policy as a principal instrument for contributing to our objectives of economic growth and high levels of employment without inflation.

This does not mean that we should place sole reliance upon monetary policy. Any given situation will require a complex of measures. But a flexible monetary policy is an important and especially valuable instrument in our kit of tools for at least three reasons.

First, its timing is more flexible. This is especially true as compared with budget policy. I would certainly agree that budget policy should be an important part of any program for the prevention of inflation. But there are political and economic obstacles to excessive reliance upon budget surpluses as a means of restraining inflation. Monetary policy is the most sensitive and flexible instrument and I do not believe that an adequate anti-inflation program is possible without it.

Second, as compared with direct controls, or with selective measures, monetary policy has the merit of being a general, overall, impersonal instrument. As a matter of fact, direct controls are not likely to be available except in wartime, and would be an inferior instrument even if available.

Third, I believe that our recent experience with a flexible, two-sided monetary policy has been promising and warrants continuation.

In my opinion the most important consequences of a flexible monetary policy are its effects upon the stability and growth of the economy. Monetary policy should not only attempt to counter the short-term inflationary and deflationary movements, but should gear the money supply to our long-run growth potential. I believe therefore that the policy should be judged in terms of these important effects and not in terms of who gets or who pays higher or lower interest rates. As a matter of fact, it is exceedingly hard to trace the income distribution effects of a rise of interest rates and to make any judgment as to the desirability of the effects. There are several reasons for this.

First, the initial payers or receivers of interest are for the most part not the ultimate payers or receivers. The large financial institutions which receive interest represent millions of depositors and policyholders. On the other hand, the corporations and governments which pay interest represent millions of customers and taxpayers. We do not know who ultimately receives or who pays.

Second, the alternative to higher interest rates is not simply lower interest rates, but lower interest rates on a larger volume of credit. Interest rates are kept from rising when demand is active by an expansion of the volume of credit. It is not clear that financial institutions would earn more from higher rates than from lower rates on a larger volume.

Third, along with higher interest rates usually go losses on capital accounts, that is, the market prices of investments decline. The net effect of this would vary for different investors.

In general, the net distributional effects of higher or lower interest rates are so diffuse and uncertain that they could not be a major factor in deciding upon monetary policy.

III. A FLEXIBLE MONETARY POLICY IN PRACTICE

How has a flexible monetary policy worked? The first 6 months of 1953 provide a spectacular illustration combining both the techniques of debt management and the operations of our central banking system.

As many read the signs, the economy was giving definite evidence of boom in the closing months of 1952 and early spring of 1953. The demand for funds for permanent capital and for inventory accumulation was sharply accelerated.

Demand for residential and commercial mortgage funds, for municipal funds, and for consumer credit was pyramiding. The situation required the central banking authorities to refrain from adding to the credit supply. Their duty was clear. If boom and bust was to be avoided or mitigated through banking procedures, this was a time to let the borrowers compete for whatever credit was in existence, rather than to expand credit, no matter how vociferous the demand. Some would have said that sharp restrictions of credit were in order. The authorities lived up to their responsibilities. They restrained expansion of the credit base and, because the demand was far greater than current resources, money and credit became scarce, and interest rates increased as a matter of course.

During this period, in furtherance of sound debt management policy—namely to lengthen the debt—the Treasury offered a long-term obligation. In order to assure the success of this issue, it was necessary because of market conditions to place a 3¼ percent coupon on the bond.

In April and May, and running into June, the demands for capital and credit increased. Potential borrowers tended to stampede the capital market and interest rates increased sharply. Many borrowers who really didn't need funds at the moment sought money or credit lines immediately, probably in expectation of higher interest rates to come. A psychological situation developed which was perhaps the more acute because the issue of a long-term bond coupled with a restraining monetary policy had not been encountered in the market place for many years. The Federal Reserve quietly made bank reserves more readily available in May, and the clear-cut realization by the market in June that monetary policy was not a one-way street—that it indeed was flexible—brought the stampede to a halt.

The impact of this episode on production, trade, and commerce was slight. There was enough money available for current use in trade and commerce and for the payment of construction bills. Some demands for future funds, it is true, were not met at the time. It was not imperative that they should be, and no serious damage resulted to the country as a whole. The postponement of new building because a commitment could not be obtained was not serious. A new housing development or a new factory was merely postponed. This was entirely proper in view of the high rate of building and the full utilization of men and materials at the time, and probably contributed to the mildness of the subsequent recession.

The same observation could be made in respect to other sectors. Further inventory accumulation would have been detrimental to the economy and would only have aggravated the later decline.

Some strain developed in the mortgage market in the spring of 1953. The situation was a complicated one. When overall credit is restricted and money becomes scarce, those sectors of the investment area which are weakest will register the greatest difficulty. The mortgage area was weak for several reasons. A large volume of mortgages had been issued for several years. Institutions tend to operate portfolios under the theory of diversification. Many banks and insurance companies had as many mortgages in their portfolios as they wanted. They were anxious to balance by buying more securities. The mortgages in many cases, because of small size and scattered locations with apparent greater credit risk and handling expense, were relatively unattractive as compared to bonds. The result was a shrinkage of prices for mortgages offered for sale and a reduction in the commitments made for new mortgages.

No great harm if any, resulted to the economy from deferring commitments. Any sound project, whether it was a new housing development or a new commercial enterprise, was simply deferred and this was highly desirable in view of the full employment conditions in the building trade. In the case of housing already constructed, where the builder wished to sell and found it difficult to arrange mortgage financing, there was a possible loss. Either he didn't make the sale immediately or he accepted a lower price. This was not as serious a situation as it sounds. It did not in most cases mean an actual loss, but merely a reduction in profit. So we're back again to a basic situation; namely, that in a profit and loss economy there will be times of loss or reduced profits which we must accept if they are a result of a sound overall national policy, namely, credit restriction to prevent an unhealthy boom.

Viewed broadly, the operation of banking restraint in the early spring of 1953 is a good illustration of sound policy in the money and credit field and not, as the critics claim, a misuse of it.

During such a period, when restraint had to be and was exercised, it is to be expected that some administrative mistakes would be made. With the bene-

fit of hindsight some things would be done differently. Certain isolated instances might be discovered where there was actual economic damage, but the total of these individual cases of damage would bulk very small in the whole economy. Even overall, nonselective restraints are not perfectly uniform in their impact; it cannot be otherwise. But, overall restraints are much better than any attempt to use selective credit restrictions in time of peace. Under the latter practice very great mistakes are almost inevitable and large elements of inequity develop . . .

This experience teaches something which has been known for some time, namely, the need of constant efforts to improve the market for Government bonds. The Government debt is very large and will continue to be of great magnitude. The capacity of the market mechanism to handle a large volume of longer term issues needs improvement so that more orderly markets may prevail in periods of strain. But this must not be done at the expense of eliminating price fluctuations which are vital to the success of any flexible monetary policy.

People have said that the Federal Reserve should have publicized its intention to reverse a tight money policy if conditions indicated thte wisdom of reversal. It is a fact that in May and June such a reversal was under way, but no categorical public statement to this effect was made. I think it is important that the basic objectives and instruments of Federal Reserve policy be generally understood. But, publicity for day-to-day changes of direction seems to me a rather debatable proposition. At any given time actions speak louder than words. For the Federal Reserve to discuss fully its actions and the reasons for them at the time they are taking place is certainly debatable, and it may be undesirable.

This much is certain—the Federal Reserve is entitled to great commendation for what it did. It identified changes in the situation in May and had the moral courage to act in accordance with the changed evidence.

IV. INFLATION AND FLEXIBLE MONETARY POLICY

Belief in the desirability of a flexible monetary policy is, to my mind, necessarily allied to the belief that inflation is one of the great menaces to any modern society. The wickedness of inflation is in its gross inequity. The great majority of people, and those least able to protect themselves, are the great sufferers in periods of inflation—people who have saved, people on salaries, working people in the majority of instances—despite the fact that certain union groups seem strong enough at times to keep their wages in line with the depreciated buying power of the dollar.

The impact of inflation in the period running from the end of the war until 1953 was not felt as acutely as the depreciation in the value of the dollar would indicate. This was due to a high rate of employment and to multiple breadwinners in the family and other factors such as overtime; but, even with these advantages, there was great distress among millions of workers and people who were retired and on pensions.

We expect in this country an increasing group of older citizens enjoying their retirement through income arising partly out of Government social insurance, partly out of private insurance, and partly out of their own thrift. Their standard of living will be jeopardized if we accept either the idea that inflation is not a bad thing or that we cannot control it.

The fact that monetary policy standing alone would be unable to cope with inflation is no reason for abandoning it. Courageous use of monetary measures is one of the most effective policies in the fight against inflation. Of course, fiscal policy, debt management, and growth of production are all factors which must be included in our attempts to conduct a successful, free society.

Congress, reflecting the ambition of our country for constant progress, has expressed its viewpoint in the Employment Act of 1946. The Federal Reserve, along with other agencies of the Government, is expected to make its contribution to the objectives of this act. No central bank, no matter how long its experience nor how wisely executed its responsibilities, could carry out this directive in the sense in which some interpret it. The idea that at all times—every week, every month, and every year—we could have full employment of all the citizens in this country who might under any conditions wish to be employed is a concept of Utopia. No free society could ever hope to attain it and the Congress itself, as the debate shows and as the act's statement of policy shows, did not expect it. This country can have, within the framework of a free, competitive, capitalistic society, a dynamic and evergrowing standard of living together with high employment—and certainly without serious unemployment. Most of us believe that we can do this and at the same time respect the individual and his freedom

so that we can say that while we make material progress we are still a free society.

Progress will not always be in a straight line. There must be periods when the growth will be above the line, and some when it will drop below. If we reduce the severity of these fluctuations and still march on the upward path, our country will make a major contribution to modern civilization.

The program necessary to accomplish this goal will require continuous collaboration and the maximum of cooperation between all groups in our country. No one law or resolution passed by the Congress can hope to do it. Sound fiscal, monetary and debt management policies, as well as a stimulating environment, must be included.

Senator FLANDERS. Thank you, sir.

Now we have a little better than a half hour. In order to give time for the other members of the subcommittee, I am at this time planning to raise only some general questions to some of which the members of the panel may, if they wish, engage in their discussion with other members of the panel this afternoon.

One is this: I get the impression that some members of this panel feel that high levels of production, employment, consumption, can only be reached through means of inflation. If I have correctly understood some of the documents which have been presented, I would hope that that question would be discussed among you this afternoon.

Another observation which I would like to make is that I get the impression at times in this discussion that there is some ultimate value assigned to stability or to inflation or to other elements of debt management and credit control, aside from its effects on men—aside from its human results. I would like to make the observation that personally I cannot assign any important objectives that are not human objectives. I am not going to catechize them at this time—I hope the rest of you will.

In connection with the presentation of Professor Mitchell, I was a little bit puzzled by his, what seemed to me to be, indication of a need for great investment or at least considerable investment in agriculture, without taking into account what seems to be to the onlooker a situation of agricultural surplus and overproduction at current prices.

That is all I wish to say at the present time, in general. As the man said, I am "instigating" you gentlemen to question each other this afternoon.

Now, Mr. Patman, have you any questions you would like to ask at this time?

Representative PATMAN. Possibly I should raise certain questions, Mr. Chairman, so that the panel will be in position to discuss them this afternoon.

I think you have had some good statements filed today, Mr. Chairman. I have enjoyed every one of them, and I have certainly profited from the information that has been furnished. I would like to raise this question for discussion this afternoon: Are the members of the panel satisfied with the present Federal Reserve System as now constituted or should changes be made?

The Open Market Committee is the most powerful Committee in the United States; it is more powerful even than the Congress in many fields. The Constitution gives the power to coin money and regulate its value to the Congress. The Congress has, in turn, delegated that power and authority to the 12 members of the Open Market Committee. Sometimes I think it is more important that the Open Market Committee meet in Washington and do something to help the country than

it is for the Congress, because Congress has delegated to that Committee so much of its power and authority.

Since that committee has so much power to determine whether or not we have sufficient money or lack of money, or whether or not we are going to have high interest rates or low interest rates, in fact whether or not we have a depression or prosperity, the question I would like to raise is whether we should have anyone on that board or committee except people who are charged directly and solely with protecting the public interest.

That committee, as now constituted, has 7 members of the Board of Governors when membership of the Board is complete. Because of the vacancy on the Board there are only 6 on the Open Market Committee now. There are also five presidents from the Federal Reserve banks.

The Federal Reserve bank presidents are elected by the bankers in their districts, either directly or indirectly. The question in my mind is whether or not a person who is in any way obligated to a business that is to be regulated or controlled by it should have anything to do with the great power and policymaking provision that the Congress has delegated to the Open Market Committee.

I remember when the Federal Reserve Act was passed, President Wilson referred to the fact that bankers should not run it any more than railroad owners should run the Interstate Commerce Commission.

Of course, if railroad owners were to run the Interstate Commerce Commission they would not only fix the rates of railroads but they would fix the rates of the buses and the trucks and the airlines and express companies. I just wonder if we have not gone quite far in terms of the role the bankers play in the Federal Reserve System. If so, is that in the public interest or should it be changed?

May I say further that Mr. Eccles, Marriner Eccles, was on the Board of Governors, I guess, longer than any other one person, and I recall one time he made this statement:

> When a Reserve bank president sits as a member of the Federal Open Market Committee, he participates in vital policy decisions which affect all banking. So far as I know, there is no other major governmental power entrusted to a Federal agency composed in part of representatives of the organizations which are the subject of regulations by that agency.

Another question that has been raised here by the panel members is about the ownership of Government bonds by the banks. I have no objection to the banks owning Government bonds when it is necessary to give them ample earnings. I believe in a privately owned commercial banking system. I believe in a profitable banking system, because if they are not allowed to make profits they cannot function satisfactorily for the people, so we want a profitable banking system.

I do not object to their owning bonds, but should we allow them to fill their portfolios with bonds to the extent that they have no desire or not a sufficient desire to make local loans and serve the local communities they are obligated to serve when, in fact, that is the reason they were given charters.

The question in my mind is, with banks filled with Government bonds like they are, and getting so much from their Government security holdings, and they are pretty well satisfied with their earnings as to whether or not they are performing their local functions in a satisfactory way. What raises my suspicions in that respect is that

small-loan companies are springing up all over the Nation, taking over functions that the banks, I think, should normally perform. Is that due to the fact that the banks in certain localities are not taking care of their local needs? I would like the panel to discuss that question.

I would like a discussion, in particular, about the present setup of the Open Market Committee and the Federal Reserve System, and next as to whether or not the banks are doing their duty and whether or not they are persuaded or disuaded from supplying local needs because they get so much of their income from riskless securities of the Federal Government.

Senator FLANDERS. Thank you, Mr. Patman.

Much of this discussion which we have listened to so far seems to occur in a peculiar sort of vacuum. For instance, there is no reference made to the situations external to the monetary system, although connected with the debt system, which have tremendously influenced our whole economy.

No mention, as I remember, was made of the inflation which followed on the beginning of the war in Korea.

Again, no mention was made of the great drop in Government expenditures in the fiscal year 1954, and a presumably still greater drop in 1955, which resulted in a decrease of defense production.

Those things are things pertinent to the whole problem, and it seems to me that monetary and fiscal policy should be considered with reference to that war inflation and with reference to that decrease in defense expenditures.

Senator Goldwater.

Senator GOLDWATER. I have two questions that have come to me that I think we should discuss briefly this afternoon. Throughout the presentation of most of these papers I have been impressed with the seeming thought of the authors that low interest will solve most of our problems—our economic problems.

I would like the panel to give this consideration during the lunch hour. If that is true, why did not low interest rates help or why did they not add more between 1933 and 1939 than they did? The thesis that you now hold that we should keep interest rates low, that it is an obligation of the Government, does not quite seem to hold water in view of the fact that the market between 1933 and 1939 was a constantly downward one, and business—the business indexes—never recovered from the low of 1932, actually, until the start of the war.

I have another question that comes to my mind, too, that I think is of importance: The desire to get money into our economy is the most important attitude that I think we should consider—investment capital, if you want to call it that.

In view of that, we should explore the fields from which that investment capital will come.

I would like to know the attitude of the panel on tax reductions based on a sound fiscal policy as a means of getting more and more money into the economy to stimulate its growth.

I am prompted to ask that question for discussion in view of the rather healthy condition of the economy at the present time, particularly in the construction business, that I personally feel was brought about in a large measure by the relief in the recently enacted tax bill in the investor levels or investor areas.

That is all I have, Mr. Chairman. I will pursue those further this afternoon.

Senator FLANDERS. Senator Douglas?

Senator DOUGLAS. I am afraid we are raising more questions than the panel will have time to deal with this afternoon, but I would like to raise one general question, if I may.

It would seem to me we should have a dual set of goals. We should have, on the one hand, substantial growth and substantially full employment, and, on the other hand, substantial stability in the price level. Both of them are needed.

Now, I had always hoped that those two aims might be consistent. I know that some say that they are inconsistent; that we have to have at least a moderate degree of inflation in order to get substantially full employment and growth. I hope that may not be true, but, at any rate, let us consider the question as to whether or not it is. Others are so afraid of imaginary dangers of inflation that they sometimes seek a fall in the price level at the expense of growth and full employment. I would like to raise the theoretical question as to whether it is not possible to attain both of those goals, and, if so, how; and, secondly, I would like to point out that period from March 1951, the date of the so-called accord, to December of 1952 was one, on the whole, of substantially full employment and also of substantial stability in the price level.

I have taken a monthly record of prices and I find that on the wholesale index, the index fell from 116.5 in March of 1951 to 109.6 in December of 1952, or a fall of 7 points; that in the field of consumer prices there was a rise from 110.4 to 114.1; and if you take an average of the two, there was substantial stability or perhaps a 1-percent decline.

Therefore, I would like to suggest that in those 21 months we had a successful economic policy in which those goals were combined. Was that accidental? Was it just happenstance or were there factors behind it?

I would like to have some discussion both on that practical feature and on the theoretical issue this afternoon, if that meets with the approval of the group.

Senator FLANDERS. Thank you, Senator Douglas.

Mr. Talle, have you any thoughts for the consideration of this panel?

Representative TALLE. Mr. Chairman, I have a couple of questions in my mind, but I would prefer to withhold them so that we may proceed immediately to sit at the feet of this impressive faculty of teachers.

Senator FLANDERS. We have 20 minutes or so left of the time that I announced; we ought to do something with it.

Representative PATMAN. May I ask Dr. Clark a question, Mr. Chairman?

Senator FLANDERS. You may do so.

Representative PATMAN. If I properly interpret your statements, Dr. Clark, you suggest that the Federal Reserve should use reserve requirements instead of the open market operations.

Mr. CLARK. Yes, sir.

Representative PATMAN. Would you go so far as to fix a standard or a guide to govern them to the extent that open market operations would be unnecessary?

Mr. CLARK. Open-market operations to support important Treasury financing should always be undertaken by the Federal Reserve. In order to stabilize its own holding of Government bonds, it will then be necessary after the financing has been concluded, for the Federal Reserve to ease out its open-market purchases, doing it slowly; whereas their first move would have been an aggressive, rapid one. That, I think, is the extent of open-market operations that would benefit the present situation. It would have too small an effect upon the total economy at this time to engage in open-market operations for the purpose of adding to the reserves of banks.

On the Federal Reserve action with respect to reserves, the point I would make, first of all, is that there is not at this time any circumstance that justifies the imposition of reserve requirements higher than the limits fixed by the Federal law, and under those——

Senator DOUGLAS. When you say "normal" or "legal" limits, do you mean the minimum limits, Dr. Clark? I notice you used the phrase "normal," and I was not certain what you meant by that, whether it was the minimum that you meant.

Mr. CLARK. Yes; they are the minimum.

Representative PATMAN. None of them are normal now.

Mr. CLARK. They are prescribed by the Congress, and they ought to be respected excepting when there are circumstances that make it necessary for the Federal Reserve to use its extraordinary discretionary power to increase those limits to twofold. Now, I do not know what would be the effect of this. It would be a massive movement, and we apparently need some massive movement right now to start the economy under way, because we have had nearly a full year of nonexpanding economic activity. We have seen one thing which develops in a period in which the economy lags, and that is a slow lowering in the rate of private capital investment, a prime factor in maintaining the economy and in bringing it upward to the level established by the Employment Act.

Representative PATMAN. I will have to admit, Dr. Clark, that I have not looked with favor on the use of reserve requirements, because of what I consider to be an unfortunate experience we had in 1936.

You will recall on June 15, 1936, the veterans of World War I were delivered about a billion and a half dollars in money in payment of what was called the bonus of the First World War.

In order to offset that and acting on predictions that had been made, unwarranted predictions and unjustified predictions by the monetary authorities, who said it would be highly inflationary, the Federal Reserve Board, for the first time since it had the power—it was given the power by Congress shortly before—doubled the reserve requirements of banks and contributed to the downturn in the early part of 1937. Since then I have not looked with favor on the use of the power to alter reserve requirements, but, at the same time, I recognize that it depends upon how it is used and the people who have the authority to use it.

It looks like a very effective weapon to me, a very effective weapon. I know it worked in 1936 because I witnessed the disastrous effect it had upon the economy.

Mr. CLARK. Mr. Patman, may I repeat what I said, that from the standpoint of the monetary authorities themselves, it should be highly desirable to gain leeway for action if they hereafter need to use reserve requirements boosts in order to meet some inflationary situations.

As it is now, they have very little leeway. The reserve requirements have been reduced so slightly in the past year——

Representative PATMAN. That is only in certain banks, Dr. Clark. Do you think that the authorities should reduce them for certain banks, or certain categories or should they be reduced in proportion as Congress provided in the formula used for the reserve requirements of banks? In other words, where it is 26 and 20 and 14, if there is going to be any reduction, should it be uniform across the board, or should they be allowed to reduce the 26 if they want to one-half, and not touch the others at all?

You know the last year or 2 or 3 years, rather, reductions have been made in the first 2 categories, I think, but not much in the lower ones; is that right?

Mr. CLARK. Well, there was not very much leeway in the lowest category on time deposits.

Representative PATMAN. On demand deposits.

Mr. CLARK. They were only 3 percent above the normal limit.

Representative PATMAN. I am talking about demand deposits.

Mr. CLARK. On demand deposits, they did reduce the central reserve bank limits a little more than the others, but I was sympathetic to that because I agree with the idea that there are no longer any conditions in our banking system that make it necessary to have a higher reserve requirement for Chicago and New York than they have for the other so-called reserve cities.

Representative PATMAN. Well, that brings up a different theory entirely from the congressional act.

Mr. CLARK. But the larger reduction for those two cities, I think, was just——

Senator FLANDERS. I wonder if any other members of the panel would like to comment on this question of using to a greater extent than, perhaps, as the primary tool, the reserve requirements rather than other tools at the disposal of the Treasury or the Federal Reserve?

Mr. SMUTNY. Mr. Chairman, may I say a word in reference to that?

In the first place, I do not believe the reserve requirement is a flexible enough instrument. In other words, you cannot bounce the reserve requirements around. In other words, you are trying to use that as a substitute for the Open Market Committee.

Now, if you have excess reserves, and the Federal Reserve wishes to let some bills mature rather than doing it, would you go ahead and change the reserve requirements that week, would you follow it the following week by a change in reserve requirements? You would have to confuse the banks with that situation It is not as mobile and flexible an instrument as the purchase and sale in the open market would be.

Point No. 2 is that the change in the central bank, the reserve requirements of the central bank is, of course, the recognition of the difference that exists now, which did not exist in prior years, that the deposit relationship with the interior has, has become much more im-

portant, the correspondent bank does not have to depend as much on the large New York and Chicago banks, so why should they be discriminated against, you might say, in having a higher reserve requirement as far as the central banks are concerned. I think that is something that has to be taken into consideration today.

Representative PATMAN. Dr. Clark suggested that both be used.

Mr. SMUTNY. Well, at times it can be, but it is not an instrument that should be used as actively, let us say, in my opinion.

Senator FLANDERS. Do any others of the panel wish to comment on the question?

Mr. HARRIS. May I make just one comment, and that is that there is some advantage in using the reserve requirements in that it more or less affects the prices of all assets; whereas open-market operations tend to disturb the Government bond market exclusively, at least at the beginning, and from that viewpoint, there sometimes may be some advantage in using changes in reserve requirements as against indulging in very large open-market operations.

Mr. CHANDLER. May I make a couple of comments about that?

Senator FLANDERS. Yes, sir.

Mr. CHANDLER. The first is that I see no reason to presume that it is better to have reserve requirements down toward the lower part of the range than it is to have them up toward the top part of the range. The purpose of reserve requirements is not to assure liquidity to the individual bank; it is a device for limiting the money supply. I think that one of the reasons why changes in reserve requirements are so unfavorably looked upon instrument of policy is that so many people still persist in looking on them as a means of assuring liquidity, and that is not the primary purpose.

The other thing that should be pointed out is that the Federal Reserve will probably be reluctant to use this instrument repeatedly and frequently so long as the great bulk of American banks are free to leave the Federal Reserve System if they wish to do so. Every time the reserve requirements are raised, it creates new irritation on the part of the member banks who feel they are unfavorably discriminated against.

Senator FLANDERS. Any other comments?

Mr. LAND. I would like to comment on the geographical nature of the present reserve requirements, in that they are based on the geographical location of the banks as related to demand deposits. It would be well if somewhere along the line they could be recast so that they are based on the nature of the deposits and not on the location of the deposits.

Mr. WILDE. I would like to make this observation about the tools of the Federal Reserve. It seems to me, as a practical matter, in a country that moves as fast as ours does, the open market is the most flexible and the most useful and, then, secondly, the rediscount rate and, third, the change in the reserve requirements.

Representative PATMAN. Excuse me, the rediscount rate is not being used; is it?

Mr. WILDE. It is occasionally used.

Representative PATMAN. Seldom used.

Senator FLANDERS. You are so classifying them with relation to the ease and quickness of application or with regard to the desirability of the results?

Mr. WILDE. I think they are practically the same, the ease and readiness and flexibility contribute to their being the most practical instruments, in that order.

Senator FLANDERS. Why is not the rediscount rate on the whole, to the extent that it is used, more rapid and direct in its application than the reserve requirements?

Mr. WILDE. Well, I do not believe, Senator, that I could answer that with conviction. As a bank director, sitting on this side, it seems to me that it would not make too much difference. But I guess just watching what the Federal Reserve was doing in the open market, as to the open-market policy, was an indication of how we should conduct ourselves more practically than with changes in the rediscount rate.

Senator FLANDERS. Perhaps an interesting subject, although we can spend more time than we have this afternoon, would be, there is some indication of the reasons for the disuse of the rediscount-rate device, which was originally the primary device of the Federal Reserve System, and I have seen some indications that it is being revived to some extent, at least, now. I do not know whether that is right or not. If it is, the reasons for that would be of interest.

Representative PATMAN. Mr. Chairman, may I suggest, of course, the banks would have to get in debt and expect to get into debt before that device would be worthwhile. If you will recall, at one time the rate was raised in the early part of 1953, and the interpretation placed on this action, and I think properly, was that it was purely a psychological move, that they were letting the bankers of the country know that money is not going to be as easy, it is going to be a little tighter. It was what you might term an unconversational understanding among the monetary authorities that they were going to make money just a little bit tighter, and if they were to lower it, it would imply that they were going to make money a little bit easier. In practice I do not think it has been worth anything except psychologically.

Mr. SMUTNY. Mr. Chairman, may I add to what Mr. Patman said?

Senator FLANDERS. Yes.

Mr. SMUTNY. Actually, as Mr. Patman mentioned, after all, reserve requirements only come into use when some bank is borrowing and at the Federal Reserve. The rediscount rates affect all the banks.

Now, therefore, would it not be a good idea to study the relationship between our reserve requirements in the United States versus those that pertain to banks in Canada and England?

If you look at those rates they are very substantially below ours; of course, they have fewer banks, that is true, but, as you know, there are a very minor number of banks in comparison to the 11,000 banks we have, but nevertheless in Canada, if I recall their reserve requirement rates correctly, I think they are using something around 8 or 9 percent, and in England 6 percent.

Now, after all, we are tying up substantial funds of the assets of a bank in the use of reserve requirements in this country in the rates we have.

Senator FLANDERS. We have arrived at the announced time for adjournment.

Mr. Ensley?

Mr. ENSLEY. Mr. Chairman, we have received a statement from Aubrey G. Lanston & Co. relative to the questions that the Treasury and the Federal Reserve answered and, with your permission, we would like to insert the statement in the record at this point.

Senator FLANDERS. Without objection, that will be done.

(The statement of the Aubrey G. Lanston & Co., is as follows:)

STATEMENT BY AUBREY G. LANSTON, AUBREY G. LANSTON & CO., INC., NEW YORK, N. Y.

The contribution to monetary policy made by earlier committee hearings

The earlier hearings on monetary policy under the chairmanships of Senator Douglas and Representative Patman produced many expert points of view, a record of events, and helpful data that otherwise would not have become available. These served to enlighten students and to broaden public knowledge. The complex nature of the things that must be considered in evolving monetary policy was fully demonstrated. The need for flexibility consistent with changing economic conditions was driven home to a mass of people, some of whom had rarely given this matter any thought.

The conclusions reached by these earlier subcommittees lacked complete agreement on some important points, but the areas of agreement were sufficiently broad that this served as a mold by which future developments in monetary policy could be, and have been, shaped.

The ensuing years have been marked by more than ordinary progress. They have been years of change; of change in the direction of more widely accepted monetary policy objectives. The methods and techniques employed, and the workings of monetary policy have undergone change, also.

The results have been multifold. People throughout the world have become more sure of the toughness, the resiliency, and the lasting qualities of American economic life. The public has demonstrated a renewed confidence in the stability of the currency. Generally, people have acquired more confidence in the longer run economic future. People have begun to believe, once more, that the horizons of our economic future are the widening, limitless ones of a society wherein individuals are permitted, and encouraged, to initiate new ideas and methods; to be free to apply these with their full energy and to be rewarded more commensurately—free of the hampering restrictions of a self-perpetuating bureaucracy. At the top of these rewards is the better safeguard privilege of freedom—freedom to run the details of one's own life.

Both the Douglas and the Patman subcommittees have contributed substantially to these ends because they helped to release monetary policy so that it could do the job of which it is capable, to free it so that it might better serve our kind of economy—the most dynamic the world has known.

I believe that these hearings, under the chairmanship of Senator Flanders, will help to preserve the healthy changes that have been made, and to promote further progress.

Monetary policy is a three-wheeled vehicle

As you know, monetary policy is not a one- or a two-wheeled vehicle. It is three wheeled. Treasury debt management can't do the job by itself, neither can Federal Reserve credit policy. The two of them alone can't do it, either, at least very well. This is because the big wheel of the vehicle is the Treasury cash budget and the changes that occur in this; that is, whether a cash surplus or a cash deficit comes at an appropriate time as we roll along through different kinds of business conditions.

It therefore would be futile to attempt to analyze, or to weigh the objectives and the workings of debt management as though these could operate in a vacuum. The same is true of Reserve credit policy. The actual and prospective results in the Treasury cash budget cannot be ignored.

A monetary policy, or the absence of one?

In fact, the results in this budget—and I refer to both the actual and the prospective results in the cash budget—have a lot to do with the facility with which the debt can be managed. The way the debt is managed has a lot to do with the workings of credit policy. If the Treasury budget results are particularly bad, such as an actual or prospectively large cash deficit during a business boom, the impact on the Treasury's management of the debt is bound to produce a compounding, adverse impact on Reserve credit policy. The grinding and crashing repercussions that may be produced will be heard, felt, and seen throughout the Nation. But these are not the workings of a monetary policy—they are the consequences of not having one.

Such a situation might better be described as one wherein Treasury and Reserve officials are forced to struggle to prevent the big wheel of the Treasury's deficit from running amuck in a way that might produce anything from mild economic instability to inflation or worse.

Responsibility and improvisation

Congress cannot be careless with respect to the results in the Treasury cash budget and still discharge its responsibility for the creation and proper functioning of monetary policy.

If the Congress ignores whether the Treasury has a cash surplus or deficit, and whether these results are consistent with changes in the conditions of business, and the accompanying economic climate, the Nation is headed for trouble.

In the absence of an appropriate cash budget result, any review of the objectives and workings of Treasury debt management and Reserve credit policy confines justifiable conclusions with regard to monetary policy pretty much to whether, in the resultant adverse monetary background, Treasury and Reserve officials have worked well together, and have done as much as might be expected of well-intentioned, well-informed human beings. It is not a question of how well, or how badly, monetary policy may have functioned; the omission of the required budget result means that monetary improvisation had to make up for an absence of policy.

My review of the objectives and workings of monetary policy aims to illustrate the part that is played by the Treasury's cas budget results

It seems to me that I might best review the objectives and workings of Treasury debt management and credit policy over the last few years by pointing out (1) how, during the boom period of 1952–53, a Treasury cash surplus might have enabled monetary policy to contribute more to economic stability and (2) how the Treasury's cash deficits multiplied the problems the Treasury and the Federal Reserve had to resolve.

It will be seen from this, I am sure, that the Treasury and the Reserve have done a good job.

The relationship between the Treasury security market and monetary policy

The committee asked several questions about the Treasury security market and its use in connection with the development of credit policy. These questions, and the answers, also develop the relationship between the Treasury market and monetary policy. In the Reserve's response to question 3 it describes the workings of the Treasury market; it tells how the normal functioning of the market was obstructed by past Reserve open-market operations; of how a return to these would cause the market to become less rather than more self-reliant. The Reserve's explanation is the most complete I have seen.

But, because I live with the Treasury security market throughout most hours of the day, and sometimes the night, and because I have a sincere conviction about the importance of an adequate Treasury market to the future welfare of our economy, I want to add some comments of my own. I want to tell you why I believe the Treasury security market must be free—as it is now—to reflect in market prices and yields, the public's desire to buy and sell Treasury securities and their transactions. No other kind of market will adequately reflect the response of the public to business and credit conditions and to monetary policy.

I want to say something about the kinds of alternatives that might be devised to replace the present publicly made market for Treasury securities. As I see it, the alternatives are an inflexible monetary policy and consequential inflation or an increasing number of selective controls, of diverse sort; ones that would serve, once more, to undermine our competitive form of enterprise and to infringe upon individual freedoms.

Should the newborn free play in the Treasury security market be considered an experiment or a permanent characteristic?

In the Reserve's reply to question 3 it describes three decisions that have been made with respect to the conduct of its open-market operations. It says the purpose of these was to foster a stronger, more self-reliant market for Treasury securities in order to contribute as far as possible, to the development of a responsiveness, by that market, to monetary policy. It adds that the results, on the whole, have fulfilled its expectations. Then it goes on to say that this approach, to open-market operations, is still experimental, that insufficient time has elapsed to draw firm conclusions.

As you know, a minority of Reserve officials hold that these decisions went too far in imposing limits on the open-market operations. This minority urges a partial return to the very kinds of open-market practices that, as the Reserve's replies carefully point out, abort the normal functioning of the Treasury market. I hold the firm belief that any action taken by the Reserve which permits the Treasury security market to more fully reflect the response of the public to credit policy is not an experiment—unless flexible monetary policy, competitive enterprise, and individual freedoms also are to be viewed as an experiment. Contrariwise, if the clock were to be turned back toward more open-market intervention in and manipulation of Treasury security prices and yields by the Reserve banks that would be an experiment to see if the Reserve could go back part way. The last such experiment turned out badly. I want to discuss what might happen if we tried to embark on another.

We have a good market for Treasury securities; it still has some problems—these can be resolved

The functioning of the Treasury market has constantly improved; it is considerably improved compared with that of 1½ years ago. In fact, we have a pretty good market. I am concerned only that our aim continue to be to promote and to improve the functioning of this market. The Reserve has helped mightily to bring about improvement. The Treasury also has helped. Yes, we still have some major problems to resolve.

The further help of the Reserve, of the Treasury, and of those who have either a responsibility for or an interest in monetary policy is needed. I do not believe I overstress the importance of an adequate public Treasury security market when I say that failure to maintain it, and improve it, might make it more difficult to combine flexible monetary policy, competitive enterprise, individual freedoms, and a large national debt compatibly.

Suppose the Treasury had had a cash surplus during 1952–53

When business activity is at a high level, as it was from mid-1952 to mid-1953, it is not surprising to see a strong demand for capital and credit accompany the boom. Had the fiscal policy of the Government produced a cash surplus throughout this period this surplus could have been used to reduce the Treasury debt held by the general public. Had this been effected through the retirement of Treasury securities held by nonbank investors, more money would have become available with which to meet the private demand for capital and credit. Surplus tax receipts would have been channeled back into productive investment, interest rates would have been under less upward pressure, a lesser demand for bank credit would have been generated. The Treasury would have been placed in a better position to lengthen its debt.

Had the Treasury cash surplus been used to retire Treasury securities held by the commercial banks, the availability of private bank credit would have been increased without the necessity for quite as much restraint in credit policy, and without a too large increase in the money supply.

The impact on monetary policy, from mid-1952 to mid-1953, of the Treasury cash deficits

But fiscal policy did not produce Treasury cash surpluses. For fiscal 1952 the Treasury managed to just about break even on a cash basis. For the second half of calendar 1952 the Treasury had to finance a substantial seasonal cash deficit.

This was only partly offset by a cash surplus during the first half of calendar 1953. Moreover, the cash deficit for the second half of that calendar year, 1953, promised, early in the spring, to be quite large. When the market awakened to its true size (in May) the results were explosive. These Treasury cash deficit needs were important in the factors that precipitated the mild crisis in the money and bond markets in May and June (1953).[1]

The reasons for this were quite plain. After all, the Treasury had to raise the money from either nonbanks or banks. Individuals could not be expected to supply much, if any, of the Treasury's cash needs. Nonfinancial corporations were seeking additional funds. Nonbank financial institutions were being asked to supply more private credit and capital than they could raise, even by selling Treasury securities on balance. And, so—the only remaining source of funds was the commercial banks.

The supply of bank credit available to private borrowers had proven to be an exhaustible amount, borrowers had begun to anticipate further increases in borrowing costs, they began to hoard bank credit by taking more than they needed—if they could get it.

With this sort of a background, in this sort of climate, how willingly and how readily would the Reserve make available the bank reserves necessary to support Treasury cash deficit financing through the banks? How high would interest rates go? Was this to be the death knell of a flexible monetary policy, or the return to a 4-percent rate for Treasury bonds?

Belief in the stalwart resolution of Treasury and Reserve officials to prosecute a policy of monetary restraint, to the extent necessary to cope with this new inflationary threat, was mixed with a belief that the increasing tightness of credit conditions would soon bring about its own correction. The latter proved to be the case and when Reserve officials acted to shift their aim with an insight and intuition that has been rare in central bank history, the quick turnaround in the availability of reserve credit produced stabilizing forces—instead of an expectancy that might have arisen, namely, of a new rapidly spiraling inflation.

The actual and prospective results of fiscal policy in the period of mid-1952 through mid-1953 are outstanding examples of how an inappropriate fiscal result dominates Treasury debt management and creates, for the Federal Reserve, a series of difficult and hazardous decisions.

The buildup in the amount of the near-dated debt and in Treasury debt-management problems

The Treasury, as far back as December 1949, had recognized, apparently, the desirability of extending the near-dated debt. During the 12 months, to November 1950, the Treasury came to market 3 times with securities of from 4¼- to 5-year term. Thereafter throughout a period of about 15 months—Treasury-Reserve differences, the resulting accord, and the unexpected release of the Treasury market (from years of manipulation by the Reserve banks) made longer-than-1-year financing impractical.

By February 1952 the Treasury found it possible to return to longer-term financing with modest success. In May, it offered 6-year bonds, but this was to meet a part of its cash deficit requirements; it did not serve to reduce the near-dated debt.

By the time the present Treasury administration took over, in January 1953, the amount of the near-dated debt[2] (in the form of marketable issues) had approached or exceeded the peak levels of January 1, 1946 (see charts 1A, 1B, 2A, and 2B).

Adverse market conditions existed during the first half of 1953. These came about partly because of the heavy demands for capital and credit. They also were an inevitable consequence of the only appropriate credit policy in such circumstances—namely one of restraint. This overall situation plus the Treasury's second half-year cash deficit requirements again prevented the Treasury

[1] There is some element of surprise in the picture. Treasury announcements, in connection with the offering of the 3¼-percent bonds did not adequately reflect the size of the Treasury's forthcoming cash needs. Re the much-debated 3¼-percent offering: A straight cash offering of these bonds might have been successful. This is clearly indicated by the initial reaction of bond firms throughout the country and of many professional investors. Actually, however, the 3¼'s were offered for cash and for exchange. The terms of the exchange encouraged many to convert into 3¼'s for the purpose of reselling these. This sort of secondary market supply figured importantly in the setting up of fresh forces for a decline in bond prices.

[2] Measured either by the total due in 1 year or the total due within 2 years.

from making any net reduction in its near-dated maturities in spite of the change in credit policy to an easy-money objective. As a matter of fact, by January 1, 1954, the near-dated debt had increased by a substantial amount.

Once again—the Treasury had to rely largely on the banks

The Treasury cash deficit and refunding needs of May 1953, and thereafter, must have urged upon Reserve officials some greater degree of active ease than might have been necessary otherwise. Obviously, the Treasury had to seize upon the more favorable market conditions to reconstruct its maturity schedules.

Among what classes of investors could this be accomplished? Not much help could be expected from individual investors, except through a more aggressive campaign to sell series E and H bonds. If nonfinancial corporations were to be persuaded to hold more Treasury securities substantial progress in this direction meant, conversely, that a like amount of the profits and cash resources of businesses would not be turned back into investment, production, and payrolls.

Nonbank financial institutions continued to be sellers of Treasury securities on two counts: one, to take up forward commitments entered into earlier and, two, to meet the enlarged capital market demand emanating from toll road, other new money financing, mortgages and, later, to refund bank loans.

Thus, once again the Treasury was forced to rely largely on the banks.

Treasury success, and a backwash

During 1954, the Treasury has come to market seven times. On five of these occasions it has sold notes or bonds designed to lengthen the debt. On four such occasions the Treasury's financing has resulted in substantially reducing the amount of its 1-year debt. All such operations took place in a climate provided by a subnormal demand for bank credit and a credit objective of active ease. In these circumstances the existence or promise of a further cash deficit did not constitute an adverse market force.

Early in 1954, the declining trend in bank loans, the easy money policy of the Reserve and Treasury debt-lengthening operations served to multiply the forces which were pushing the yields of short-term Treasury securities to lower and lower levels. There was first the normal, sharp decline that had come from the shift in credit policy in June 1953 plus the turn-of-the-year ease. The decline in loans, the loan outlook, and Treasury refunding began to operate with force as we moved through the first quarter of 1954. As a consequence of the latter, a sharp reduction in the amount of short-term issues outstanding occurred.

Indeed, by June 1954, the erosion in the yields on short-term Treasury securities became so pronounced that the Reserve was forced, more or less, to employ methods which, while they would continue to effectuate "active ease," also would act to prevent the yields on short-term Treasury securities from disappearing altogether.

Then, there was the other side of the coin, namely, a corresponding increase in the amounts of Treasury securities outstanding in other maturity areas, notably in issues of from about 4- to 9-year term. During the latter part of 1954, the increase in the supply of these issues had become large enough to cause their yields, and those on most issues of longer Treasury securities, to retrace most of the decrease that had taken place during the earlier portion of the year.

The relative movements of such yields on Treasury securities is shown on chart 7.

It may be noted that the differences between the yields offered on short-term Treasury securities (of up to 2-year term) and those of longer term (5 years or more) became, and remain, quite wide. In fact, these yield spreads are about the widest on record. This was a natural result of the Treasury's having to take the bull by its horns if it, finally, was to be able to effect any substantial reduction in its near-dated debt.

The income-consciousness of banks, during 1954, plus the success of the Treasury's debt-lengthening programs makes for a sharply triggered bond market—one that could lead to a rather sharp decline in bond prices

The primary reason that the Treasury was able to effect a substantial reduction in this portion of its debt was that bank investors, on whom the Treasury had to rely, became increasingly income minded; that is, the desire to maintain future income, or to purchase insurance against too large a drop in earnings, caused them to be willing to decrease the amount of their short-term holdings below a level they might have wished had loans been increasing.

Consequently, the liquidity of banks has been sharply reduced. In terms of deposit liabilities, the ratios for member banks (expressed in terms of Treasury securities with a term of 2 years or less) are about as low as they were at the beginning of 1951 and 1952—the low points for the postwar era. In terms of risk assets the situation is about the same. (See chart 6C.)

At the present time business activity is increasing. It is expected that this will continue—at least for some months. If it does, then the risk assets of banks, particularly loans, may turn upward sooner than many now hope. Bank deposits will follow suit.

The Treasury cash budget result necessary to underpin an acceptable monetary policy in such circumstances, and the minimum result that might be necessary to maintain general confidence would be nothing short of a balance between the Treasury's cash receipts and disbursements. An appropriate monetary policy would call for a cash surplus.

A balance (in the cash budget) would mean no increase in the Treasury debt held by the public, although an increase in the total debt would occur. A cash surplus should permit a reduction in publicly held debt. This would be expected to take place through the retirement of publicly held, maturing obligations. The commercial banks are the largest holders—would such retirement be made from bank portfolios? If so, what would be the attitude of the commercial banks toward their longer Treasury security holdings?

In a period when both bank deposits and risk assets are rising, bankers may become more conscious of their liquidity needs. Will individual banks then seek to prevent another lowering of their liquidity ratios by attempting to sell Treasury bonds of longer term? Who will the buyers be? Attempts by individual banks to sell means that banks as a group—the mainstay of the present level of Treasury security prices—will have reversed their position. In such event, Treasury bonds could fall in price rather sharply, before private bank credit expands very much.

Therefore, the Treasury bond market has become very sharply triggered: its response to any relaxation in the present credit objective of active ease would be quick—possibly anticipatory.

The short-term sector also is becoming more sharply triggered and any further upturn in short-term rates could touch off a slide in the prices of longer dated issues

As I mentioned earlier, several forces have operated to reduce the yields on short-term Treasury securities—declines in loans, a credit policy of active ease and a large, steady drop in the amount of publicly held short-term Treasury securities. The problem of getting the near-dated debt under better control has been pretty much accomplished. The fact that the amount of short-term issues outstanding may not undergo further reduction, removes one factor that helped to bring about the present relatively low yields on these securities. A revival of the loan demand, or the prospect of a less than seasonal decline in loans during the early part of 1955 would remove a second such force.

Consequently, and in spite of the reduction in the short-term debt outstanding, yields on these and on money market securities in general may prove to be surprisingly sensitive to any change away from the present degree of "active ease."

But, an appropriate credit policy has to concern itself with other matters besides the condition of the market for Treasury securities; for example, the money supply and the rate of change in it, the overall economic climate and expectancies, and the like. So, even though an upturn in the yields on short-term Treasury and other money-market issues might touch off a slide in bond prices, the Reserve might nonetheless consider that economic conditions require a less heavy accent on active ease within the near future.

Wide yield spreads between short-term and longer term issues are an invitation to many investors to lengthen maturity but it's a danger signal, too, in the present situation

There is a rather general belief among investors that extensions of maturity should be made largely when these can be effected at reasonably good increases in yields. In other words, the recent and prevailing wide yield spreads between short and longer term Treasury issues have been a factor in making possible the Treasury's sales of many longer dated securities, as well as being a consequence of these sales. At the same time, investors have been able to take the

view that the higher income to be obtained on these longer issues compensated them for the increased risk to principal that had to be assumed.

Conversely, however, when interest rates are low (bond prices high) increases in the yields of successively longer maturities are wider than is the case when bond prices are low. Reference to chart 7 will illustrate this—note the difference between the yields prevailing on Treasury securities of varying terms during 1951–52 and during the second quarter of 1953.

Consequently, when longer term bonds are purchased (at relatively high prices during periods of easy money) the possible loss through some subsequent downturn in prices is substantially larger dollarwise, than are the potential gains (through further price increases). The compensating factor of the increase in income that was obtained when the bonds were purchased becomes, at this time, a thing of the past. The prospective gain versus loss equation begins to dominate the attitude of the investor. This is particularly apt to be the case if a large number of investors (in this case bankers) believe their portfolios have become out of balance (too few short-term and too many longer-term holdings) for the current and prospective outlook.

Such a set of circumstances would make it more necessary than heretofore that a further advance in the levels of business activity be paralleled by the expectancy of a Treasury cash surplus. This might be used to retire short-term issues and thereby (1) cause banks and others to become more reluctant to sell longer Treasury securities while (2) it also would provide banks with the reserves needed to extend private credit.

A lot of charts

In my remarks I have referred to certain of the charts that accompany this statement. A brief explanation of all the charts is appended to them.

One particular chart that shows the Treasury security holdings of the Federal Reserve banks, 1D, deserves comment before I leave this general area.

Did the Reserve banks prefer certificates to bills?

Throughout most of the 1940's, the Reserve's holding of Treasury bills was quite large proportionately. Today, and for the past several years, they have been quite small although the Reserve's open-market practice has been to confine its purchases and sales largely to such securities. The reasons for this are excellently set forth in the Federal Reserve's replies to the committee's questions.

In the refunding of 2 weeks ago the Treasury made 2 short-term offerings, a new 1¼-percent certificate and an additional amount of the 1⅛'s of August 1955. The latter was said to be largely to permit the Reserve banks to achieve a more even distribution of their holdings. This Treasury move invites questions: Did the Reserve prefer to diversify its certificate holdings or to diversify by a reduction in certificates and an increase in bills? Why did the Treasury offer the Reserve additional certificates, instead of offering additional amounts of the weekly series of Treasury bills?

A nutshell picture of the progress made by the Treasury in debt reconstruction and some delayed-action problems that have been created

The Treasury has been able to reduce its near-dated debt so substantially that the major portion of this task should be completed for now. Moreover, by withdrawing savings notes from sale, and by permitting series F and G bonds to mature without receiving any specific new refunding offerings, a net decrease may develop in the outstanding amount of the nonmarketable debt. This may give the Treasury more leeway with which to meet the steadily mounting requirements of the Government accounts. Also, while the short-term holdings of the commercial banks have been reduced at a rather rapid rate during 1954, the speedup in the tax payments of corporations may provide some offsetting supply of short-term securities over the next few years.

Altogether the Treasury has gained considerable elbow room for future debt management. The pressure of a too-large near-dated debt has been eliminated.

Some delayed-action problems may have been created. These originated in the large cash deficits that had to be financed from mid-1952 to date. The best way of resolving these potential problems would be for Congress to make sure the Treasury has a substantial cash surplus should business activity continue upward. Such a fiscal policy goal could promote that sort of business trend if it is gone about in a manner that is not hostile to business.

If we get off to a bad start in the matter of the Treasury cash budget we are bound to head for problems. Congress needs to find a way to make fiscal policy more consistent with appropriate, flexible monetary policy objectives

What I have been trying to say, and to illustrate by the events of the past few years, amounts to this: Monetary policy has to begin with fiscal policy, that is, with the Treasury budget result. As in everything else, if we get off to a bad start we are headed for problems from there out. The results in the Treasury budget over the past few years have compounded the difficulties of managing the debt. They were a major factor in building a near-dated debt that was out of all reasonable proportion. This has not been the fault of the Treasury—regardless of which administration—it was the consequence of Treasury cash deficits.

The objectives that have guided debt management and credit policy during the past several years have been excellent.

In working out monetary policy, a great many human judgments obviously were required of Treasury and Reserve officials. Human judgments are frail. But we should recognize that human judgments are not necessary only in connection with a flexible monetary policy. They are just as necessary, and more of them are required of a monetary policy that is inflexible—designed for inflation. They are even more necessary to and far more numerous in the conduct of most alternative forms of selective controls.

We, therefore, should not confuse concepts and objectives with judgments. We can expect from judgments, not perfection, only good performance. We have met with extremely good performance by Treasury and Reserve officials during recent years.

The presently most pressing problems of monetary policy are therefore the results that flow from fiscal policy, the Treasury cash budgets. Surely the Congress can find some way to provide for changes in the rates of taxation and to control Treasury expenditures so that the Treasury cash budget can be more consistent in the future with the appropriate objectives of a flexible monetary policy, one that must deal with changing economic conditions.

Now I would like to turn to the matter of the Treasury security market and the manner in which this market ties into monetary policy.

Is the public market for Treasury securities a free one?

Of course, the public market for Treasury securities is not "a free market," in the sense of the term. But the public market must be an adequate one. It, therefore, must enjoy freedom to reflect fully, into market prices and yields, the transactions of the general public. Such transactions can take place only in a market free of direct intervention from the Reserve,[3] because the public's transactions must reflect the competition of the market place and take place in the environment of the actual and prospective condition of the Treasury's budget, the objectives and the decisions of debt management and of credit policy and of business conditions. Only in such a market can the fluctuations in interest rates reflect accurately the supply and demand of Treasury securities that constitute the country's response to changes in business activity and in monetary policy. The resulting fluctuations in interest rates are the product of what has happened, what is happening, and of future expectancies. Monetary policy of any kind would become befogged if it were not guided by interest-rate fluctuations of this kind. Some refer to the fluctuations in interest rates as the best thermometer we have by which to judge the health of the economy.

Of course, there are alternatives to the kind of a public Treasury security market we now have

Other alternatives to an adequate public Treasury security market can be devised. For example, the Treasury could engage in market transactions for its accounts, and/or for the sinking fund, and/or in the name of the stabilization fund, for the purpose of providing a market for its securities. This could take the place of the public market that is maintained through the private firms that are the intermediaries. No one can say whether the Treasury officials charged with handling the individual transactions in a market made by the Treasury could or would do so in a way that these fully reflected into prices and yields the transactions of the public. But I don't believe we could take a chance because

[3] Or the Treasury.

some Treasury administration in the future might try. Even Barnum couldn't fool the public forever, and the monetary pressures that could build up would assert themselves in other ways—in price increases, in inflation of the usual kinds, and in an increase in the overall costs of all of us and in the costs of government. The latter, alone, would be many, many times the reduction in Treasury borrowing costs that might come from the Treasury's manipulation of interest rates.

Or, the Federal Reserve banks, with their gigantic portfolio, could engage in market purchases and sales of Treasury securities partly to provide a market, or for the purpose of facilitating the attainment of credit-policy objectives that some claim could be done in this fashion, or to further the success of Treasury financing. Each of these types of open-market operations would take on, in time, the characteristics of the past price-fixing operations—the experiment that was such a costly failure. The Reserve then would act as some kind of a benevolent dictatorship; so that interest rates would reflect only the assessment made by Reserve officials as to the prices and yields on specific issues and on maturity sectors that were "proper."

Are we interested in thermometer readings or the health of the patient?

If fluctuations in interest rates are the best thermometer we have with which to judge the response of the public to the administrations of credit policy, then any of these alternatives would be strange ones to adopt. Even the more moderate alternatives, such as advocated by those who would broaden the scope of the Reserve's open-market operations, would be dangerous, in my judgment. It would be like applying heat and cold alternately to the bulb of the thermometer so that we could obtain the temperature readings we wanted to see. Surely, we would learn little from this about the health of the patient.

How can the Reserve intervene to directly affect the prices and yields of Treasury securities only a little and not too much?

Some who nevertheless would have the Reserve discard its present narrow concept of open-market operations for an expanded one claim that it is not enough to produce and to absorb reserves; that the prices and yields on Treasury securities in the different maturity sectors are important, and may not correspond to their judgments of a proper response from the market; that credit policy cannot rely on what they claim to be the imperfect arbitrage within and between markets and, therefore, the Reserve should engage in open-market operations anywhere in the entire maturity range of the market.

I cannot understand, and I have been unable to obtain a plausible explanation, in practical terms, of how the Reserve could intervene just a little and be sure such intervention would be within limits that would be consistent with credit-policy objectives; that is, any credit-policy objective except active ease.

I have sought and I have been unable to obtain a plausible explanation, in practical terms, of how the Reserve might further the success of Treasury financing by the purchase of exchangeable and newly offered securities without running afoul of credit-policy objectives, except ones of wanton ease. Nor has anyone been able to tell me how decisions would be made that this or that Treasury financing would justify Reserve support, whereas this or that one would not.

I have asked what would happen (1) if the Reserve were to start to buy securities in the Treasury bond market because it felt prices were below some preconceived idea of an appropriate level, and (2) the amount of such purchases began to exceed that which could be made consistent with the prevailing credit-policy objective. Should the Reserve banks in such a circumstance stop their buying? If they did, the subsequent price decline might reach a level substantially below that which Reserve officials disapproved initially.

If the Reserve started off such a buying program and purchases definitely exceeded those that could be made consistent with the prevailing credit-policy objective, should the Reserve continue to buy on the grounds it might be impractical to stop such purchases? If so, which will have taken precedence—the management of the Government security market or the objectives of credit policy?

Sometimes it is said that, in any such events, the Reserve could sell other securities. If that is true then, as always happens, intervention in the normal functioning of a market at one point, requires supporting intervention at a second,

and at a third point until, finally, intervention turns into the necessity of managing the entire market. That is what happened before.

I could give you illustration upon illustration of how Reserve intervention that aimed at directly affecting the prices and yields of Treasury securities has interfered with the normal functioning of the market; of how it first drives the intermediaries to cover and then the investor and of how, in the end, the Reserve becomes—it is inevitable—a not-so-benovolent dictator. But instead let me remind you of what happened when the Reserve attempted to further a Treasury financing of which Reserve officials fully approved. In November 1950 the Treasury offered a 5-year 1¾-percent note—precisely the terms the Reserve thought the Treasury should offer. The Reserve undertook to further the success of the financing. Before the Reserve got through, it had acquired $2.7 billion, or 40 percent of the new issue.

To this I would add that when the Reserve starts to intervene during Treasury financing periods, investors and the intermediaries, the Government security dealers, have no basis whatsoever for judging the market or the real reception that might have been accorded the new issue. Many thereupon follow the prudent course and sell. When the Reserve does not intervene, a new issue may touch par or break it and thereby actually uncover more buying power than the Reserve would have any desire to supply. This happened shortly after the offering of the 1⅝-percent notes of 1957 this fall; it happened the other day in the new 2½-percent bonds of 1963.

As the Reserve moves in to intervene in the prices and yields of Treasury securities the public market begins to move out

The basis upon which the public decides to buy or sell Treasury securities in a market that is conducted through dealers, who serve as intermediaries, is a composite of the needs and desires of individual investors plus their evaluation of current and future supply and demand, business conditions, and monetary policy. When the market is subject only to these forces and is free of attempts by the Reserve to directly affect prices and yields, we get a full response to monetary policy, and the Treasury has the benefit of this response when it has to engage in financing.

When, however, the Reserve moves to directly affect prices and yields, for whatever purpose, the public and the dealer intermediaries have to reconsider their ability to weight supply-demand and the usual factors of response to monetary policy. They begin, instead, to spend an increasing proportion of their time worrying about the character, scope, and timing of the Reserve's intervention. In fact, they begin to ignore the significant purposes of credit objectives. The entire public market slows down. Its normal functioning becomes increasingly impaired. The so-called imperfect arbitrage becomes more imperfect. The market's responses to the objectives of credit policy become more slow, or too quick, and sometimes these have boomeranged in such degree as to emasculate the Reserve's objectives.

Further, I believe it is correct to say that on about every occasion since the creation of our tremendously large public debt, Reserve open market operations that aimed to affect directly the prices and yields of Treasury securities attained a size multifold that which was expected of these, and considerably more than could be made consistent with the credit or monetary policy objectives of the time.

If the Reserve were to expand its open market operations and thereby move in, so to speak, then the public Treasury market has no other option but to begin to move out.

Judgments as to what the reactions of others will be and one actual reaction

I have heard it said that these are matters of individual judgments, that it is a matter of individual judgment as to whether the public and dealer intermediaries would react along the lines I have outlined and as stated in the Reserve's replies. This is another one of the things I cannot understand. The study made by an ad hoc committee of the Reserve Open Market Committee is replete, I am sure, with innumerable instances of how dealer intermediaries (and the public) have reacted to such intervention in the past. Why should they react differently in the future?

Yet, even within recent weeks, I have heard it said that dealer firms, such as ours, would not discontinue their endeavors to enterprise in the Treasury market,

or to develop it, and that we would not curtail the size of the commitments we normally accept. To such a judgment, I can offer a reply which has the greater merit of being, at least, the conviction of one dealer as to what he would have to do to conform with prudent standards of conduct.

Were the Reserve to intervene again to directly affect the prices and yields of Treasury securities my firm would immediately seek to employ its capital in other fields; we could not afford to risk our capital in the same way and to the same extent that we do under the present, more normal functioning of the market. We would have to examine the desirability and the profitability of conducting a lower volume of transactions as an agent or broker.

Two troublesome problems which remain unresolved

The techniques adopted by the Reserve to foster a stronger, more self-reliant Treasury security market have contributed mightily to that objective. It is gratifying to know that the Reserve finds its expectations to have been fulfilled, on the whole. I think we do have a pretty good market in Treasury securities today. But, as I said earlier, we must continue to aim to develop this market and to enlarge its scope.

The biggest sector of the market, from the point of view of the size of transactions, and the manner in which it may be used to effectuate credit policy is the short-term end, and more particularly, the bill market. All these short-term Treasurys compete with other money-market securities. Because, short-term Treasurys are the premier money-market investment, they usually sell to yield less than other such instruments, including Federal funds. To maintain a market of desirable breadth and resiliency throughout all market conditions dealers need to carry a rather substantial inventory. But, dealers cannot afford to do this, as a regular thing, unless the interest rates they pay to carry their inventory are equal to or less than the rate of return on the securities in inventory. This is not usually the case where short-term issues are involved.

When the Reserve, beginning with the end of World War I, decided to foster and promote a broad, active market for bankers' acceptances, it ran into exactly this problem with the same results; when the cost of money needed to carry inventory was higher than the rate of return received from the inventory, dealers proceeded to reduce their holdings. Then, as now, the result is that the market loses some of its breadth and activity, and the securities involved are not as suitable as they might be to many investors.

The second problem stems from a change that had taken place in the methods employed by member banks to make day-to-day adjustments in their money positions. Before securities became the principal medium for such adjustments, the ability of one member bank to increase its reserves or to invest surplus funds brought about corresponding changes in the reserve position of the banking system. Today, Treasury securities are the principal medium for making such adjustments, and the results differ. Sales and purchases of Treasury bills, and other short-term Treasury securities, undertaken by individual banks, do not result in producing or absorbing reserves for the banking system as a whole; at least, not in ordinary circumstances. Fluctuations occur in the yields of Treasury bills and short-term Treasury securities, some redistribution of excess reserves or of borrowings at the Reserve banks takes place, but no increase or decrease occurs in the reserve position of the banking system as a whole. This means that money market conditions undergo relatively minor change, if any.

The Treasury, too, has helped to promote a better functioning Treasury security market—it can help more

In October 1953, Secretary Humphrey called for more enterprise in the money and bond markets with a view to developing a broad and vigorous market in Treasury securities. He pointed out that this was vitally important because the behavior of this market is watched and magnified throughout the country and the world. The Treasury has helped to promote such a market. It has done so by gradually concentrating its short-dated maturities, other than Treasury bills, into four maturities a year instead of the larger number that used to be outstanding. This served, as the Treasury reply points out, to leave the market more free to function normally and to reflect the public's response to credit policy.

Perhaps the Treasury could help more along the same lines. For example, it could increase the amount of its weekly bill offerings with a view to reducing the number of its other maturities to two a year.

But there also are other ways in which the Treasury can help. Since these are technical I will not go into them except to say that their purpose would be to attract more bond firms, and more young people, into the business of regular daily dealings in Treasury securities. Although the size of the Treasury debt has been multiplied many times in the past 15 years there has not been much of an increase in the number of specialists, the intermediaries, who regularly deal in the Treasury security market. Most of us who head these firms have been in the business for 25 years or more. The number of young people coming up to take our places, throughout the industry, is too few.

The hard core of the public Treasury market is made by the specialists and their dealings with each other. Through these, the supply and demand flowing into one specialist may be matched off with that flowing into another. In such clearances, a constant testing process is also achieved wherein the specialists themselves derive what is called "the feel of the market." If there were more specialists, more intermediaries, this hard core would be, not only enlarged, but made harder, definitely more resilient and the market would become, automatically, more self-reliant. At the same time, an enlargement in the number of firms would mean a wider opportunity for young men. The Treasury security market needs them.

Progress has been made, more progress can be made, in the same way, with the help of the same people and with the help of others

To sum up this portion of my remarks: The public market for Treasury securities is not "free" in the way some have misused the term. The public market is more free than it used to be, and it must remain so because the available alternatives would make it difficult to keep competitive enterprise, monetary policy, individual freedoms and the large national debt a compatible combination.

Attempts on the part of the Reserve to intervene directly, to affect the prices and yields of Treasury securities, would be an experiment that would amount to seeing whether the Reserve could go only part way back to the past price-fixing operations which proved to be a costly experiment. When the Reserve moves in to intervene in the market for Treasury securities, the public market has no option but to begin to move out. The normal functioning of the market becomes impaired, and the need for further intervention on the part of the Reserve is soon called for. It is not necessary to rely solely on human judgments for guidance in these matters. The working papers of the Reserve System are replete with innumerable instances of how the public and the dealer intermediaries have reacted. Furthermore, I have told you how my firm, one such intermediary, would react.

There are some troublesome problems which still remain unresolved. The decisions made by the Reserve with respect to its open market operations, and the techniques with which these have been given substance, have contributed mightily to the resolution of some problems of the Treasury security market. The Treasury has contributed in other ways. Both the Reserve and the Treasury can contribute in additional ways, as can all who have a responsibility for and an interest in monetary policy.

APPENDIX

THE CHARTS

Charts 1A and 1B show the maturity distribution of the marketable Treasury securities on two slightly different bases (1) essentially representative of the Treasury's potential liability to meet its maturities and (2) with certain taxable bonds shown to their first call date.

Charts 1C and 1D show the holdings of the Government accounts and the Federal Reserve Banks. When considering the problems of the reconstruction of the Treasury's maturities (which have to do largely with marketable issues) these holdings should be subtracted. Over the years the amounts involved (in each case) are apt to enlarge. This means that unless the total Treasury debt

increases, the amount of marketable debt that is publicly held (charts 2A and 2B) must decrease. Such decreases normally would be expected to come about by retirement of maturing obligations (a shrinking of near-dated debt).

But, in any event, the size of the problems and of the progress made should not be measured in terms of either the total debt or the total marketable debt. It is better viewed as two separate problems, (1) the nonmarketable debt, and (2) the marketable debt that is publicly held (charts 2A and 2B).

On the matter of savings bonds and notes, for the past 4 years the amount outstanding has decreased. This is partly because savings notes are no longer issued. Maturities of the F and G bonds have not received, recently, any specific refunding offerings. Holders have had the choice of reinvesting in the series J and K bonds, or the series E and H bonds subject to the various limits on each.

At the present time the prospects, under present Treasury policy, are that savings notes will decrease fairly steadily, as may the aggregate outstanding amounts of series F, G, J, and K bonds. Series E and H bonds should increas, but not sufficiently to offset the decreases in other savings bonds and in savings notes. This means that decreases in the total amount of such nonmarketable obligations may make it possible for the necessary increases to occur in the holdings of Treasury accounts, without having to effect withdrawals of marketable debt held by the public.

At the same time, the decrease in this nonmarketable debt may be larger than can be placed with the Treasury accounts, and this would require an increase in publicly held debt. If a Treasury cash surplus exists, it could be used to meet any such net redemptions.

Chart 4 shows the lack of any visible relationships between the net current assets of nonfinancial corporations and their Treasury security holdings. It shows, however, a very marked correlation between such holdings and Federal income-tax liabilities. Since the current amount of the latter should decrease under the speedup plan for corporate tax payments, the Treasury security holdings of businesses may decline. This would provide some increasing amounts of short-term securities for commercial banks that might be needed in view of the prospective further reduction in their liquidity ratios.

Charts 5A and 5B show the same two kinds of maturity distribution that appear earlier, in this instance, for the holdings of nonbank financial institutions. Chart 5C indicates that such investors have evidenced no concern about the decline that has taken place in their holdings of Treasury securities while their assets have been undergoing a substantial increase. We would expect these trends to continue as long as an adequate supply of non-Treasury investments is available.

Charts 6A and 6B show the maturity distribution of the holdings of commercial banks. Charts 6C shows the principal assets and liabilities of all member banks and illustrative changes in their liquidity ratios.

Chart 7 is largely self-explanatory—it shows the relative fluctuations in the yields on Treasury securities of various term.

CHART IA

OUTSTANDING MARKETABLE TREASURY SECURITIES

INCLUDING INVESTMENT SERIES B BONDS IN 4-5 YEARS
EXCLUDING TAX ANTICIPATION SECURITIES AND POSTAL SAVINGS BONDS
PARTIALLY TAX-EXEMPT BONDS TO FIRST CALL DATE
TAXABLE BONDS TO MATURITY EXCEPT WHEN ACTUALLY CALLED

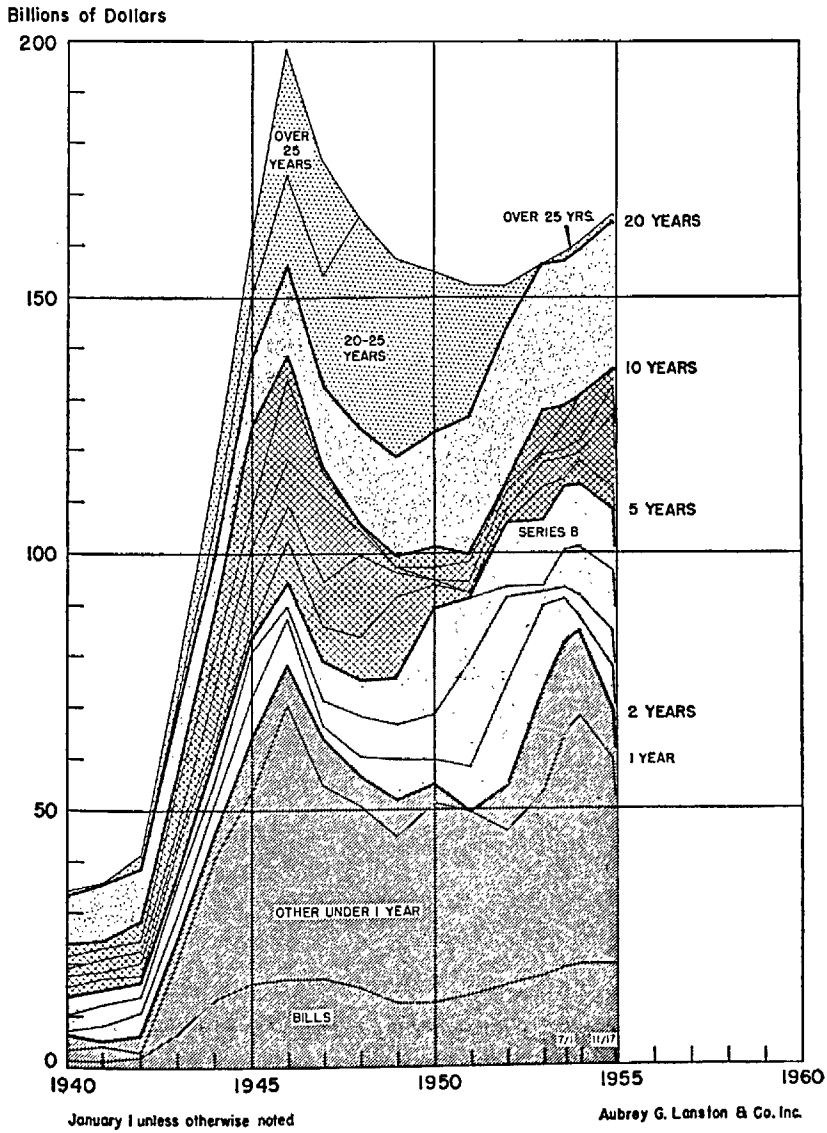


CHART 1B

OUTSTANDING MARKETABLE TREASURY SECURITIES

MATURITY DISTRIBUTION SAME AS CHART 1A EXCEPT TAXABLE BONDS WITH COUPON RATES OF 2½% AND HIGHER TO FIRST CALL DATE

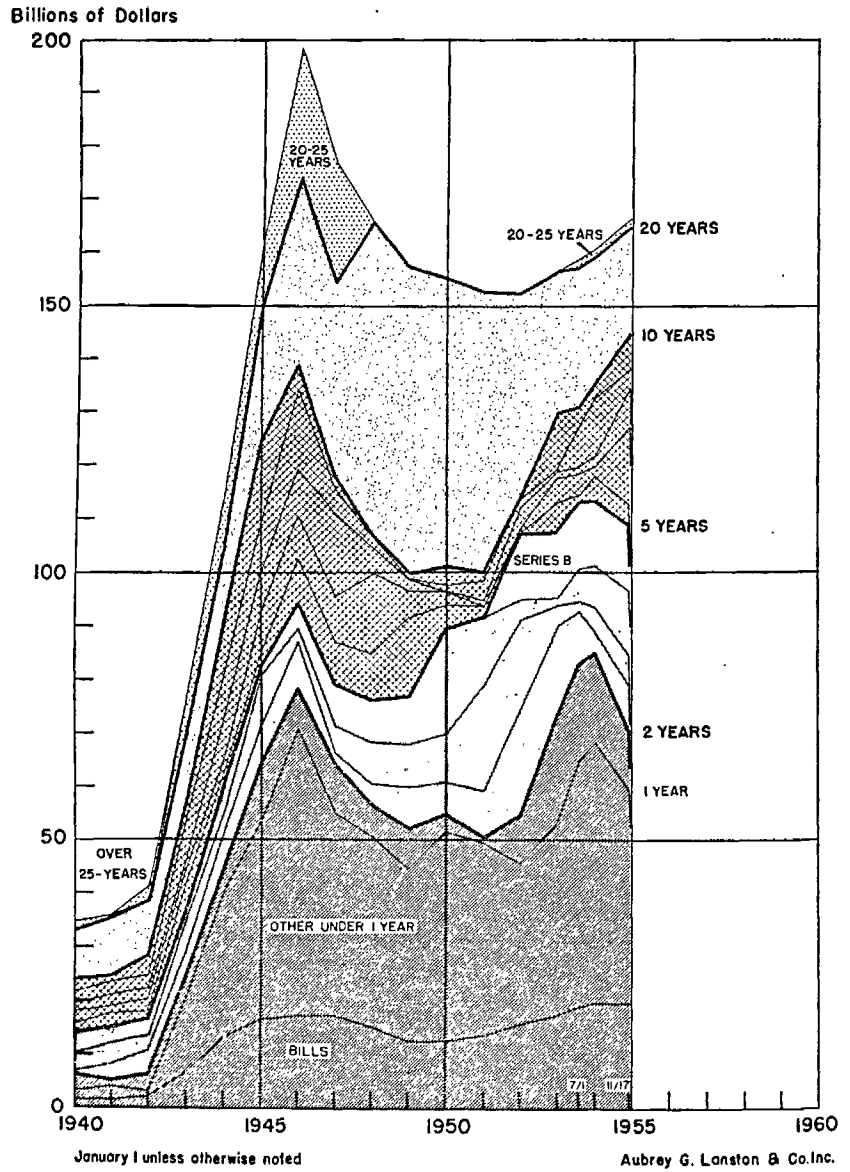


CHART IC

HOLDINGS BY U.S. GOVERNMENT ACCOUNTS

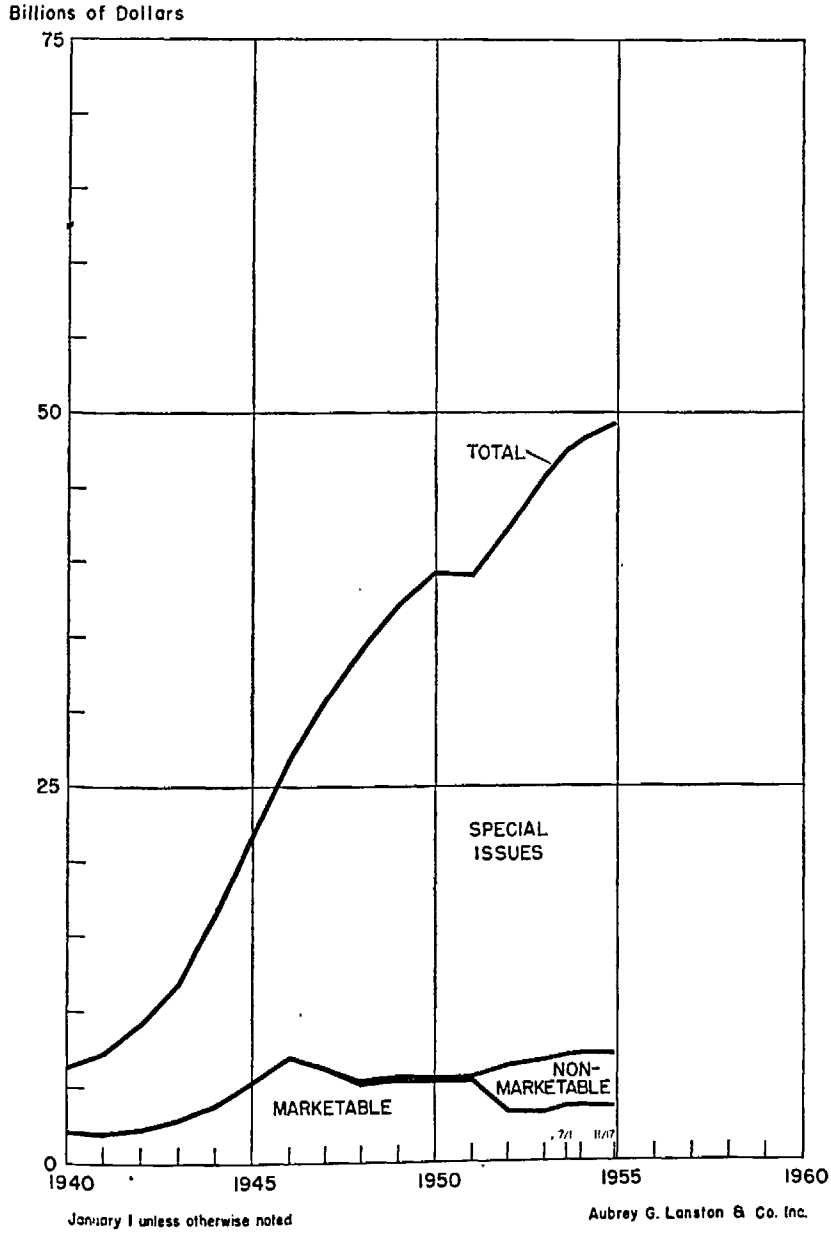


CHART ID
HOLDINGS BY FEDERAL RESERVE BANKS

PARTIALLY TAX-EXEMPT BONDS TO FIRST CALL DATE
TAXABLE-BONDS TO MATURITY EXCEPT WHEN ACTUALLY CALLED

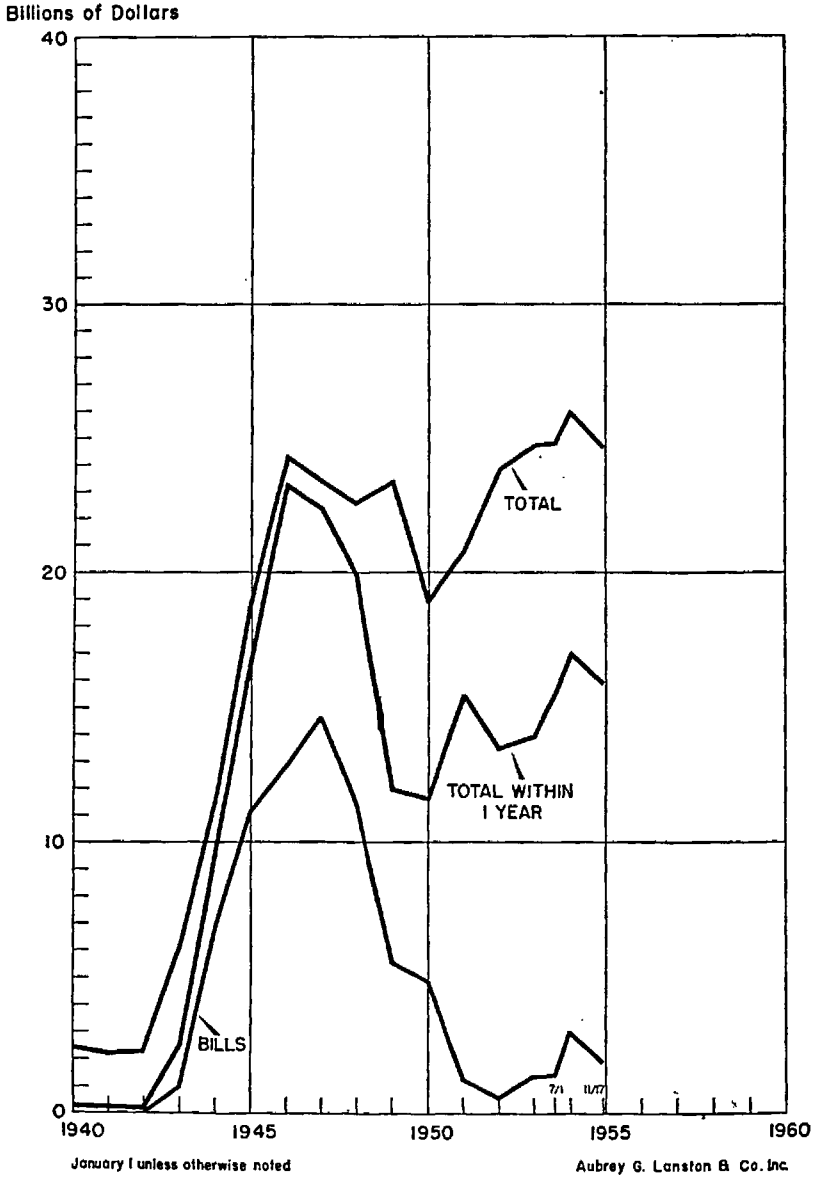
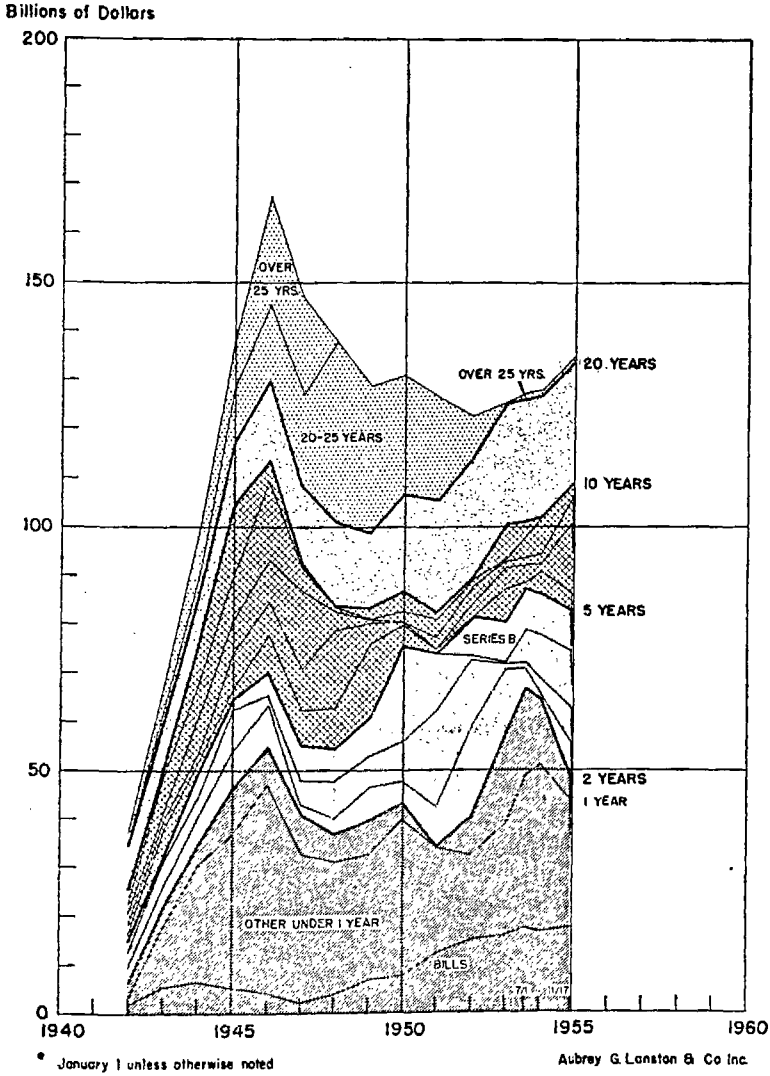


CHART 2A

OUTSTANDING MARKETABLE TREASURY SECURITIES HELD BY THE GENERAL PUBLIC (EXCLUDING U.S. GOVT. ACCOUNTS AND F.R. BANKS)

INCLUDING INVESTMENT SERIES B BONDS IN 4-5 YEARS
EXCLUDING TAX ANTICIPATION SECURITIES AND POSTAL SAVINGS BONDS
PARTIALLY TAX-EXEMPT BONDS TO FIRST CALL DATE
TAXABLE BONDS TO MATURITY EXCEPT WHEN ACTUALLY CALLED



* January 1 unless otherwise noted

Aubrey G. Lanston & Co. Inc.

CHART 2 B

OUTSTANDING MARKETABLE TREASURY SECURITIES HELD BY THE GENERAL PUBLIC (EXCLUDING U.S. GOVT. ACCOUNTS AND F.R. BANKS)

MATURITY DISTRIBUTION SAME AS CHART IA EXCEPT TAXABLE BONDS WITH COUPON RATES OF 2 ½ % AND HIGHER TO FIRST CALL DATE.

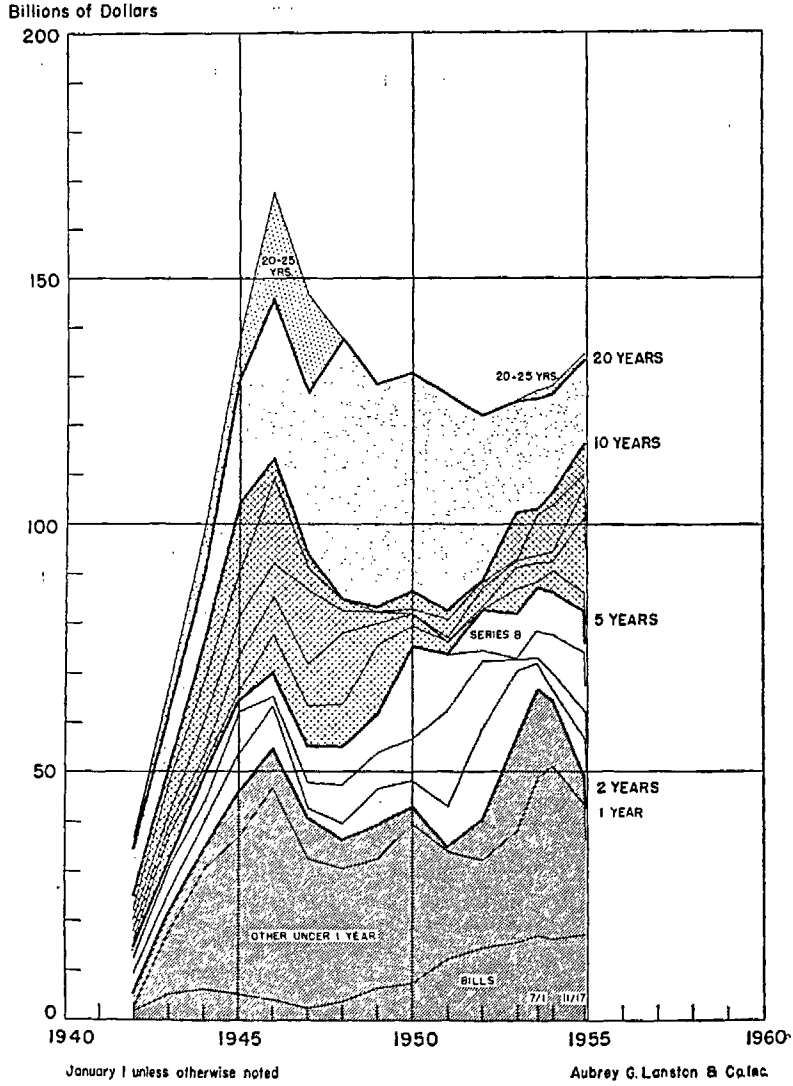


CHART 3

SAVINGS NOTES AND SAVINGS BONDS OUTSTANDING

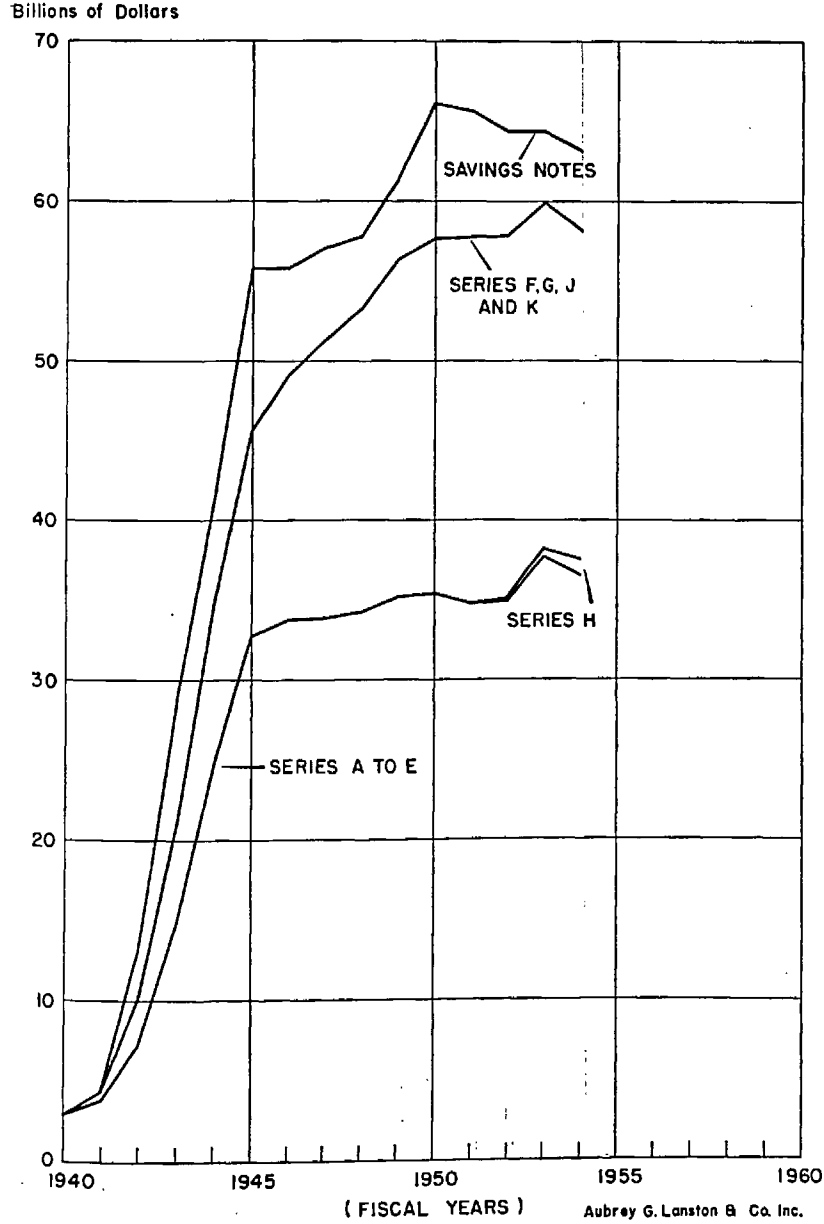


CHART 4
NON-FINANCIAL CORPORATIONS

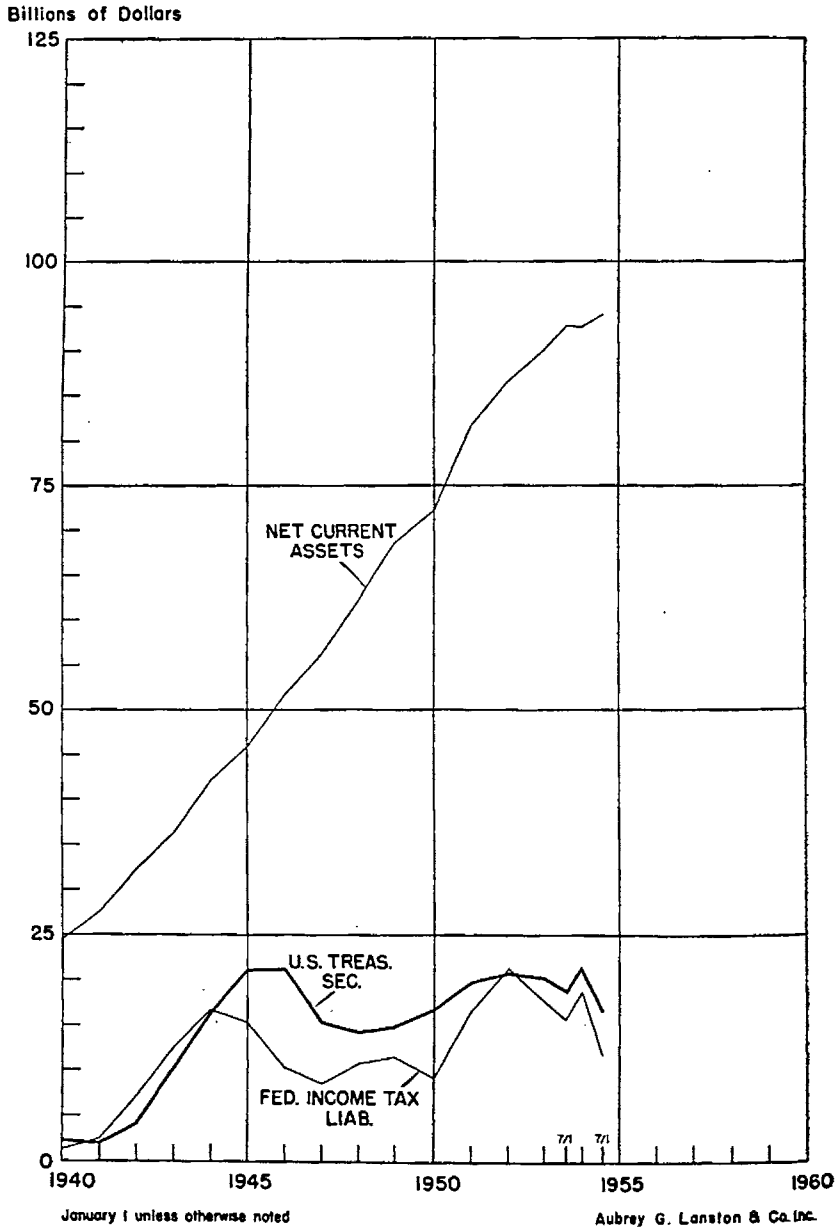


CHART 5A
HOLDINGS BY NON-BANK FINANCIAL INSTITUTIONS

INCLUDING INVESTMENT SERIES B BONDS IN 4-5 YEARS
EXCLUDING TAX ANTICIPATION SECURITIES AND POSTAL SAVINGS BONDS
PARTIALLY TAX-EXEMPT BONDS TO FIRST CALL DATE
TAXABLE BONDS TO MATURITY EXCEPT WHEN ACTUALLY CALLED

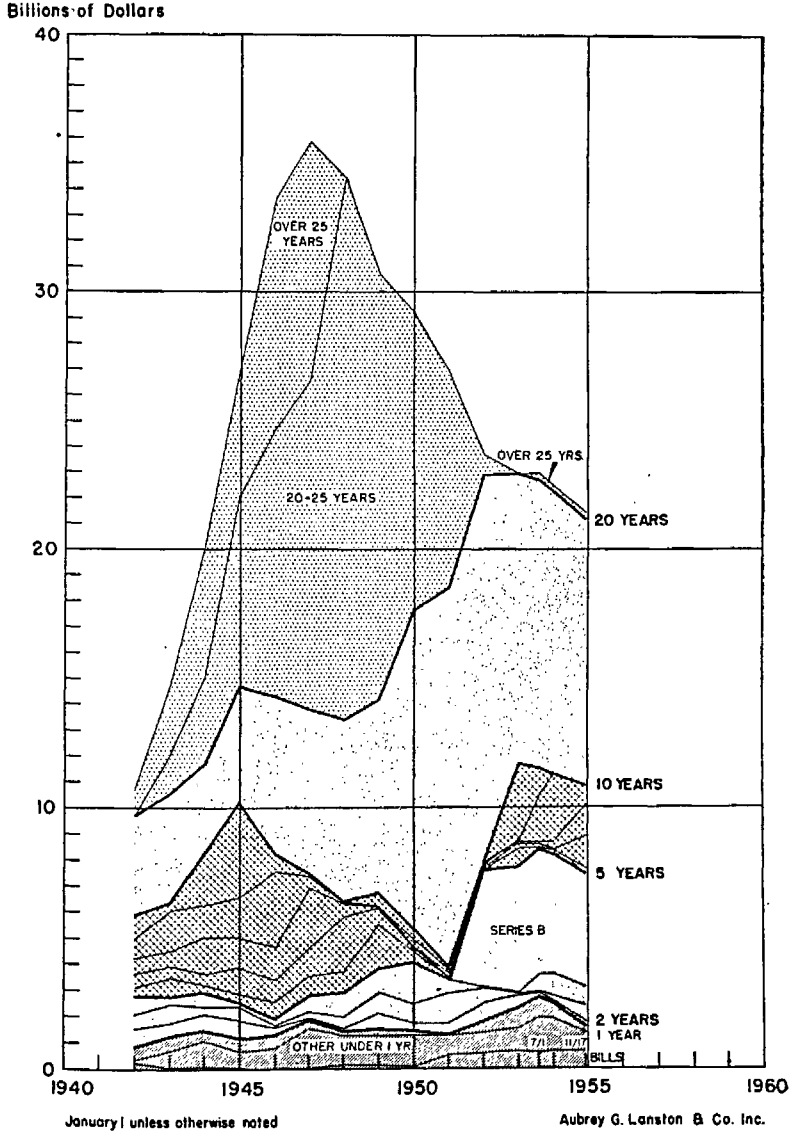


CHART 5B

HOLDINGS BY NON-BANK FINANCIAL INSTITUTIONS

MATURITY DISTRIBUTION SAME AS CHART IA EXCEPT TAXABLE BONDS WITH COUPON RATES OF 2 1/2% AND HIGHER TO FIRST CALL DATE

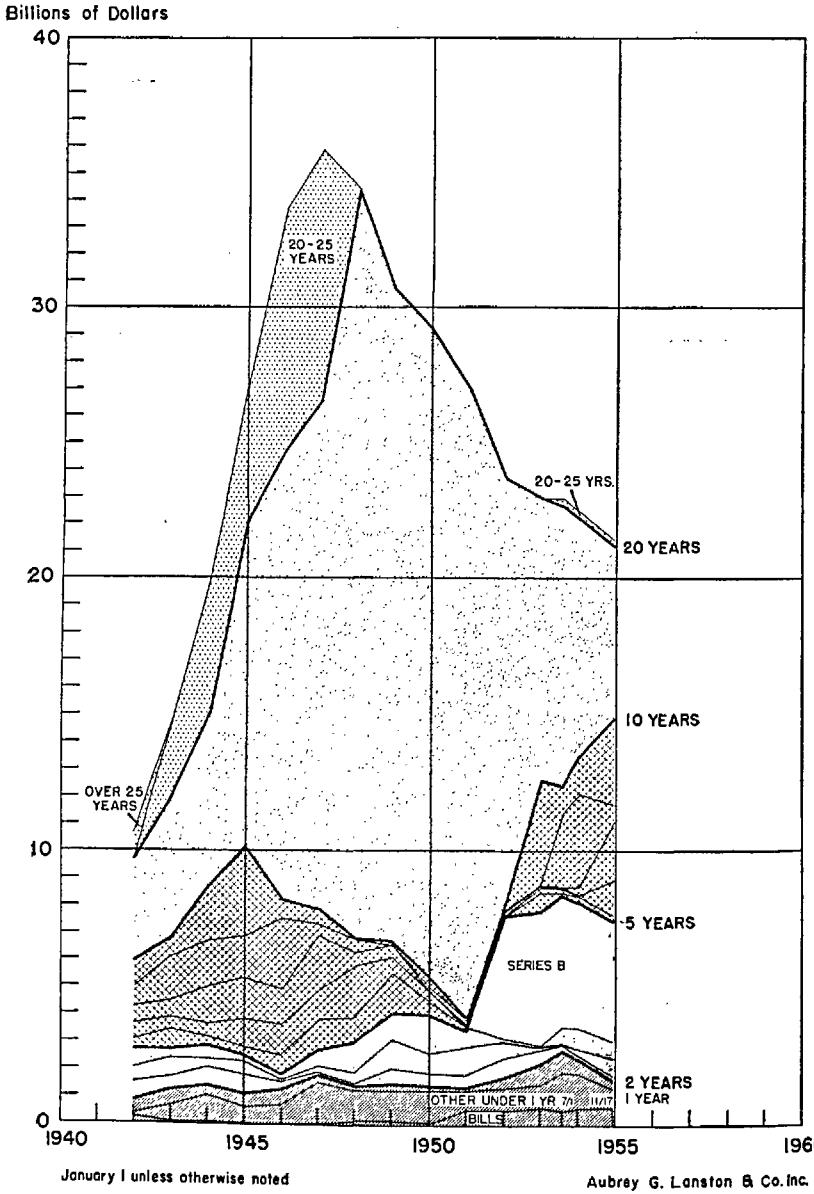
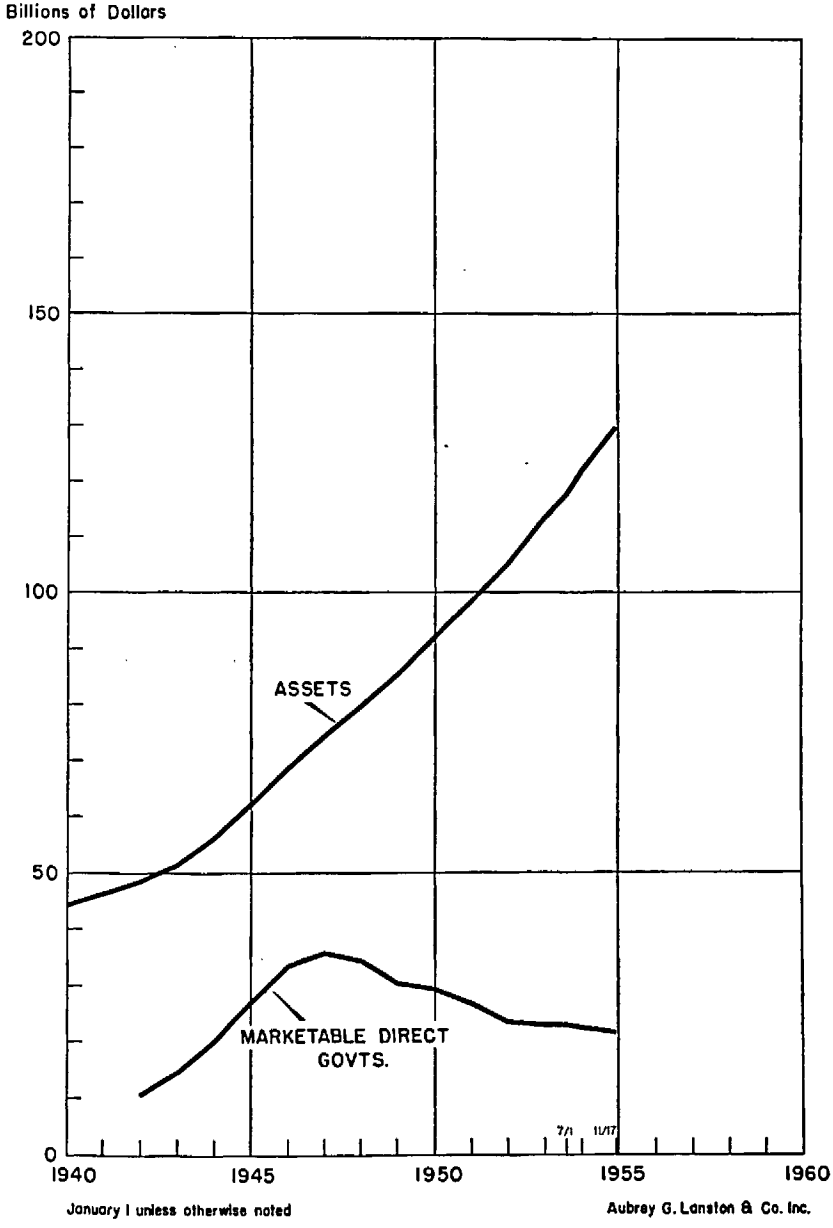


CHART 5C
NON-BANK FINANCIAL INSTITUTIONS

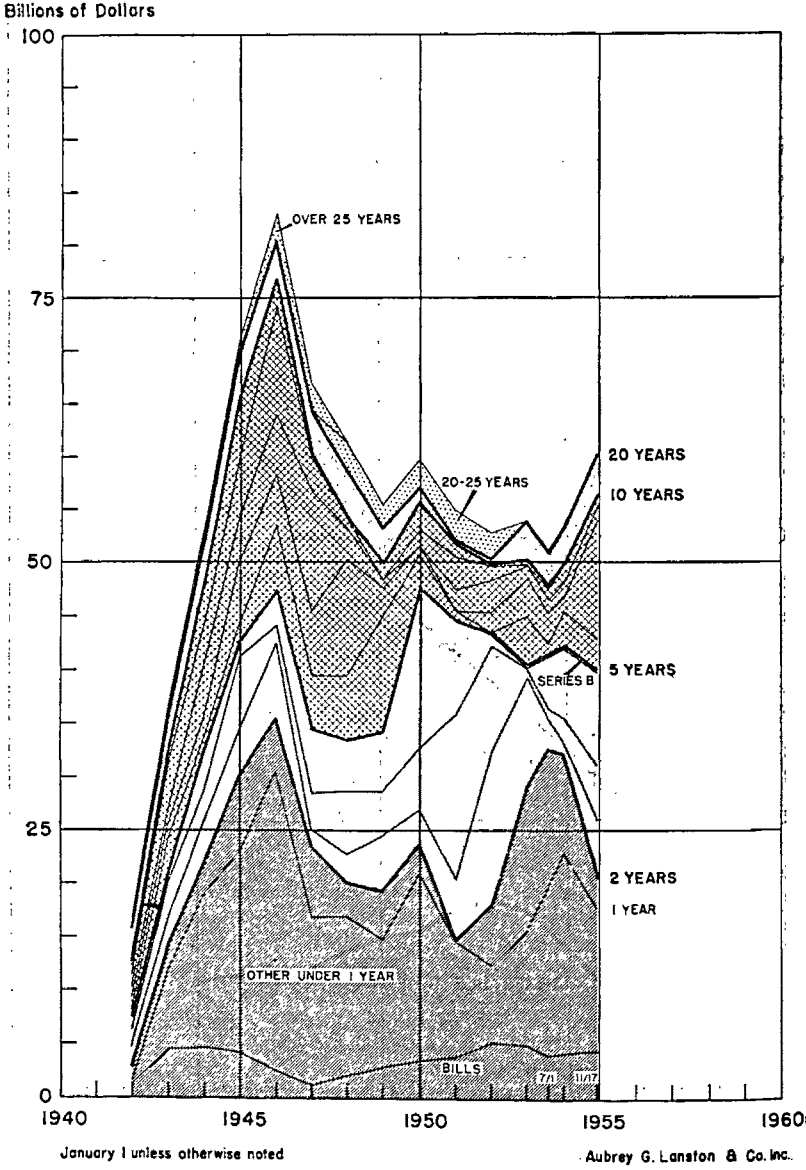


55314—54——9

CHART 6A

HOLDINGS BY COMMERCIAL BANKS

INCLUDING INVESTMENT SERIES B BONDS IN 4-5 YEARS, EXCLUDING TAX ANTICIPATION SECURITIES AND POSTAL SAVINGS BONDS, PARTIALLY TAX-EXEMPT BONDS TO FIRST CALL DATE, TAXABLE BONDS TO MATURITY EXCEPT WHEN ACTUALLY CALLED



January 1 unless otherwise noted

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CHART 6B

HOLDINGS BY COMMERCIAL BANKS

MATURITY DISTRIBUTION SAME AS CHART 1A EXCEPT TAXABLE BONDS WITH COUPON RATES OF 2 1/2% AND HIGHER TO FIRST CALL DATE

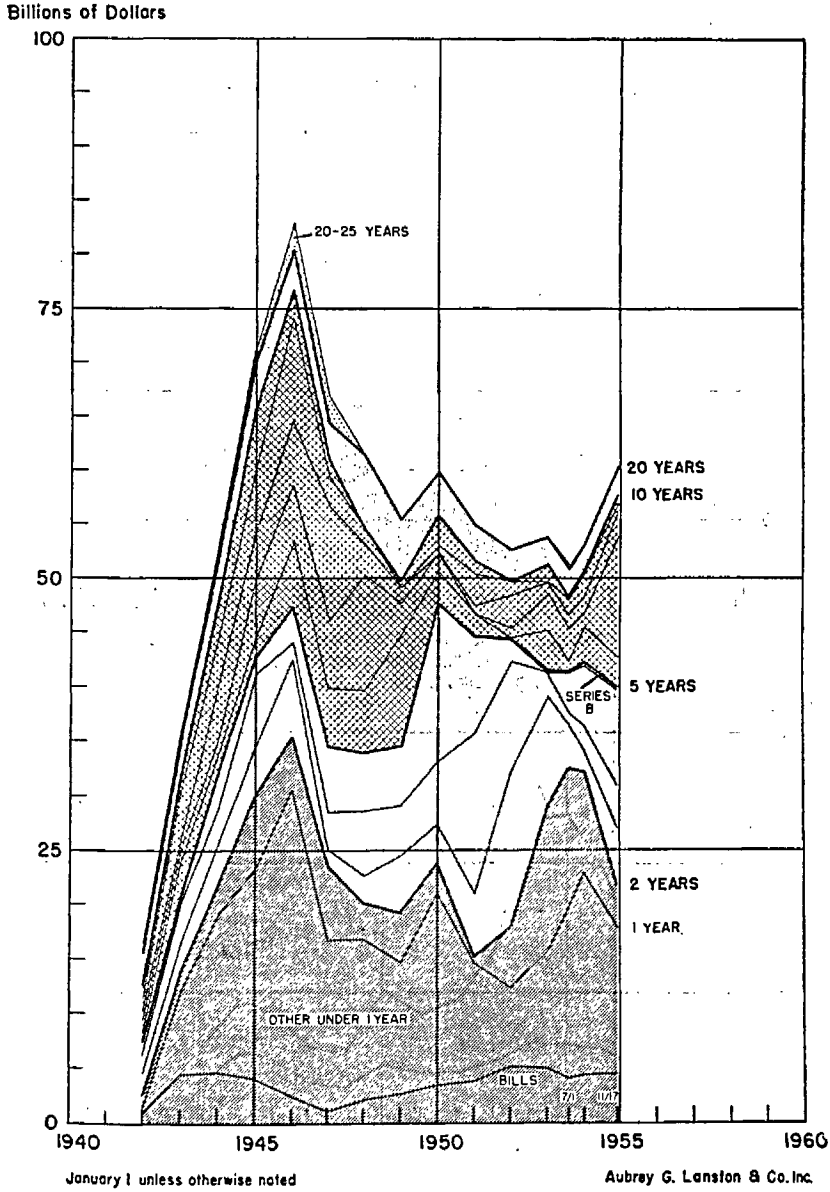
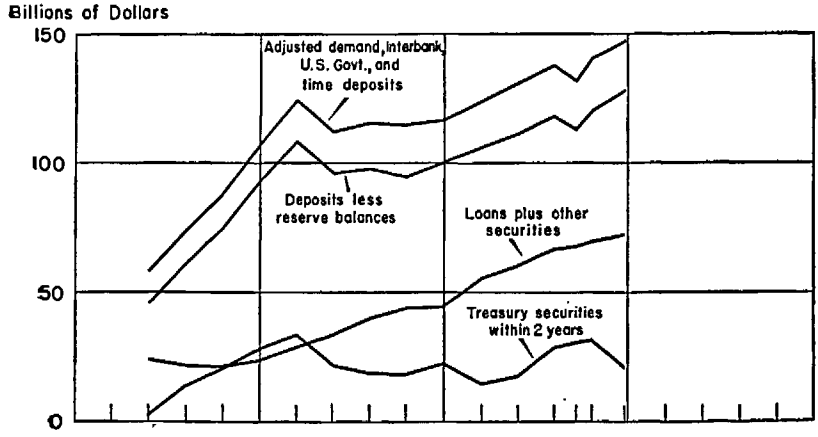


CHART 6C

CHANGES IN THE LIQUIDITY OF ALL MEMBER BANKS MEASURED IN TERMS OF HOLDINGS OF U.S. TREASURY SECURITIES

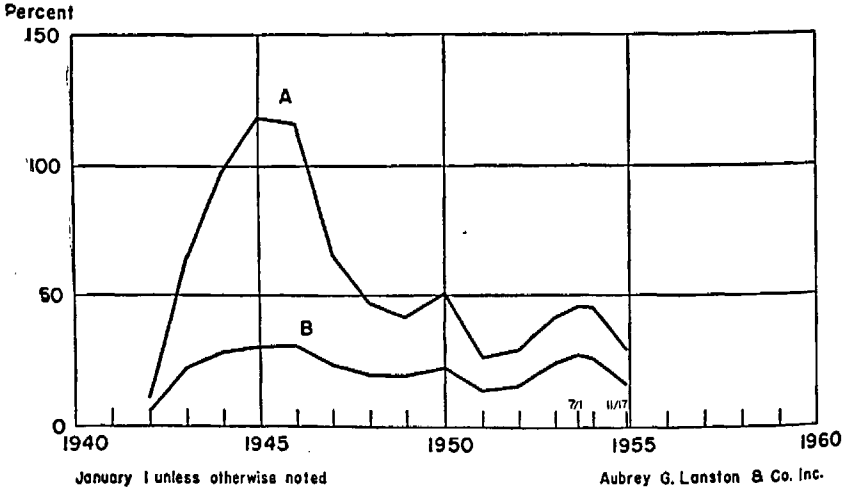
TREASURY SECURITIES WITHIN 2 YEARS: MATURITY DISTRIBUTION SAME AS CHART IA EXCEPT TAXABLE BONDS WITH COUPON RATES OF 2 1/2% AND HIGHER TO FIRST CALL DATE

PRINCIPAL LIABILITIES AND ASSETS



ILLUSTRATIVE CHANGES IN MEMBER BANK LIQUIDITY

PERCENTAGES OF TREASURY SECURITIES WITHIN 2 YEARS TO
(A) LOANS PLUS OTHER SECURITIES
(B) DEPOSITS LESS RESERVE BALANCES



January 1 unless otherwise noted

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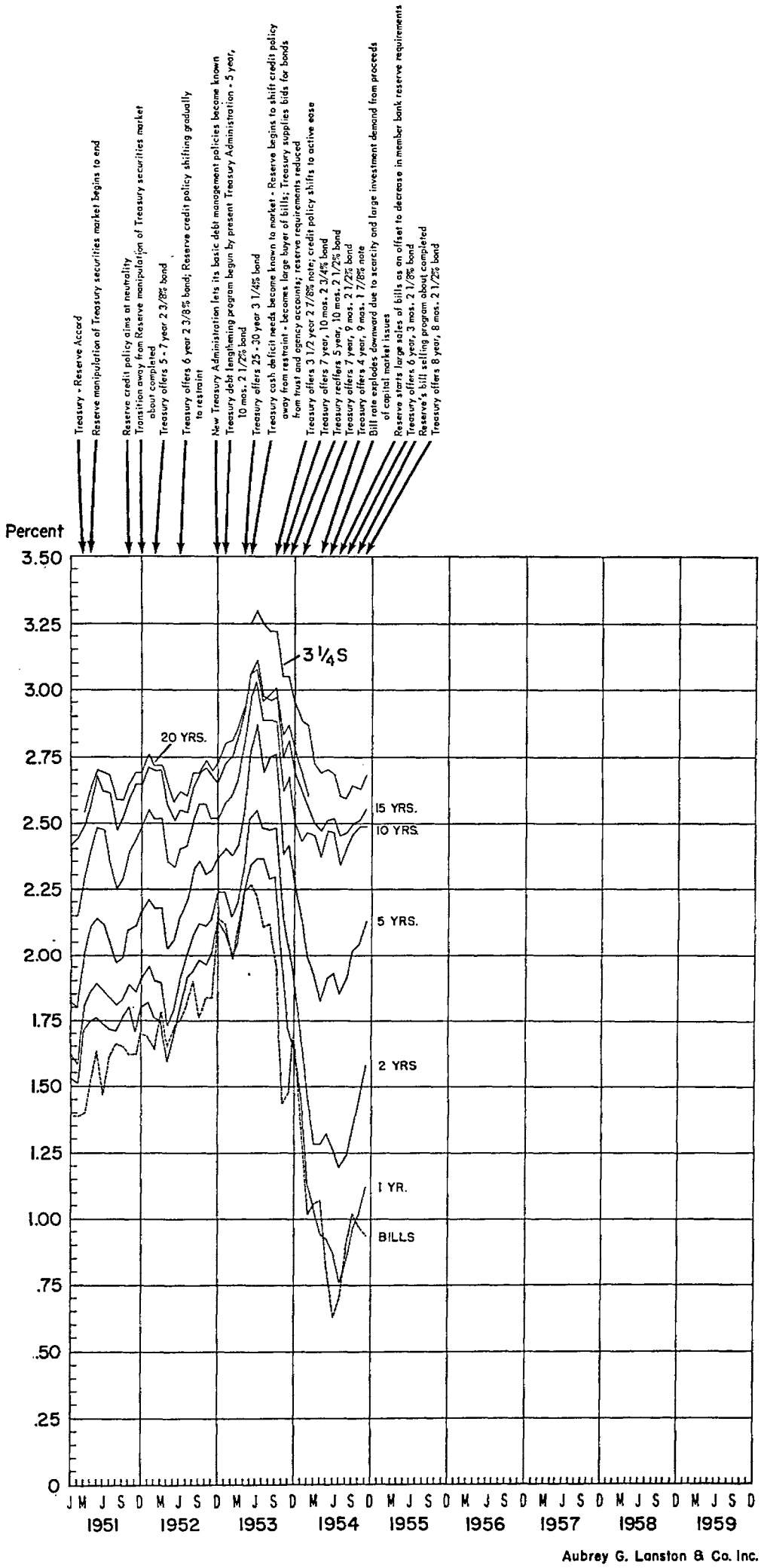
CHART 7

FLUCTUATIONS IN MARKET YIELDS OF TREASURY SECURITIES OF VARIOUS MATURITIES AND IN THE AWARDS OF TREASURY BILLS 1951 THROUGH 1954 TO DATE

TREASURY BILL AWARDS AS OF THE NEAREST ISSUE DATE TO THE 15TH OF EACH MONTH. OTHER YIELDS FROM YIELD CURVES DRAWN AS OF THE 15TH OF EACH MONTH.



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55314—54 (Face p. 128)

Senator FLANDERS. We will return at 2 o'clock.

(Whereupon, at 12:30 p. m., a recess was taken until 2 p. m., the same day.)

AFTERNOON SESSION

(Senator Flanders presiding)

(Present: Senators Flanders, Douglas, Sparkman, Goldwater, and Representative Patman.)

(Also present: George W. Ensley, staff director, and John W. Lehman, clerk.)

Senator FLANDERS. The hearing will please come to order.

There is the problem of initiating a chain reaction, and the thought that I have had in mind was this.

Since we worked out in the morning session alphabetically beginning at the beginning of the alphabet as represented here with Mr. Chandler, I think we will start the afternoon, the more free discussion of the afternoon, commencing at the other end of the alphabet. Mr. Wilde, I will ask you to make any observations which may seem pertinent to you about the discussion we had this morning, and initially we will proceed up the line in reverse order, but with a little more informality, a little more questioning back and forth, and it would not be completely undesirable if the discussion became so lively eventually that it had occasionally to be brought to order.

The members of the subcommittee and the main committee are invited to contribute to the discussion as they see constructive opportunity while the panelists are talking with each other.

So, Mr. Wilde, will you commence the discussion.

Mr. WILDE. Senator it is very nice to be waiting in a food line to be first, but in an intellectual feast it is better to be last and then you can make a much more cogent and forceful statement than if you are first.

Without any particular speech to make, I would like to say that the impact of the discussion this morning on me makes me feel that we give too much emphasis to the probability that through very expansive monetary policy we can drive the economy forward and have full employment.

I am not one who has that overall feeling. I believe that other elements must join to accomplish that result, and I have been trying in a small way in my formal paper to mention it.

I am talking about such things as fiscal policy, with particular reference to the kind of a tax structure the country has, and I am talking about the intangibles which are covered in a term that I used, "environment."

Those, to me, are awfully important if we are going to have the kind of a country that we all want, and I use the three of monetary, fiscal, and environment as the necessary trio that will produce a successful result, and I get, as I say, the impression that many members of the panel are more persuaded to the overriding importance of maximum use of monetary policy on the expansion side as the device that will accomplish more than I believe it will.

Senator FLANDERS. Thank you, sir.

Mr. Smutny, what struck you in the discussion this morning?

Mr. SMUTNY. Well, I felt this. I would like rather to follow a little bit on some of the questions that you would ask, if that is in order, some of the things that have occurred to you.

You said development of a high level of our economy could only be reached through inflation. I think, whether we like it or not, as far as our setup is concerned, free endeavor, free enterprise, we are bound to have a natural tendency toward inflation. It naturally feeds upon itself, the desirability of business to expand, new operations. Naturally, to get new jobs and the expansion of our general economy along the lines that we hadn't conceived of years ago——

Senator FLANDERS. Are you now thinking of inflation in the sense of a rising price level or in some other sense?

Mr. SMUTNY. No, I am not thinking of a rise. I am thinking of the expansion of the economy itself, not a rise in the price level.

I feel that it is the natural tendency in our country, after all, to expand the entire business sphere and sometimes in that expansion new industry, and so on and so forth, that we have industries we hadn't dreamed of would develop 4 or 5 years ago, there is a misnomer of the use of inflation, inflationary tendency in prices.

I think we have stability, stability has been created as far as the price level is concerned through the operations, the monetary fiscal operations as we have seen them. I think we approve very heartily of what has been done.

I think that the purchasing power of the dollar has been kept stable and the price level was kept stable in an expanding economy, but the natural tendency, however, is toward inflation basically. It has to be as long as you are expanding.

Senator FLANDERS. Is it toward inflation as represented in the price level; is that our natural tendency?

Mr. SMUTNY. I think it is a question of demand that has built up, and demand begets production, and the answer to inflation is just a single word: production. Once you have production, you don't have inflation.

Senator FLANDERS. So now you are using inflation in the price-level sense.

Mr. SMUTNY. In the price-level sense. I don't think inflation in the price-level sense is necessary as long as our economy is free to expand, and I differ greatly with Mr. Mitchell, who felt that our economy had to be regulated.

We have been through an era of regulation, that regulation breaks down no matter how good our intentions might be, through the administration thereof. Who can administer certain price levels? How do you know one price level is correct?

You can't substitute anything for the general give and take of purchasing and selling of the market place, and the minute that you get regulation, you have abnormalities created in the market place, you have black markets, and so on and so forth, things that we are familiar with.

I would like to answer Mr. Patman with reference to the Federal Reserve System, the Open Market Committee's power, more power than the Congress. I think that, speaking as an individual, a tremendous confidence has been created throughout our country in the operation of the Federal Reserve System——

Senator FLANDERS. I don't want to bring up anything extraneous, but since the comparison is between the Federal Reserve System and Congress, would you care to—well, I will end right there.

Mr. SMUTNY. I would like to stick to Representative Patman's statement, the way he put it.

He said are we satisfied with the Federal Reserve System, and I would say that the Federal Reserve System, the way it has conducted itself certainly over the years has begotten itself a tremendous amount of confidence outside of the general banking system.

You referred to the fact that the composition of the Open Market Committee are primarily bankers. If you look back at the history of Chairman William McChesney Martin of the Federal Reserve Board as the president of the New York Stock Exchange, his experience with the market, and so on and so forth——

Representative PATMAN. May I interrupt you there. I wasn't talking about the Board of Governors. I was talking about private banks being represented on a committee that is supposed to perform public functions like the Open Market Committee, the five private bankers, are the ones I was referring to.

Mr. SMUTNY. In compliance with the Federal Reserve Act, on the Federal Reserve Board you have people other than bankers that we are familiar with, businessmen and so on and so forth, and their composite opinion is valuable. I don't think you could say John Jones, just because he is a banker, favors the banking industry. If anything, he has a high regard for what is good for the Nation as a whole.

There is one other question you brought up about the ownership of Government bonds and that banks should stick to loans locally, in the local places where they were situated in favor of purchasing Government bonds.

Actually I think you put the cart before the horse. They have purchased Government bonds due to the fact that the demand for loans has receded, and the purchase of Government bonds has a portfolio relationship of necessity as far as the bank policy is concerned. You have a certain percentage in governments, a certain percentage in cash, bills, and so forth, and you wouldn't want the banks to use their entire assets in loans. The fact that loans in banks have receded is the reason that their bond portfolios have risen over the past years.

Also I think you brought out something in reference to the fact that finance companies have asserted the privileges of the banks to extend loans to individuals.

I have had a great deal of experience in reference to that, probably having placed the largest amount of finance paper privately of any of the investment bankers. All my experience has been this.

The banks have avoided going into the personal-loan business due to their experience in 1933, and so on and so forth. They chucked that out the window in 1936 and 1937, which you will find was primarily due to the fact they did not have the managerial experience to go into the finance market, not that there was something principally wrong with financing an individual in their time-payment plans.

It is only recently, of recent vintage, you might say, that some of our large banks have gone into that market, and the finance companies have been built up, it is true, due to their ability and experience in that type of credit, and the banks have avoided it.

It seems to me that confidence in the finance companies has been justifiably established. You don't look down the nose at somebody who is going ahead and buying a car on time-payment plan. Nowadays it is the general experience that this is the way to finance automobile and other purchasers, and that actually what we are doing today is mass financing of mass production.

If you haven't got mass financing you can't have mass production, and that is the basis of it, and we are coming into an atomic age when the whole volume of financing will be expanded terrifically, when we consider the amount of money that will be expended on atomic plants, hundreds of millions of dollars, we will say, in one plant, then we have some comprehension of additional mass financing and larger markets necessary to maintain it.

I think Senator Goldwater said low interest rates didn't solve the problem in 1933–39. As a personal reflection on that era, it seems to me that business wasn't encouraged.

The difference between our present status and that status was the approach to the individual. You said, "Here, John Jones, you will rake the leaves from right to left and we will pay you so much, and rake them tomorrow from left to right and we will pay you twice as much." Well, that didn't support the economy because it didn't produce anything.

Actually today we are trying to maintain general gross national product. We are encouraging business to expand along certain lines.

The fact that money is cheap creates more employment because business can borrow that much more cheaply, and you can go ahead and expand your business generally, which creates employment from that angle.

In my opinion this seems to be the proper approach, along with the general tax reduction.

Senator DOUGLAS. Mr. Chairman, may I ask a question? I think it was not merely during the period from 1933 to 1939 that low interest rates failed to provide the volume of private production, but from the outset the great depression in October 1929 to 1933 in which you had the familiar lowering of interest rates unaccompanied by expansion in private activity, and, on the contrary, accompanied by precipitous decline, so while I don't wish to score any party advantage over this point, since you picked out the period 1933–39 as a whipping point, I would like to point out that this previous period was one in which low interest rates did not effect recovery, and, as a matter of fact, was at least accompanied by the sharpest decline in economic activity in the known record of the world.

Mr. SMUTNY. May I answer that, Mr. Chairman. Isn't that what this panel is here for and what we are trying to avoid today, that as a result of tremendous expansion in business you got what was commonly used in the terminology of the Federal Reserve, "that a bubble existed on top of an inflationary move," and that is what you are trying to avoid, or at least trying not to create the same situation as we once went through in 1929?

The sum of what was said this morning, at least from my reaction to the panel, and particularly was very emphatic in wanting to go on record against any encouragement of regulation in our markets. Our markets must be kept free.

Any regulatory agencies that are built up suffer through the fact of lack of administration, and I feel that the greatest benefit to the country at large is to keep our markets free from regulatory bodies.

Senator FLANDERS. You will be willing to defend that thesis if it is challenged later, I take it?

Mr. SMUTNY. Yes, sir.

Senator FLANDERS. Mr. Shaw.

Mr. SHAW. There are so many issues, Mr. Chairman, that it is hard to know just which ones to pick on first.

Senator FLANDERS. Well, take the worst ones.

Mr. SHAW. I have listed 2 or 3 specific ones and then 2 general ones that strike me as being of peculiar importance. First a technical matter brought up by Mr. Clark.

He has urged that legal requirements be reduced to their legal minima of 13, 10, 7, 3, percent. There is no peculiar virtue in these percentages. They are a historical accident.

The effect of lowering them would be immediately to create an enormous volume of surplus reserves in the hands of the commercial banks, and, in the present stage of events, I have little doubt that the immediate reaction of the banks would be heavy buying of Government securities, whereupon the Federal Reserve, despite present pronouncements, perhaps would sell Government securities of various maturities so that the effect would be simply transfer assets from the Federal Reserve to the commercial banks, conceivably so reducing the portfolio at the Federal Reserve banks that for any repressive purposes under subsequent inflationary developments the open-market operation would be immobilized and the rising reserve requirements would have to be used.

This is difficult, as was pointed out this morning, because not all commercial banks are members of the Federal Reserve.

It seems to me that this is a step toward displacing one control instrument, open-market operations, with another control instrument, a rising legal reserve requirement for the purpose only of adding to the earnings of the commercial banks on their Government security portfolios.

Senator FLANDERS. Is what you are saying in effect that the reserves should be set at such a point that you can easily move either way?

Mr. SHAW. It should be desirable to move them in both directions. The present legal limitation is still significantly above present effective reserve requirements.

Senator FLANDERS. Have you any notion just how far above it should be at this particular time?

Mr. SHAW. I should think it would be quite adequate under present circumstances, but I admit being very sympathetic a number of years ago when the Federal Reserve requested the authority from the Congress to set higher maxima on legal reserve requirements than are now in effect.

A second minor and technical point, Mr. Patman's relatively minor point, not absolutely so, Mr. Patman. The question was raised as to whether under some circumstances, at least, Government bonds would be so attractive that banks would not lend locally. They would choose to hold Government securities.

Well, this is precisely what is desired under some circumstances.

Under some circumstances where local loans have been pressed so hard with the local resources already in heavy use that the effect does not give more employment, but it simply brings prices up, under such circumstances it is desirable that the central bank should raise prices of Government securities so that commercial banks will not lend more for employment purposes or for output purposes on local markets, and that in other circumstances when the generality of local areas is having unemployment difficulties, that the central bank should make buying and holding of bonds unattractive to banks so that they would be under pressure to lend locally.

This is the technique of credit control, and it worries me just a little bit that the Federal Reserve, in foregoing the use of dealings in long securities, is giving up some of its grip on this particular pressure, causing local banks to be more interested at the right time in local loans and less interested at the right time in local loans.

Another relatively minor matter, the composition of the Open Market Committee. I think it is known in the historical context originally the Federal Reserve was not known at all as we regard it now. In fact, a comparison of the present hearings with the hearings of 1912–14 would indicate very great advances in our understanding of how central banks operate.

At that time the central bank was supposed to be essentially a passive instrument in the money market, giving accommodation to legitimate business, commerce, and agriculture when it should need it. It was not supposed to be, it was not intended to be, an aggressive agent increasing or decreasing the supply of money for some such goal as stabilizing price levels.

Since it was felt the central bank was set up to insure there would be adequate credit accommodation for major economic interests in the country, those interests were represented, and since it was a mechanism for bringing the commercial banks together into a tightly knit organization no longer suicidally inclined, it was felt the commercial banks should be represented, all this quite validly, I think, under that original conception of central banking.

This is no longer the conception of central banking that it should feed credit to certain specific interests, so I think the Congress might well consider some of the stipulations in the Federal Reserve Act regarding the representation of certain specific groups from which are omitted, let's say, labor unions and college professors.

We should review those regulations to see whether something more relevant to the general interest might not be substituted.

And one final minor matter: We have been debating a good deal the role of monetary policy in 1952–53. I don't think anyone of us is in a position yet to say how great the effect of the change in interest rates running from 1946, for that matter, will be when easy money was terminated. I don't see how anyone of us can say how powerful the punch was that this progressively tightening monetary policy brought or how powerful the punch has been in terminating the recession.

As one looks at the superficial data, he is inclined to say that monetary policy probably was not very important. The decline in gross national product apparently was concentrated in two major fields: (1) The spending of the Federal Government in relation to its receipts, and (2) in the accumulation of business inventory.

The demand for residential housing slumped very little. The demand for consumer durables slumped very little. It doesn't appear because of the specific place where recession occurred that monetary policy could have been primary phenomenon.

To the professional economist this looks like an inventory cycle—a very minor inventory cycle of the type that we expect in a free-enterprise society.

Now, as to two general issues, there has not been in this country for a very long time an intelligible debate on the ultimate goal in monetary policy.

Some people have an absolute goal in mind—lengthening the public debt; other people have another goal in mind—stabilizing interest rates; other people have in mind stabilizing price supports; other people have a different goal—stabilizing employment. These are not mutually compatible goals. If one stabilizes employment, he cannot stabilize prices.

Senator DOUGLAS. Do you feel that firmly?

Mr. SHAW. I feel that quite firmly, that if one is going to stabilize employment in a technologically developing society where unit costs are falling, then he perhaps is going to have falling prices.

On the other hand, money wage rates and farm prices are being pushed ahead of rising productivity in a growing economy, then full employment is going to need a rising cost level.

It seems to me that full employment and price stability except under the very special circumstances where there is no net change in technological productivity and no net change in price——

Senator DOUGLAS. May I take up your first proposal, increasing efficiency. Isn't it possible to absorb the increased output per man-hour through increased money wages and money distribution, which in turn would be financed through an expansion of bank credit commensurate with the increase in production so that the price level would be kept relatively constant.

Mr. SHAW. If factor prices rise.

Senator DOUGLAS. In money terms as well as in real terms.

Mr. SHAW. Yes, this isn't offset. I should put my answer in net terms.

Senator DOUGLAS. Isn't that really the point. During a period in which output is expanded both in terms of total and hours, output per hour as well as total output, you should have commensurate expansion in total monetary purchasing power to help stabilize the price level.

Mr. SHAW. I think this is probably the rather fortuitously successful result of policy. I don't think it can be counted upon that factor prices will rise perfectly in step with technological advance.

Senator DOUGLAS. Of course, this cannot be done in perfect step, but if there is validity, and there seems to be long-run validity in the approximately 3 or 4 percent increase in output per year, doesn't that point to approximately a 3 or 4 percent increase in the supply of money, assuming the velocity to be constant? Isn't that a fairly good rule, granted that the adjustment isn't perfect?

Mr. SHAW. Well, my answer would still be, I think, Senator Douglas, that if our goal is full employment, then—and let me put it this way. Maintenance of stable prices is going to require that there be a closely comparable rate of increase in productivity technically to go

right along with the increase in factor prices which is determined really by factors other than an increase in productivity.

Senator DOUGLAS. Excuse me, Mr. Chairman. Perhaps I am prolonging this discussion unnecessarily.

Representative PATMAN. It is a very important point.

Senator DOUGLAS. You speak of prices in terms of money. You have got to have an increase in the money supply and in factor prices. If you assume that the banking mechanism determines the total supply of money, then the increase in factor money prices is contingent upon a prior increase in the supply of money, and therefore it seems to me that it is perfectly consistent to have expanding output and stable prices.

The other problem, however, is where you have to have some fever, where you have to have some inflation to get full utilization. I hope this will be very seldom. But it presents a different question. I still see no necessity for falling prices.

Mr. SHAW. No, I would rather expect rising prices, Senator. I would rather expect that if we were to succeed in maintaining consistent full employment, which would mean consistent pressure upon the total available supply of resources, that it would be highly improbable that the prices of those resources would stay stabilized within the limits of rising productivity. I would expect money factor prices to gain more rapidly than physical productivity.

Senator DOUGLAS. Why is that inevitable?

Mr. SHAW. Simply because of the bargaining position on the part of the supply factors as against the demand factors.

Senator FLANDERS. We have here a most important question. Suppose we make mental or physical note of it and continue on, and then come back to it.

Mr. MITCHELL. My first remark, Senator Flanders, would be on one of the two questions you raised, and of course it would be on the same thing that Mr. Shaw and Senator Douglas have been speaking of.

I would like to see if I can't provide one of the little bricks that would fill the chinks in their argument.

Senator Flanders mentioned before lunch those of us who suspect that some inflationary pressure, however mild, is necessary if we are really to maintain full employment. Senator Flanders asked if high levels could be reached and maintained only with inflation.

Now, I wouldn't say it that strongly. It is possible logically and it is historically a fact that for a time at least they perhaps can be maintained without inflation. But I believe that the chances for steady growth are better if a mild but certain upward pressure is kept on prices.

It makes several things possible, for example, that are not possible if we try rigorously to keep a very delicate balance, exactly on keel as far as prices are concerned.

Agriculture, Senator Douglas, is one of the things that appears to me to be chronically depressed even when the general price level is stable. In that year you picked for illustration before lunch, 1951–52, when the general price level was pretty steady, agriculture lost seven points from parity.

Senator DOUGLAS. It shot up tremendously in the preceding year.

Mr. MITCHELL. Well, that is quite true, but the drop hurt worse than the rise had helped, because marketing margins had become rigid at the higher level. However, I think one of the points that would make me agree with Mr. Shaw is the fact that this Nation isn't a chart like the economists like to draw with such a thing as wages and factor prices falling neatly in place. It is a combination of hundreds of different charts and some major industries behave in quite different ways.

I would say that I am about to be convinced by some figures that I have been studying for the past year and a half——

Senator FLANDERS. You feel it coming, do you?

Mr. MITCHELL. That the general economy must rise about 3½ to 4 percent in physical productivity, and about 1½ to 2 percent on top of that in price inflation for a total of 5 to 6 percent gross national dollar product a year for agriculture to hold its own.

Agriculture, it seems to me, is a chronically depressed industry for a number of factors which I have gone into in the papers I presented before this committee in February, if we try to maintain a very delicate stable price.

Senator DOUGLAS. You mean because of the inelastic demand?

Mr. MITCHELL. That and several other factors, Senator Douglas; for example, the tendency of the marketing margin always to grow.

Another point, we recognize that there will be fluctuations up and down because of the sheer administrative impossibility of keeping national indexes exactly level.

Now in that case there are bound to be some depressed and somewhat underemployed periods, if we try to hold exactly level and avoid inflation as the plague.

If we plan a slightly rising trend for prices in this country, fluctuations would go for a period below the trend line, but can still nevertheless be kept above the line of acute trouble.

What I am saying is that at times when we are above the trend line, we will be overemployed.

I think you all recognize what a flexible thing this full-employment concept is. You can be overemployed by bringing women out of the homes and older people out of retirement, and so on.

There will be periods of somewhat overemployment alternating with periods of less employment, but still well within the limits of reasonably full employment, and the result will average out pretty well, and I think we could still say it would fulfill the requirements of the Employment Act.

Another point, imports are much easier in a long period of gradually rising price levels, and if we mean what we say, that we want to improve our international trade position, if we want to increase our international trade, we have got to find some way to keep business from yelling so hard whenever we make an attempt to open our borders to a few more foreign commodities.

In time of a steadily rising price level, as other economists have pointed out, particularly Sumner Slichter in an August 1951, I believe, Harper's article, "How Bad Is Inflation." Slichter points out, I think correctly, that we cannot really have an increasing international trade in this country unless we have a slightly rising price level.

Our local manufacturers, farmers, laborers, and merchants simply won't allow it.

Senator FLANDERS. If I may say, the experience of New England with free trade as compared with the South has left us with the distinct impression that it is a very painful thing.

Senator DOUGLAS. Well, since that issue has been injected, may I say that while I sympathize with the plight in which New England now finds itself, and while I would like to see a revival of New England industries and am against the special favors which the South gives, I would like to point out that New England for generations received special favors from the Government by means of the tariffs which the textile and other New England industries were able to impose, and that in a sense New England is now suffering or being punished for the sins of their fathers and grandfathers. They levied tribute upon the United States for decades.

Senator FLANDERS. Those favors were accessible to anyone, and when the South finally began to take advantage of them, New England suffered very naturally, but I still say that it suffered from internal free trade.

Senator DOUGLAS. May I say that from the time of Henry Clay and the foundation of the Whig Party, which later became the Republican Party, New England prospered at the expense of the rest of the United States, and I think in a sense the protection which New England received during that period atrophied their will, their courage, their resolution and desire for experimentation, and combined with the system of trusteeship which they built up in Boston, and which Mr. Marquand has characterized in his novels, this is partially to blame, although not wholly, for the plight that New England now finds itself in.

Now I say that, and at the same time I do not approve of the unfair tax advantages and the excessive protection against wage scales which some of the southern communities hold forth to entice industry from New England.

Senator SPARKMAN. Don't look so straight at me, Paul. We don't do these things in Alabama.

Senator DOUGLAS. My good friend from Vermont, when he enters this piteous plea about the hardships of removing the tariffs, leaves me somewhat cold.

Mr. SHAW. May I come back to the discussion for just a moment?

Senator FLANDERS. Yes.

Mr. SHAW. It seems to me, Mr. Douglas, in illustrating full employment and continuous full employment, the odds favor inflation, and that if it is not New England or the South, then it will be agriculture or trade unions that will be insisting on a larger share than the one they have, a more fair share of the national output. This means a rise in their money returns and inflationary pressures.

Senator DOUGLAS. This is a fundamental point, and it goes back to the issue that Mr. Patman has raised.

In a period of comparatively full employment where the danger is inflation, I would like to have the bankers run the banking system of the country, and I would trust them more than the politicians to determine the total amount of bank credit to be created.

But in a period of recession or depression, if we are unfortunate enough to have a depression, I am afraid that the conservative policies of the bankers would probably not then be adequate to expand

active purchasing power, and if they did not then I would favor the politicians stepping in.

It is a somewhat humorous way of putting the matter, but I am suggesting a 2-platoon system to run the Federal Reserve System. Let the educated bankers run it during the period of prosperity and the educated politicians run it during the period of depression.

Senator FLANDERS. Who makes the shift?

Senator DOUGLAS. The people.

Mr. MITCHELL. I must disagree with Senator Douglas. I am afraid if we did it that way, the bankers by their action would make certain that there would be a shift.

Senator GOLDWATER. Mr. Chairman.

Senator FLANDERS. Had you finished?

Senator GOLDWATER. I just wanted to ask Senator Douglas if he called that the two-platoon system.

Senator DOUGLAS. That is the two-platoon system.

Mr. SMUTNY. Actually, when you come right down to it, the basic ingredient of prosperity or continuity of prosperity is confidence.

Confidence has been gained by our banking system through, I think, the leadership of the Federal Reserve. Although we have looked at this possibility in a slightly humorous light here, it is a very serious thing.

Confidence in the banking system must depend upon the action of the Federal Reserve, in my opinion.

Mr. CHANDLER. Mr. Chairman, may I make a comment on the implication that general monetary policy should be used to cure structural defects in the economy.

It seems to me that general monetary policy was never designed for that purpose and could never accomplish it.

For example, if it be true today that the farmers are not getting their share of the real national income, I do not see how you can possibly cure their situation by having a continuous and perhaps a cumulative inflation, because this would be a situation in which everybody's money income would be going up, in which everybody's prices would be going up, and I can't see anything about the process that would raise the price of farm products relative to the price of other things. The farmers' trouble is not a low absolute price level; it is a low price level for their products relative to the prices of things they have to buy. And it seems to me it might get continuously worse rather than better.

The other point relates to those American industries that suffer competition from imports.

An inflationary situation would raise costs as well as prices, and the rising costs would be suffered by the American industries competing with imports just as well as by the other industries.

So it seems to me we may get into very great difficulties here by expecting general monetary policy to cure structural defects that require a reallocation of resources.

Some of these adjustments may be made easier if we maintain full employment, but not necessarily by a rise in the price level, and I am not yet pessimistic enough to think you must have continuously rising prices to have something like full employment.

Senator FLANDERS. May I make just two observations on my own. One is that if the thesis is maintained that a continuously, even though slightly rising price level, is the simplest and best way to maintain a high degree of employment, I think it is also true that anything approaching full employment by the interaction of the labor market leads to higher prices.

Now, the Lord, I think, made the hen before He made the egg, but of that I am not quite sure. Maybe Hen made the egg first, but I think He made the hen first, and this is a hen and egg proposition.

The other thing is just a matter of tactics. It is inadvisable for those who feel that an increase in foreign trade is good in itself to attempt to make great gains except in times of high employment. It just can't be done, so I think that that had better be put down as one of the facts of life.

Mr. WILDE. Mr. Chairman, I wanted to ask, in view of Mr. Mitchell's emphasis on the chronic depression of the farmer, whether that is a correct premise.

Now, our company has been in a farm business, or was in a big way, owning over 1,500 farms, when I became president in 1936, so I have had personal experience.

Commencing with the Second World War, in 1942, the farmer has had a high degree of overall prosperity, and it ran through the fifties, and it is still quite high, relative to any historical periods. In other words, it has been about 12 years where agriculture, instead of chronic distress, has been generally prosperous.

Now, individual farmers through the vicissitudes of weather have not done well, but on an overall basis agriculture has been good. If we have chronic distress, I don't understand the term.

We do have a problem with agriculture which is partly political and partly economic, looking into the future, because of the relative inflexibility of demand, and a great deal of this prosperity that I claim the farmers had arose out of an abnormal demand.

So it was perfectly natural that in the last 2 or 3 years, with a reduced worldwide demand for agricultural products, there would be a reduction in profit, but to say depression and chronic depression, I do not understand.

Senator FLANDERS. Now, I would suggest, since there are 4 who have not been heard from formally and 3 who have not been heard from either formally or informally, that we ask Mr. Mitchell to conclude within the next few minutes, and we will move on.

Mr. MITCHELL. I would like to suggest that I wait until the next time around, because the next question is the one you raised, Senator Flanders, on why I think a great agricultural investment revolution is needed in the face of the apparent surplus.

Senator FLANDERS. You promise to keep that in mind.

Mr. MITCHELL. Right.

Senators FLANDERS. Thank you.

Mr. Land?

Mr. LAND. I would like to address myself first to Mr. Patman's question as to the effect of banks' holding securities on banks' willingness to make loans.

I think under normal conditions there is very little effect, that is, in the sense of restricting a bank's willingness to make loans. Banks,

if they are going to stay in business, have got to attract and hold depositors, and there is no better way to do that than by making loans.

No bank that I know anything about under normal conditions decides that it will not make a good loan because it wants to retain a Government security.

There is one condition, however, under which banks may tend to turn down loan requests, and that is when the Government securities market is down in price. If Government securities are selling materially below what banks paid for them, then banks may tend to turn down loan requests. But that is exactly the time when that is the right thing to do.

In other words, that is the period of monetary restraint, and that is the right policy for banks to be following. That is the policy which the Federal Reserve intends that they shall follow at that time.

As far as banks taking care of personal loans, that has been developed to a very large extent in this country. Our bank is thought of as being a bank for big business, and it is a bank for big business, but we have gone directly into the personal loan business in the last 8 or 10 years, and indirectly we have gone into it to a very large extent.

By that I mean we make loans to finance companies all over the country. Most of the money which finance companies lend is bank money.

In other words, the finance companies borrow from banks and relend it to customers, so that really a very large amount of bank money is being put out on small personal loans. My question about it is not whether it is enough but whether maybe we are not becoming too adept at it.

Also, I would like to say that I agree very largely with what Mr. Patman had to say about the discount rate. I think within recent years its effect has been mainly psychological. It has had very little practical bearing.

Banks, as a matter of policy, borrow as little from the Federal Reserve and as infrequently as they can, so what the rate is is not too much a practical matter with the banks, but it has a general psychological effect, and that is all it has had in recent years.

In addition to what Mr. Smutny had to say about why low interest rates did not work in the 1930's, I would like to make this observation. The 1930's followed a period in which many people got in trouble by borrowing money.

Most people had a psychology of wanting to stay away from debt, having some very bitter experience in borrowing money. The will to borrow was lacking.

Now, we have had a period of time when practically nobody has got in trouble by borrowing money, and a lot of people have made a lot of money by borrowing money.

We have entirely a different psychology now, and easy money does stimulate business under these conditions, whereas in the 1930's it had substantially no effect.

Senator FLANDERS. May I ask you a question there? The question is: In the case of borrowing money, is there any difference either in the psychology of the borrower or the lender where the project from which the money borrowed is something whose results are easily calculable?

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For instance, a bond issue for a utility plant or a soundly based real-estate operation, on the one hand, or, on the other hand, something in which there is an element of venture or risk.

Doesn't the effect of a low interest rate apply almost wholly to those easily calculable undertakings? What difference does it make as between 2½ and 4 percent on something which, if it works out, will bring in a great deal more? Take a manufacturing operation, not a wildcat operation.

Mr. LAND. I was going to say, as far as business expenditures are concerned, I think the rate of interest has practically no effect.

In other words, whether business pays 3 percent or 3½ percent for money really hardly could be found in the final result, there are so many other factors of so much more importance.

Easy money produces its greatest effect in two areas of the economy, residential construction and State and local public construction. There the interest element is a big part of the total cost, and I think we have seen that working in the last year.

Senator FLANDERS. It becomes more important as the length of the amortization is extended?

Mr. LAND. That's right, where the interest element is a large part of the total.

In business the interest element is not a large part of the total. In residential carrying charges and in State and local carrying charges interest is a very important part.

Mr. SMUTNY. Mr. Chairman, might I interpose there for a moment?

I beg to differ. I think that the interest element is very important, as far as business is concerned.

I can bring out through experience that in 1953, when interest rates started to run up competition for loans on the part of the Treasury we immediately found that industry rushed into the market and did a tremendous amount of financing.

Subsequent to that, this year of 1954, we have seen some instances where industry has called the obligations that were issued in 1954 because they could be refunded at a lower rate, so therefore the interest rate does really become an important factor.

Mr. LAND. Only as to timing.

Mr. SMUTNY. I know there is a great deal of difference when you borrow on money and pay 3¼ percent or 4¼ percent.

Mr. LAND. I have never seen a corporate budget where the rate of interest made one bit of difference. In other words, you see all sorts of corporations laying out budgets for the next year or so.

Senator DOUGLAS. Are you speaking of working capital now or fixed capital? I can see that in the case of working capital a change in the interest rate is not particularly important, but on a long-time investment would not a change——

Mr. LAND. I have never seen a corporation make up two sets of figures, one based on this assumed interest rate, and on the other——

Senator DOUGLAS. But for current operations; isn't it?

Mr. LAND. For working capital?

Mr. SMUTNY. In 1953 we had two instances of the largest corporations of the United States deferring issuance of bonds because of the interest rate.

Mr. LAND. I grant you that a period of disturbed interest rates, a period of disturbed market prices, can affect the timing of business

expenditures. It can cause things to be put off, but on the question of whether expenditures are going to be made or not made, I think interest rate is almost immaterial.

Mr. WILDE. Mr. Land, I see no evidence in our current experience that interest rates on housing are vital, within quite some range.

A house today is bought as a package. The significant thing is the downpayment and the monthly payment, and the buyer doesn't inquire about the rate of interest. He will buy it at 4½ percent just as quickly as at 4 percent. More houses are being financed this year than when the rate was 4 percent.

It is in the cost, but it is so small spread over the years that the buyer doesn't know it or doesn't bother about it. "How much do I have to pay down, how much do I have to pay monthly?"

Senator FLANDERS. He doesn't inquire, then, as to the period required for amortization?

Mr. WILDE. Not particularly. He is principally interested from the straight merchandising angle, "How much do I have to pay down, how much do I have to pay a month?" He buys his automobile the same way.

Senator FLANDERS. Is he thinking of his monthly payments, really, in terms of rent?

Mr. WILDE. Yes, he does, and that is why he doesn't regard the components of it as important. It is: Can he pay that monthly rent from his paycheck?

Mr. LAND. I grant you he doesn't break up the monthly charge into its components, and yet interest is undoubtedly the largest component.

Mr. WILDE. It is a very large component, but if we hadn't had quite so much easy credit, I think the gross cost of a house wouldn't have been as high and he might have had a better buy.

Senator FLANDERS. Thank you, Mr. Land.

Now, Mr. Harris.

Mr. HARRIS. Senator Flanders, I want to make you a little happy and tell you that here is an economist who agrees with you on New England tariff. I might say you may be interested to know that I am going to Washington next week to represent the six New England Governors on this issue, to point out to the Tariff Commission that the tariff is only one part of national policy, and that when you are doing a job on New England you ought to take into account not only the tariff but everything else the Federal Government has done to New England.

This is the present, Senator Douglas. I am not talking about the past.

Senator DOUGLAS. New England always wants to have the past forgotten.

Mr. HARRIS. And I might say, Senator Douglas, and I think I told you this before, that if New England continues to lose its textile industry at the rate of the last 3 or 4 years, there will be no textile production left in New England in 10 years, and it would be a shame if through a tariff, a reduction of the tariff, the amount of competition the New England textile industry has to face would be increased. Although I still call myself a free trader, I think you can't be too doctrinaire about these issues.

Senator FLANDERS. May I interpose a moment?

There was a certain watchdog of the Treasury in the House many years ago; I forgot his name and I forgot who made the remark, but he opposed every appropriation in the rivers and harbors bill until it came to an appropriation for the Illinois River, whereupon he favored it, and someone got up and said:

'Tis sweet to hear the watchdog's surly growl turn bark of welcome as we near our home.

You and I are in the same box, but I think we have a modicum of reason on our side.

Mr. HARRIS. I am sure we do—a great deal.

I might say, Senator Flanders, if you will continue in this position you will be ruled out of the trade association of economists, as I am about to be.

Now, getting back to the issue we have been discussing, I think both Senator Douglas and Senator Flanders raise the issue, and several others, of whether we can have both stability and growth. I think Mr. Wilde expressed some doubts on this issue.

Now, I am inclined to think—of course, this is a matter of judgment—you weigh one against the other.

For example, in the campaign—I am not saying this for political reasons, either—the statement was made often in 1952 that the dollar was only a 50-cent dollar. This, of course, was true and was a legitimate charge to make against the Democrats.

On the other hand, nobody did say there were four times as many dollars around, which is also an important part of the whole story. Of course, you don't expect the whole story in campaigns.

At any rate, this is the problem, that inflation does to some extent contribute to growth, and it is very difficult, if you are interested in growth, to draw the line exactly, and assure no price increase. If you go back to 1913 you would find that we have had a price increase of about 125 percent over a period of about 40 years. In that same period we have increased our real income by 4 times, and had 2 major wars.

Now, is this really such a bad record? This amounts to a cumulative compound increase of prices of only a little bit more than 2 percent.

Let me also point out to you that between 1948 and 1954, there has been an increase in prices of only 6 percent, which is quite a remarkable degree of stability, considering all the activity we have had.

Let me also point out that from 1951 through 1953 we had an increase in gross national product of 10 percent, in addition to price stability, and this is also a rather remarkable thing.

Senator DOUGLAS. Mr. Harris, that is just the point that I would like to appeal to, that for 21 months we did have an approximate price stability at approximately full employment and growth, and the question I would like to raise is whether that was purely accidental or whether things weren't done pretty well during that period prior to the change of heart on the part of the Federal Reserve System and the development of a new regime at the Treasury.

Senator FLANDERS. Senator Goldwater.

Senator GOLDWATER. I would like to ask your opinion of whether or not the majority of that gross national product—I won't say the majority, a large portion of it—went into nonconsumer goods, didn't have some effect on that so-called period of stability?

We were producing, as I recall it, from 14 to 35 percent of our gross national product during that 10-year period for national defense or nonconsumer goods.

Mr. HARRIS. That's correct, Senator Goldwater, and I just jotted down some figures for 1951 to 1953.

Here we had an increase of GNP of $37 billion, increase in consumption was $21 billion, a little more than half; investments were down by $3 billion; Government was up by $21 billion.

There is no doubt about the high level of Government spending having a good deal to do with it, just as I would say the fall of $9 billion in Government spending last year has certainly helped to bring about recession, but this has been offset by a corresponding decline in taxes with a small lag, so you might say the net effect of these Government operations was zero.

There was some small fall-off in investment, so I would say in a general way I don't know, Senator Douglas, whether it was accidental or whether this was all planned.

I think there was certainly some planning in it. We had our President's Council of Economic Advisers.

The thing certainly worked beautifully, and it suggests that the thing is possible, and certainly we had all kinds of fiscal and monetary policies, although I myself feel monetary policies can be pretty powerful on the rise, but not too powerful on the decline. Our experiences seem to indicate this.

Mr. Wilde said a great deal about the danger of inflation. France has had a devaluation of 99 percent in 33 years. Latin America had an increase in prices of 500 percent, on the average, since 1939. People don't save under these conditions, but when you look at our own price history, we have had too much inflation, we could have had less, but, on the whole, considering what we have achieved, the inflation hasn't really been too bad.

I can understand why an insurance man would be worried about inflation, but you have to look at the whole thing, not only the stability of the dollar but the amount of growth and how much the small amount of inflation we have had has contributed toward that growth.

I am sure we have had more growth because of the amount of inflation we have had. I am not trying to defend inflation. I think we have had too much of it, but I don't think we should leave out of account what has accompanied inflation.

Senator DOUGLAS. Mr. Chairman, would I be impolite if I filed a demurrer.

Senator FLANDERS. You don't mean a demurrer—a brief.

Senator DOUGLAS. To the degree that you stimulate growth through inflation, you have done it by transferring purchasing power from those who have fixed incomes, notably the salaried groups, and also those whose incomes come from bonds, pensions, and so on.

Senator FLANDERS. Don't forget the widows and orphans.

Senator DOUGLAS. They are included in these other two categories.

And you have transferred income from them to the adventurous classes of society, with the result that you have undoubtedly stimulated investment, but you have also increased nightclub spending, too, in the same way, and I question whether this is a policy which should be consciously followed.

It seems to me that it is something that should be avoided, if it is at all possible, and that we should try to hold to a doctrine of price stability, yet substantial, full employment, with investment financed out of savings rather than through transfer of income or the creation of additional short-time capital.

Senator FLANDERS. Senator, not to interrupt, but would you say that again? There were three points. One was maintenance of employment, maintenance of production, and expansion out of savings?

Senator DOUGLAS. Well, price stability.

Senator FLANDERS. Price stability; that's right.

Senator DOUGLAS. Economic growth, and substantially full employment.

Senator FLANDERS. Economic growth and substantially full employment.

And the increase of employment and production that comes from the increase of population, do you expect that to come from savings or would you allow a corresponding growth in the credit money?

Senator DOUGLAS. Oh, you have got to have a corresponding growth in credit money.

Mr. MITCHELL. If it were financed all out of savings, the price would drop, so you have to have an equivalent inflation of credit.

Senator DOUGLAS. That's right. I would not call it inflation, but rather an increase in money to stabilize prices.

Senator FLANDERS. I just wanted to get that clear.

Senator GOLDWATER. Mr. Chairman, isn't it true—and I direct this to you, Mr. Harris—we have only had in our economic history one very short period of so-called stability in prices? We have just gone through that, and that was brought about by very, very unusual circumstances, and I think you and I agree.

I don't think it is an experiment that we want to continue. I agree with these other gentlemen that price stability is something that is rather impossible, just as employment stability has proven to be impossible in the past, but maybe we can work out the secret.

Mr. HARRIS. Senator Goldwater and also Senator Douglas, I would say this:

I think we are all aiming at the same thing. I think, for example, the Federal Reserve is trying to give us growth, high employment, and price stability. I think they have tried to give us price stability but they also have given us some unemployment. This is the issue.

I would be inclined to risk a certain amount of price instability, say, even an increase of 2 or 3 percent, and get rid of, say, one or two million unemployed. I would be ready to take that risk. The authorities don't seem to be ready to take that risk, or they would give us a much higher level of excess reserves, it seems to me.

Senator FLANDERS. Then, in brief, on this question, you feel that the opportunities for the maintenance of employment, and I presume of production and a stabilized standard of living, is improved if there is a slight expansion of inflation?

Mr. HARRIS. That's right; a slight inflation is what we want.

Senator FLANDERS. That is what I wanted to get clearly in mind from you.

Senator GOLDWATER. Mr. Chairman, would that be in excess of what we would consider normal inflation?

Mr. HARRIS. I wouldn't worry too much about 1 or 2 percent a year. I would certainly try to keep it down to that.

I would say 125 percent over the last 40 years is a little too much, but we must not forget we had these two major wars, and I once made an estimate of how much inflation we had in World War II compared to World War I, on the basis of the percentage of the economy going to war and compared with the Civil War, and our record in World War II is 4 times as good as in World War I, and 12 times as good as in the Civil War.

Senator GOLDWATER. Where did the dangers of inflation come in this last period; during the second war or the second war and Korea?

Mr. HARRIS. It was sort of a postponed inflation which we should have had in World War II, in the absence of controls, so I would count as part of the World War II inflation some of the inflation we had after World War II.

I will try to answer 2 or 3 more questions rapidly because I don't want to take too much time.

Congressman Patman raised an interesting question about whether it would be a good thing for the banks to have a large volume of public securities which kept them from lending money to the public.

I was talking about public securities in terms of giving us an appropriate amount of money. In other words, the banks have to hold adequate earning assets to create adequate surplus of money.

Now, I would agree with Congressman Patman that if they were to do the job by lending to the public, as originally suggested by the Federal Reserve Act, that is one thing, but since they don't seem to be able to do this, I would say it is important to hold a certain amount of public securities, or inadequacy of money will injure the economic system.

On the issue Senator Goldwater raised, why didn't the low interest rates in 1933–39 do us any good, I would say it didn't do us much good, and the reason is there are sometimes factors that are much more important than interest rates.

If businessmen lack confidence, if prices are falling steadily, if their anticipations are very pessimistic, then you can cut the interest rates down to zero and it wouldn't have much of an effect. But it would have a greater effect in the situation we are in now where there isn't this widespread pessimism.

Now, the other point I wanted to make, a point I made this morning, I want to emphasize very much, and I think it is a very fortunate thing, it would be an awfully good thing, for example, one might argue it would be a very good thing if the net result of the Federal Reserve policy was that they control not only the commercial banks but all other lenders of funds, but the fact of the matter is that they don't do a very good job—I seem to have lost a sheet on which I had these notes, but I can give them to you—if you look, for example, at the 1952–53 fiscal year when they were trying to restrict credit, you will find there was an increase of $30 billion in loans and advances, and of these $30 billion the commercial banks provided only $3 billion.

In other words, we had some expansion, fortunately, during this period, despite the attempts to restrict the total supply of financing, and this was because of the fact that the Federal Reserve bank did not control the noncommercial bank lenders, and exactly the same thing has happened in 1953–54.

In fact, virtually all loans in the fiscal year 1953–54 have been made by noncommercial bank lenders, and this is something we have to keep in mind.

Senator FLANDERS. Are you saying, in effect, that you would like to see the Federal Reserve control expanded over nonmember banks, and perhaps over some other lending institutions?

Mr. HARRIS. I will be a little more subtle than that, Senator. I was trying to say I would like to see them take over this control if they do a good job.

If they don't, I think it is just as well that the control lies with the insurance companies and the savings and loan associations, and so forth, but this is an area, it seems to me, where the Federal Reserve System hasn't really got to first base.

One final point and I will quit, and that is, I was talking to one of the gentlemen of the Federal Reserve right after lunch, and he said: "Don't you know that we know you have to control the rate of interest?"

Well, all I can say is I wish anybody would read page 24 of the answer to the intermediaries in this. I won't bother to read it to you now, and see if you feel it is an adequate statement of what Federal Reserve policy should be on the rate of interest.

I am glad to know that some of the high authorities believe that they should control the rate of interest, but I defy the Congress to read this reply and say that there is a clear statement the Federal Reserve is ready to go out and control the rate of interest, rather than wait until something disorderly happens.

Mr. SMUTNY. Mr. Chairman, may I inject something here, please?

Senator FLANDERS. Yes.

Mr. SMUTNY. That is the following: I don't think any statement has been made here either on the panel or any recognition has been made of the fact that savings are institutionalized now.

Years ago the individual saver was quite a factor in the bond market. Today actually a vast amount of funds available for investment is not through the individual in the bond market, but through institutions of deposit insurance companies, and so forth.

We do not sell bonds to the individual. We sell bonds to the institutions, the savings banks and insurance companies, and a vast change has taken place in our entire investment market, and thereby the effect of the operations of the open-market operations of the Federal Reserve on bond prices is so important because the vast savings of the people have become institutionalized. I think that is a factor that should have due recognition.

Senator FLANDERS. Thank you.

Now, Mr. Clark.

Mr. CLARK. Mr. Chairman, I feel that the concentration of attention upon what monetary policy has done and can do in a period of inflationary danger gives a sense of unreality to this meeting.

No one is bothered about inflation today. We are bothered about the fact that the economy under monetary and other policies has not been progressing since the first of the year, and unemployment has not been cured, and the number of employed has not been rising at all, let alone in step with the large increase in the labor force and the working force.

Now, the agenda for the meeting bars us from discussing and analyzing the condition today as it may lead to our proposing policies to bring about economic recovery other than monetary policies, but surely we do within the limits here imposed have occasion to consider whether monetary policy during the past year has advanced the cause of prosperity in this country, whether there is now some condition which may be improved by monetary policy, and if so, what monetary policy can do for us.

I have suggested one monetary policy which now might be adopted, that would have terrific impact upon the economy and perhaps would give us the additional drive which we need to get out of the stalemate which has existed since January. We are going to have the industrial production figures for November in a few days. The circumstances which made it possible to bring out these figures before the end of October hardly exist now, so we have to wait until well into December.

And those are going to be tricky figures that you must look at with considerable sophistication. We know that there has been a very large increase in employment in the automobile industry, and we know that there has been an attending increase in steel production, an increase in employment in steel production.

And if the economy otherwise has done nothing more than continue on the dead center which it has occupied since January, we are bound to have a noticeable increase in the industrial production index, and it will fool the casual observer into thinking that it means that long-awaited recovery has finally come around the corner.

Senator FLANDERS. Excuse me just a moment.

Mr. CLARK. Yes, sir.

Senator FLANDERS. But was not the recession in part due to the decrease in unemployment in just these same industries? Why shouldn't you take it on the upturn as well as on the decrease?

Mr. SMUTNY. No, sir.

Mr. CLARK. Now, Mr. Chairman, to answer that, I have to again caution you against the acceptance of bare statistics.

This apparent decreased unemployment, we find, occurs in a situation where the labor force is not expanding. We know actually the working population is growing; we know that in the past 2 years it has increased by a net of more than a million and a half, but we do not find that in the official statistics, and the unemployment figure is merely a residual figure, the difference between the number who say they are hunting for jobs and thereby are qualifying for inclusion in the labor force, and the number of those who say they have jobs.

Why is it that the labor forces does not show an expansion in the statistics? It is because in periods of slow business, many people who otherwise would be looking for jobs, knowing that now there is no need to do it because they cannot get them, do not classify themselves when interrogated, as being people who look for jobs, so that leaves them out of the labor force.

Senator DOUGLAS. Would you amend that statement to say do not so classify themselves or are not so classified by the enumerators?

Mr. CLARK. I do not know that that is just what happens, Senator. I think they are asked; I do not believe the interrogators undertake to classify them, excepting on a basis of their own responses. Maybe that is not what happens.

Senator FLANDERS. Are you taking into account the seasonal decrease in the labor force on the part of those who seek employment during the vacation, and go back to school?

Mr. CLARK. Well, of course, that is a real reduction in the labor force; we must take that into account. But having consideration for all of these factors, Mr. Chairman, I think that the figures on unemployment are understated.

Senator DOUGLAS. That is correct.

Mr. CLARK. And if we took those real figures, could get the real figures, we would find there has been no improvement in unemployment.

How could there be when production has not been increased? And, along with that, since you asked me to comment upon the subject, I take advantage of the opening, I read the other day a story about a Government release relating to the number of people who are no longer on the list of those continuing claims for unemployment insurance because they have exhausted their rights.

It was a very surprising figure of people who did have unemployment insurance no longer are receiving benefits and, therefore, are not listed in that statistical item, which has been dropping somewhat, and who are, perhaps, not unemployed at this time.

I do not want to overdraw the pessimistic picture of the economy today. A year ago, I think I was, perhaps, the most outspoken of the optimists who saw a fine business year ahead in 1954.

If the agenda permitted us to discuss the situation that, I think, Mr. Chairman, if you will permit me, ought to be engaging the interest of the committee today, I think I could point out the reason for the error in my optimistic view that the slideoff would soon end, and that immediately thereafter, as happened in 1949, business recovery, business expansion, would begin.

Now, perhaps November is going to put us over the hump; perhaps the tremendous impulse to the economy which will come from the combination of increasing production and employment in the automobile industry, increasing production and employment in the steel industry, and the 3 weeks of frantic Christmas shopping which is ahead of us, will give the economy the push it needs. The basic factors have all been there all the time, and I wish that we could see some way to add to these forces of the private-enterprise system, which are now giving us the third chance this year to come out of the doldrums, that we will be able to add to these forces some impulse from Government action.

Senator FLANDERS. Do you see that impulse as coming in the monetary and debt-management field?

Mr. CLARK. I see no sign of it, and that is what I mean.

Senator FLANDERS. I mean, you do feel that it should come from that?

Mr. CLARK. No, indeed. I think the suggestion I made of one monetary policy which would be well worth trying was suggesting to you the poorest of the three major actions which are possible and which, I think, ought to be taken; but it is the poorest. I do not know what would happen—I rather agree with Mr. Shaw, that the effect of increasing free reserves, freeing reserves, would be no increase in lending; there is no indication that bank lending is in any way restricted now by the reserve situation. The banks would simply put the money into Government bonds.

I do not agree with him that that would mean that the Federal Reserve would have to furnish the bonds. Why should it?

If the banks went into the market and bought the Government bonds, it would mean a substantial increase in the price of bonds, a reduction in the rate of return, and Mr. Humphrey would have that day he has been so eager. He would be able to refund succeeding maturities on a market that would not destroy the 2½ percent rate of the Victories.

Mr. SMUTNEY. In my opinion, this is an endorsement on your part of the policies of the Federal Reserve and the Treasury, in direct contravention of your first statement.

Senator FLANDERS. Now, then, you do feel that so far as the existent or nonexistent recession is concerned, that in the field of our inquiry today, we might well consider the change in the excess reserves of the banking system?

Mr. CLARK. Yes, sir; and that it could not do harm. It would have to create prosperity, full employment, a larger purchasing power before it could reach the point where inflationary danger was appearing. You cannot have inflation——

Representative PATMAN. May I interrupt the gentleman?

Mr. CLARK. Yes.

Representative PATMAN. I agree with Mr. Shaw's statement that reserves should not be reduced to the lowest point, but there should be a point in between so that in the event it was necessary they could be either lowered or raised in the future to take care of the situation.

Mr. CLARK. No; I think if you are going to be daring enough to move, because you feel it is necessary to move, you had better use all your ammunition. I see no advantage whatever in retaining any margin above the legal minimum.

Representative PATMAN. Would you reduce it right down to 7, 10, and 13?

Mr. CLARK. I would, for this reason, Mr. Patman: We can see right now from our experience since last August—and we learned, as Senator Goldwater pointed out, in the thirties, that the action to reduce the rate of interest is of itself of very little significance in a period of depression or recession.

So the only reason that we should preserve for the Federal Reserve some larger opportunity to act would be to enable it to act in the other direction, to impose restraints through the addition to reserve requirements which, I can tell you, is an action that does hurt banks. There is not any difficulty coming to a bank when you reduce the reserve requirements; it is a harmless process, it enables the bank to buy some more Government bonds.

But when you raise reserve requirements, since all banks try to keep fairly close to their reserve limit in their investments and their lending, it means that they have got to dispose of Government securities or they have got to withdraw from some profitable loans in order to meet the new reserve requirements, and there is not any doubt about that being a repressive action.

Let us give the Federal Reserve enough leeway so that they can act that way instead of having them caught, as we were in 1947 and 1948, when some of us were joining the Federal Reserve in approving the Eccles' plan, an action which he had to propose because they were up to their limit already on legal reserve requirements.

Senator FLANDERS. Well, Mr. Clark, we thank you.

Representative PATMAN. May I ask him one question?

Senator FLANDERS. Yes; you may.

Representative PATMAN. Do you mean to say that we are in for serious trouble if we do not take drastic action like that, Mr. Clark?

Mr. CLARK. No; I said that it may be that this very important additional economic activity in the automobile and steel industries in November will be found sufficient to get us over the hump; but if it is not, there will not be a similar opportunity coming to us for several months, because 3 weeks from today we enter upon a period of seasonal business letdown.

Senator GOLDWATER. Mr. Chairman, I would like to ask just one question.

Senator FLANDERS. Senator Goldwater.

Senator GOLDWATER. What are we talking about in terms of money, in numbers of billions of dollars, in this suggestion of yours?

Mr. CLARK. The decrease to the legal minimum of 3, 7, 10, and 13 percent would mean freeing approximately 40 percent of the present reserves, and that would be $7 billion.

Senator GOLDWATER. What was the amount of the last release, I think, in May or June of 1953?

Mr. HARRIS. The total was 2½ billion, I think, of all releases.

Representative PATMAN. Senator Goldwater, would you yield for just a question there since it is an opportune time?

Senator GOLDWATER. Yes.

Representative PATMAN. You state about $6 billion in reserves that would be released.

Mr. CLARK. $7 billion.

Representative PATMAN. That means a potential $42 billion in added credit then in the banking system. The banking system can expand to minimum of 6 to 1, and it might well be 10 to 1. That would mean a potential credit expansion of about $70 billion.

Mr. CLARK. $70 billion of lending power——

Representative PATMAN. That is what I mean; it is not just $7 billion, it is 10 times that.

Mr. CLARK. It is $7 billion added reserves. You are assuming too much, Mr. Patman, if you convert that directly into increased lending.

Representative PATMAN. What I mean it is possible.

Mr. CLARK. They will not make the loans when they have excessive reserves there today. Why should the addition of excess reserves send them on a spending spree?

Representative PATMAN. They could buy more riskless securities.

Mr. CLARK. They could buy Government bonds, and wouldn't that be a good thing. Let us help the Secretary refund on a long-term basis a lot of these coming maturities.

Mr. SMUTNY. Mr. Chairman, can I ask one question, please, of Professor Chandler because of the fact that he referred in the middle of the talk there about the fact that we were in a recession again, and quoted the figures that the unemployed were somewhere around 3 million people.

After all, we recognize in 1953 that every time we got up to bat we knocked a home run, but you cannot expect to continue that, and in 1954, with 3 million unemployed, against a relationship, if you go

back to the records, where unemployed persons would run up as high as 9 million, and in 1933, 13 million—3 million with 60 million employables does not seem to me to be too far out of line.

Senator FLANDERS. It is not out of line statistically, but I think whenever we look at statistics of that sort we have to make them human and it is too much.

Senator GOLDWATER. Mr. Chairman, one other question: I was prompted to ask this because of a story in this morning's paper indicating some concern about the situation in the stock market.

Now, I neither subscribe to that nor do not subscribe to it. What do you think that the release of this money would do to the stock market?

Mr. CLARK. The immediate effect would be on the bond market.

Senator GOLDWATER. Yes.

Mr. CLARK. And usually, I think, they believe that the shifting of interest from the one market to the other cools off the first market—the one they are moving out of.

I am not able, though, to add any useful comment upon the relationship of the stock market and its boom to our economic problem.

Within a few weeks, within less than a month, after the first Council of Economic Advisers was appointed, the business world greeted us with a market collapse. We wondered what that portended—that was in September 1946—there was a very serious collapse.

Well, it did not portend anything except great prosperity, and ever since then I have been willing to exclude the stock-market condition from my analyses of economic conditions.

Senator GOLDWATER. Do you think that there should be any concern then today about the stock market's being a little bit on the high side?

Mr. CLARK. Well, I do not feel any myself, Senator.

Senator GOLDWATER. I do not either; I just wondered how you felt about it.

Mr. WILDE. Mr. Chairman, I would venture a guess that, based on historical precedents, if you had a radical change in reserve requirements, it would be interpreted as more inflation out of Washington that tends to drive the stock market higher.

Mr. LAND. I would like to add my agreement to that. I feel that that would be the result.

Senator FLANDERS. Now, there is a patient man at the end of the line, Mr. Chandler. He did dip into the discussion once, but he is entitled to enter it on his own account.

Mr. CHANDLER. Mr. Chairman, I hope I may be pardoned if I do not make any comments on American tariff policy or the policy of the Southern States in attracting industry.

Senator FLANDERS. I also call your attention to the fact that we have not talked about the gold standard yet.

Mr. CHANDLER. I should like to neglect that, too, if I may.

First I should like to make a comment or two about the proposal to reduce reserve requirements to the minimum permitted by law. It has already been brought out that this would add something in the neighborhood of 7 to 7½ billion dollars to the volume of excess reserves which is already well over a half billion, making something in excess of $8 billion in excess reserves.

One thing that shoud be a primary rule in central banking is that you must always leave yourself some way of reversing your policy if the situation calls for it. To try to move from a situation of 8 or 8½

billion dollars of excess reserves to one of mild restraint, which would call for a degree of finesse that I doubt any central banker has.

I am sure that he could not eliminate that volume of excess reserves by increasing reserve requirements, and do it with such finesse as to avoid adverse results.

This would be using a most inflexible kind of expansionary instrument of a type that could not be used in the other direction without great potential danger.

Senator FLANDERS. In other words, are you saying that you would tend to keep the bank reserves not too far—the bank reserve requirements not too far—away from the actual situation; is that what you are saying?

Mr. CHANDLER. A specific prescription is always dangerous, but I would suggest the thing to do is to leave the reserve requirements where they are today, and if any further easing is necessary, to do that through open-market operations that have high flexibility attached to them.

I would like to make a comment on one other topic which has turned out to be a key to our discussion this afternoon. That is whether full employment and relative price stability are consistent with each other.

There are certain circumstances in which it, obviously—where they obviously contradictory. For example, the situation you had in 1939 was one of widespread unemployment: it was perfectly obvious that one needed not only an increase in demand, but some rise of prices, at least of some prices, to get anything like full employment. In that kind of situation we need some price rise in order to get, or even approach, full employment levels.

But some of our economists, and the public at large, have learned the wrong lesson from that experience. They assume that when you already have full employment you cannot maintain full employment without having further price rises.

Now, it is for that reason that I would dismiss, as largely without meaning, the statistics presented by Professor Harris, indicating the great rise in real income per person today as compared with that in 1939. I do not think there is a person at this table who would want to return to the 1939 level.

Mr. HARRIS. I never gave 1939 figures in my statement, Mr. Chandler; I gave 1914 and 1951.

Mr. CHANDLER. 1914?

Mr. HARRIS. Yes.

Mr. CHANDLER. Well, I would submit that a very considerable part of that increase was achieved during the twenties when you had relatively stable commodity prices.

There were certain other periods of price stability in which the rate of growth was also quite satisfactory.

We come to a much more ticklist question when we approach the one that was uppermost in Professor Shaw's mind: When you already have full employment, can you maintain it without further price inflation?

We do not have the ability to forecast, yet there is, I think, one real ray of hope in the point that Professor Shaw brought out, namely, the continuing technological improvement and the rising productivity which would give us room for wage increases offset by increases in output, so that we can perhaps have relatively stable prices and rising wage rates at the same time, while maintaining full employment.

I have just one further point on that subject. It is often stated that we would have a better chance of maintaining full employment if we had controlled inflation at the rate of 2 or 3 percent a year or some other relatively modest figure. I do not see any magic in those numbers.

It seems to me that an annual increase of zero percent is, perhaps, just as feasible as 2 or 3 percent.

What reason do we have to believe that we can set up expectations of 2- or 3-percent rises in price levels a year and still maintain full employment? Wouldn't you have exactly the same problem of costs tending to outrun prices, and so on, so that you would get unemployment unless you speeded up the rate of growth?

I do not know of any economist who has analyzed the problem of maintaining full employment while you have automatic escalator clauses in every contract; but I see no reason to believe it would be any easier than operating within the framework of a relatively stable price level.

Senator FLANDERS. Well, we have been through the list.

Representative PATMAN. Mr. Chairman, may I ask if it it would be asking too much of the chairman to find out from the panel by a lifting of hands or some similar way as to how they stand on free convertibility of gold?

Senator FLANDERS. I am sorry I mentioned it.

Representative PATMAN. Well, the chairman mentioned it, and I know from that it is a very important question which should be considered.

Senator FLANDERS. Let me first have an introductory show of hands. How many of those across the table wish to raise their hands on that question? Will you raise your hands to show your willingness to express yourself?

(There was a showing of hands.)

Senator FLANDERS. A majority of them.

Mr. HARRIS. Will you define the term. What does this mean? Do you mean United States present convertibility?

Representative PATMAN. Yes.

Senator FLANDERS. The present convertibility of gold.

Mr. SHAW. May I ask for a more explicit definition? At what price is gold to be freely convertible, and to whom?

Representative PATMAN. The same price as it is now.

Mr. SHAW. And to whom and from whom?

Representative PATMAN. Domestic, of course.

Senator FLANDERS. That expresses itself to me, Mr. Patman, as being able to go to the bank and getting a $20 gold piece for a Christmas present.

Representative PATMAN. That is right.

Senator FLANDERS. I do not know what the economic significance of that is, but that is what free convertibility means to me.

Representative PATMAN. Just like it was before we did not have it.

Senator FLANDERS. Yes.

We are now taking a poll on that subject. All of those who believe that I ought to get a $20 gold piece to give away at Christmas when I go to the bank, please raise your right hands.

Senator DOUGLAS. Just a minute, Mr. Chairman, you certainly would not limit the convertibility of gold to a desire for Christmas presents, would you?

If you convert money into gold, it could be for any purpose. This is a very apt illustration of it, but it is too restricted.

Senator GOLDWATER. Mr. Chairman, I think Professor Shaw raised a very good point there as to the time element. I know in our discussions last year——

Senator FLANDERS. In my lifetime.

Senator GOLDWATER (continuing). In the Committee on Banking and Currency—in your lifetime, well, that is a long time.

Senator FLANDERS. Thank you.

Senator GOLDWATER. But that was one of the important things raised last year in our hearings, is when. There was not much question——

Mr. SHAW. The price, of course, is a highly critical factor, and also given the price, what collateral changes there may be in the reserve requirements of the Federal Reserve banks, because depending on the price and on these reserve requirements, this can be a highly deflationary operation.

Senator DOUGLAS. I suggest we poll the experts on $35 an ounce.

Senator FLANDERS. I would like to put this question properly.

Representative PATMAN. Leave out the Christmas present.

Senator FLANDERS. All right.

Is this the question that you gentlemen would be willing to express yourselves on:

Can you conceive of any proper action to be taken within the near future which would lead desirably to a free gold, interchangeability of gold with dollars? Is that a good way to state that?

Now, all in favor say "aye," or raise your right hand.

(No response.)

Senator FLANDERS. All opposed, raise their right hands.

(There was a showing of seven hands.)

Senator FLANDERS. I noted there was one person not voting. I do not know what to do about him.

Mr. LAND. I probably was the one not voting; I do not think it makes much difference whether gold-coin convertibility is restored or not.

Mr. SMUTNY. Mr. Chairman, could I bring in something that has not been brought up today?

Senator FLANDERS. Yes.

Mr. SMUTNY. I do not think there has been really any recognition of the extension of maturity of obligation of the United States Government by the Treasury.

In all Treasury refundings in which we participate, there has been an attempt on the part of the Treasury to extend the debt, and to reduce the amount and the number of refundings in each year, and

with the last refunding operation, December 2's, which, as you know, amounted to some $17 billion, you will find that the average maturity of United States Government marketable securities outstanding now has been increased to the longest maturity period of time that they have had, I think, in quite some years, if you go back to statistics.

At present the average maturity is somewhat over 4 years, being 4 years and 3 months.

Senator FLANDERS. How far does it go back before we again approach that average length of maturity, can you say offhand?

Mr. SMUTNY. You mean how does this compare with what it was in 1933?

Senator FLANDERS. Yes; if that average length of maturity is higher than it has been in the recent past——

Mr. SMUTNY. That is right.

Senator FLANDERS (continuing). How far back do you have to go to find a similar average length of maturity?

Mr. SMUTNY. In 1951 average debt of United States marketable bonds was 4 years and 4 months.

Senator FLANDERS. Well, that is interesting.

Mr. HARRIS. Mr. Chairman, may I make one comment, since Mr. Chandler commented on my views on full employment and the price level? It will take a half minute.

I just want to say that on the basis of experience, where you have a rise of output, whether it is at a low employment level or a high, although greater at a high, there is a tendency for prices to rise.

This is true of our own history, and I simply say let us try to get a stable price level and growing employment, but in practice what you are likely to find, especially as a result of wages to inflation, and despite technological improvement; you are likely to find when output rises, on the average, you are likely to have some price rise. This is one of the costs of progress.

Senator FLANDERS. Now, there is a raised hand. Some of the members of this panel have engagements which they must meet. It had been my plan to adjourn at 4 o'clock; it is 4 now.

I hate to discourage one upraised hand.

Mr. MITCHELL. This is on that agricultural question; I can get it over with in 2 minutes, if you wish.

Senator FLANDERS. Two minutes?

Mr. MITCHELL. I am recognized for 2 minutes?

Senator FLANDERS. You are recognized for 2 minutes.

Mr. MITCHELL. Senator Flanders asked why I was recommending a great agricultural investment surge in the face of our apparent surpluses.

Well, as my paper, presented to this committee in February indicated, I do not think there is any such thing as a surplus in the human sense with regard to food and fiber, only in the economic sense, which means that we have got to find the answer not by cutting down production but by discovering better ways to distribute what American abundance can produce.

America will need a half more dairy food; we will have to get out of butter, but we will have to produce more fluid milk, and get it into the mouths of great numbers of American children who do not have enough of it for good teeth, bones, an adequate diet.

55314—54——11

America will have to have one-third more meat, two-thirds more fruits and vegetables, if decent diets are to be attained, and I assume they will be under a fully employed economy.

Even wheat and cotton, which are export products, will still be needed in the world, and there again it is a problem of distribution, not one of curtailing production.

But consider the credit needs of the agricultural producers, at least half of them, 2½ million farmers. If we aim that way the next 10 years, they need to undergo a virtual revolution in their way of producing, and they are going to have to get out of the cash crops into dairy, fruits, vegetables, and livestock products. They are going to need $5,000 to $10,000 each over the next 10 years in new credit to achieve this kind of revolutionary production change.

Now, banks are not making that type of loan, they do not, they cannot. These are 7- to 10-year loans, and banks cannot, under banking laws and statutes and lending habits.

I wish they could. A number of banks in the Midwest are finally hiring farm managers to help in the revolutionary type of farm-management change that will go with that kind of intermediate credit loan.

In the past, whenever we have needed revolutions in credit for farmers, such as we needed to assist low-income farmers who were bad credit risks for the usual commercial banks, we found that credit, plus supervision, was necessary. I am suggesting that that will be necessary for the middle third of American agriculture, too, in the future. If private banks are not able to revolutionize their own way of doing business, and if they do not change their ideas of the proper length of time; in other words, if they do not change to a 7- to 10-year reorganization loan, there is going to be a demand for Government once again to get into the agricultural credit field.

Senator FLANDERS. I was just going to say that I was about to thank you for your 2 minutes' worth, and you have explained yourself, I think, quite clearly.

Now, I take it, you are not quite through with your explanation?

Mr. MITCHELL. Not quite.

Senator FLANDERS. You can extend it in the record.

Mr. MITCHELL. My article goes into that, so I think that is enough time for me.

Thank you.

Senator FLANDERS. We thank you all.

Representative PATMAN. Mr. Chairman, all of them will be permitted to extend their remarks?

Senator FLANDERS. Yes; all will be permitted to extend their remarks in the record, and I—in fact, it is allowable to extend the debate in the record, to one degree. That is, I do not think we would want to extend it by each one reading what the other had said about him, and coming back twice. Once will do.

We have had a very—for the chairman at least—pleasant and an informative roundtable, and I hope that we may meet again.

Everyone has made a contribution. I am sure that the Representatives and Senators join me in that statement.

The meeting is adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 4:05 p. m., the subcommittee recessed, to reconvene at 10 a. m., Tuesday, December 7, 1954.)

UNITED STATES MONETARY POLICY: RECENT THINKING AND EXPERIENCE

TUESDAY, DECEMBER 7, 1954

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
SUBCOMMITTEE ON ECONOMIC STABILIZATION,
Washington, D. C.

The subcommittee met, pursuant to recess, at 10:10 a. m., in room 318, Senate Office Building, Senator Ralph E. Flanders (chairman of the subcommittee) presiding.

Present: Senators Flanders (chairman of the subcommittee), Watkins, Goldwater, Sparkman, Douglas; Representatives Talle, and Patman.

Also present: Grover W. Ensley, staff director; and John W. Lehman, clerk.

Senator FLANDERS. The hearing will please come to order.

Yesterday we had a panel of economists and bankers who discussed their various points of view, and I think everyone who was here will agree these points of view were various, on the monetary and credit policies of the two branches of the Government which are most concerned with those questions, the Treasury and the Federal Reserve Board.

Today we pursue the line of thought and the line of questioning introduced yesterday.

Having been informed and stimulated by these widely varying points of view, we will have before us today the two branches of the Government concerned, who have very kindly offered to explain their positions, and defend them to the extent that they believe defense is necessary. We also greatly appreciate the fine cooperation we have had from both the Treasury and the Federal Reserve Board in the preparation of their answers to the questions provided by this subcommittee prior to the hearings. These materials were inserted in the record at the opening of the hearings yesterday (pp. 3, 30).

We are first privileged to have with us this morning, Mr. George Humphrey, Secretary of the Treasury, and with no further introduction, Secretary Humphrey, will you open this discussion.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY, ACCOMPANIED BY W. RANDOLPH BURGESS, UNDER SECRETARY FOR MONETARY AFFAIRS; DAVID M. KENNEDY, ASSISTANT TO THE SECRETARY; EDWARD F. BARTELT, FISCAL ASSISTANT SECRETARY; AND ROBERT P. MAYO, CHIEF, ANALYSIS STAFF, DEBT DIVISION

Secretary HUMPHREY. Mr. Chairman, with your permission, I would suggest that we might make more progress if I made a relatively short statement, and then if Mr. Burgess would go through some charts with explanations which he has to offer and then, after having laid out that program, we would both be here and available for questions. I think that, perhaps, we would save time if questions could be postponed until we had finished that, and then the whole matter would be before you, and it would be much easier to answer questions in that way rather than, perhaps, to anticipate some of the things that we may answer as we go along.

Senator FLANDERS. We operated on that basis yesterday; I think we found it satisfactory, although we do hope that there will be a little time left after your uninterrupted flow of information.

We will proceed on that on that basis.

Secretary HUMPHREY. In that case, Mr. Chairman, I will be glad to start with this statement.

We welcome this opportunity to appear before your subcommittee to review the fiscal and debt management policies of the Treasury from the point of view of their economic influence.

At the outset and before considering in detail the activities of the Treasury during the past 2 years, I want to make a few general comments on the direction of our entire fiscal program as well as the principles guiding us in the management of the public debt.

The administration's budgetary and tax policies, along with its debt management policies, have all been designed to promote high employment, rising production, and a stable dollar.

We have in fact been following the policies advocated by your predecessor subcommittees that—as stated in the Douglas report of January 1950, in language reaffirmed in the Patman report of June 1952, as follows: "appropriate, vigorous, and coordinated monetary, credit, and fiscal policies" should "constitute the Government's primary and principal method" of promoting the purposes of the Employment Act, and further, their additional recommendation—

> that Federal fiscal policies be such as not only to avoid aggravating economic instability but also to make a positive and important contribution to stabilization, at the same time promoting equity and incentives in taxation and economy in expenditures.

Government spending programs have been cut by billions of dollars. Waste and extravagance have been eliminated in many areas. Economy in Government and efforts to get the Federal budget under even better control are continuing without letup. These efforts are of great importance to the future of our country and are fundamental in the administration's honest money program.

Major tax reductions and comprehensive tax revisions, along with the ending of price and wage controls, are removing barriers to economic growth and restoring individual initiative and enterprise.

Savings in Government spending which have been returned to the people in the form of tax cuts are helping sustain the economy, increase employment and production.

Progress is being made toward getting our huge public debt in better shape, so that its maturities can be handled more easily and debt operations will not stimulate either inflation or deflation. Treasury financings have been designed to tie in with action taken by the Federal Reserve System to keep the supply of money and credit in line with the needs of the country.

The principles we have been following in the management of the large public debt are not new. They are, likewise, principles that have been laid down by your predecessor subcommittees after extensive study and careful consideration of the fundamental role they can play in effective monetary policy.

The first principle is that monetary and debt management policies should be flexible. To be effective they must lean against inflation as well as deflation. As put by the Douglas subcommittee and reaffirmed by the Patman subcommittee, and I quote once more:

> Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability.

The second principle is that Treasury debt management operations should be consistent with current monetary and credit control policies of the Federal Reserve. This means close cooperation at all times between the Federal Reserve and the Treasury.

The answers which we have already submitted to your subcommittee's questions detail the actions we have taken in cooperation with the Federal Reserve during the past 2 years in carrying out these principles. They show the manner in which our debt operations have been designed to complement monetary action taken by the Federal Reserve to promote economic stability, first by helping to restrain inflation and then later by helping to avoid deflation.

The record has not always been as impressive. As you know, at the time of the earlier congressional hearings on monetary policy and debt management, the economy had been under strong inflationary pressures. Monetary policy had been largely ineffectual in helping to control inflation because of the previous administration's policy of selling mostly short-term securities and using the powers of the Federal Reserve System to hold down interest rates artificially. A fundamental conclusion of both of your predecessor subcommittees was that such action was not in the best interests of the Nation. This was their considered judgment in language used in their report.

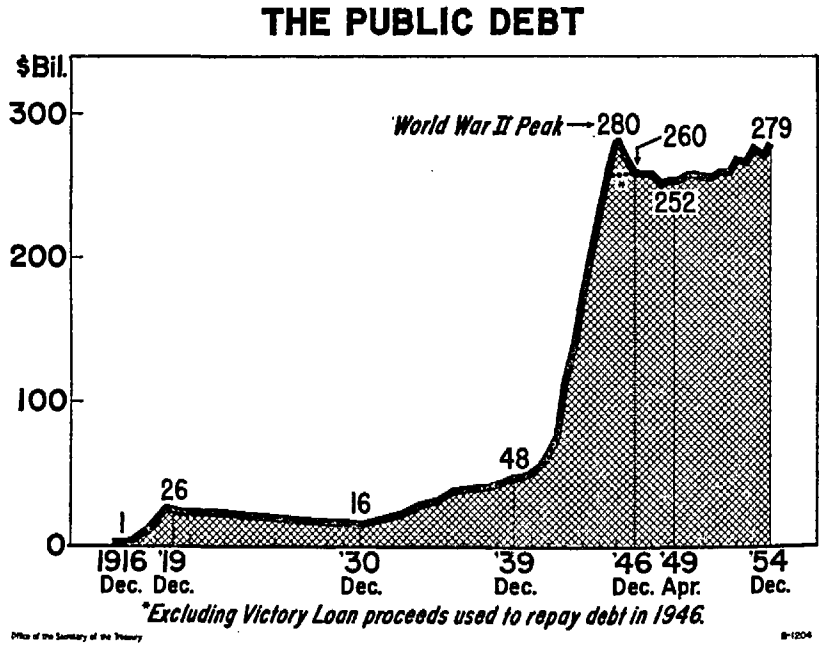
This administration has followed these principles because we believe them to be fundamental principles of good government. We believe the record of the past 2 years has indicated their effectiveness in giving us honest money and laying a firm foundation for the sound growth and prosperity of our country.

That concludes my statement. I will ask Mr. Burgess if he will take up the matter of his charts with explanations that will illustrate this point.

Mr. BURGESS. Mr. Chairman, I hope this does not look too much like a television show, but it seems to us, perhaps, the best way of presenting the facts of what we have been trying to do so that we can lay them before you.

The first chart shows what we are dealing with, the public debt, running back to 1916. It went up in World War I as high as $26 billion, and then was reduced by 1930 to $16 billion; then during the depression it worked up to $48 billion, just before the outbreak of World War II.

Chart I



In World War II the debt shot up to $280 billion. That top figure in a sense was a bookkeeping operation, because you will recall that in the Victory loan of 1945 we borrowed more than proved to be necessary. We did not know that war expenditures were going to taper off so quickly, and so there was $20 billion left on deposit with the banks which was used in 1946 to scale down the debt, so that a figure of $260 billion would be a fairer figure of what it really cost us in terms of the national debt.

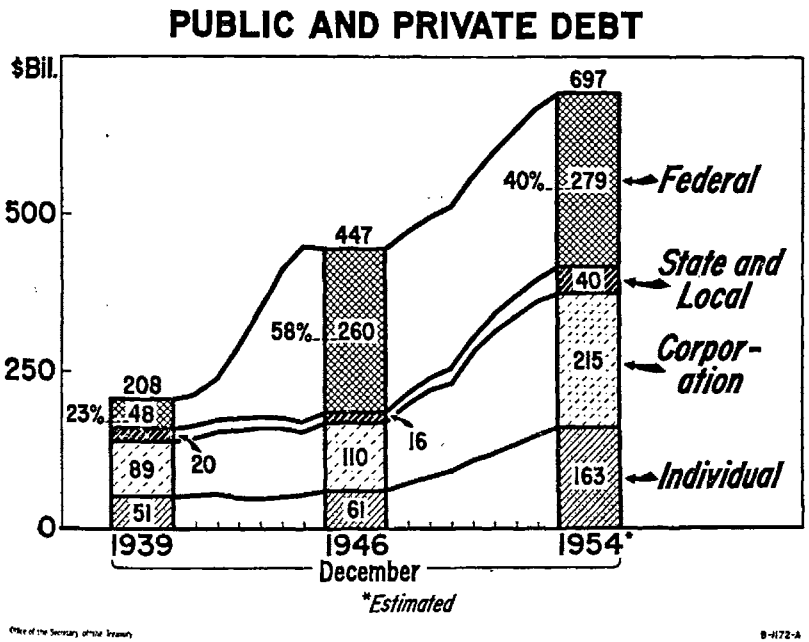
The first debt reduction due to budgetary surpluses took place in 1947, 1948, and 1949, and they reduced the debt by $8 billion to $252 billion.

Then came the Korean war, and the $27 billion increase since 1949 represents the Korean war and the efforts to meet the cold war. So we are left at the present time with a debt of close to $279 billion.

Now, there is a way of putting the debt in its setting, and it is interesting to relate the Federal debt to our other debts of the people.

Back in 1939, we had a total debt structure of $208 billion, and the $48 billion of Federal debt was at that time 23 percent of the entire debt structure. The State and local debt was $20 billion, corporation debt $89 billion, and individual debt $51 billion, as shown in chart 2.

Chart 2

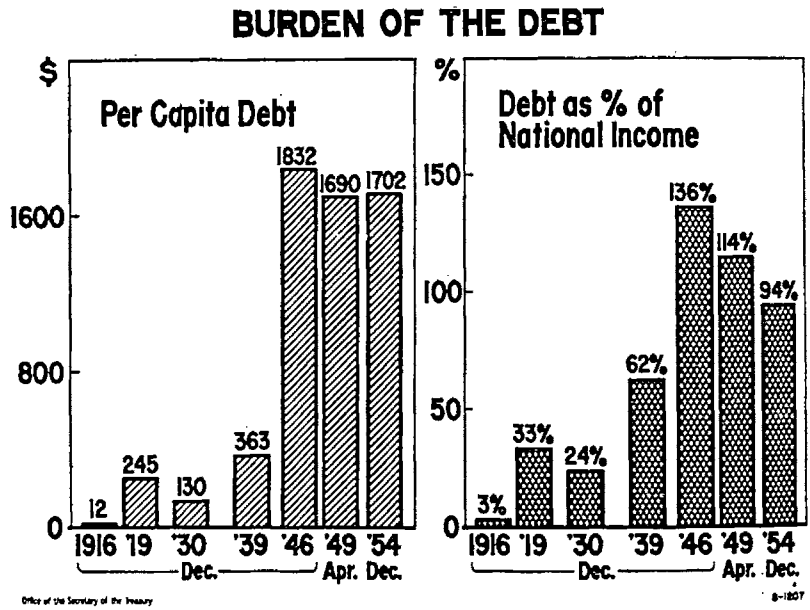


By the end of the war the Federal debt had swelled up to $260 billion, using that adjusted figure, which was 58 percent of the total debt structure in December 1946. During the war the other segments of the debt were held back because of shortage of goods and inability to start building operations, and so on.

Now, since that time, the Federal debt has risen, as indicated here, to $279 billion, which is now 40 percent of the total debt structure; that is, as the other sections have risen, the Federal debt becomes a smaller proportion of the whole debt structure. These others have gone up pretty smartly. The State and local debt is expanding. Of course, that includes these road programs which are in a sense self-liquidating; and then corporation debt has doubled since just after the war, and individual debt has risen much more than that; it includes consumer credit, of course, and the big item is mortgages.

Now, once again in the way of showing the problem of the burden of the debt, the left-hand side of chart 3 shows the debt per capita of the population. Before World War I that was only $12. At the end of that war it had risen to $245. It went down to $130; it was $363 before we entered World War II, and it went up to $1,832 by December 1946. Then it shrank, partly due to payoffs and partly due to the growth of the population, to $1,690, and it is fair to say that since 1949, the increase in the population and the increase in the debt have more or less kept pace with each other, so that the per capita debt is about the same.

Chart 3



Now, a rather more cheerful way of looking at it—we ought to seize on any aspect of the debt that we can that is cheerful—is to relate the debt to the national income.

After World War I the debt was 33 percent of the national income. Before we entered World War II, it was 62 percent, and it rose so that it was larger than the national income, 136 percent; it was reduced by 1949 to 114 percent; because income was growing and there was some debt retirement.

The debt has come down now to 94 percent of national income. That is due to 2 causes, 1 of which is not so good. That is inflation. Inflation has increased the national income in terms of dollars, so that a part of the adjustment of the debt to national income is due to inflation, so that it has caused in a sense the kind of evil you want to try to avoid.

But part of it is due to good, solid causes, the growth of production and the expansion of the economy.

There is one thought——

Senator DOUGLAS. Mr. Chairman, is Dr. Burgess including in his analysis—would it be appropriate if I asked a question at this time?

Senator FLANDERS. Yes, you may do so.

Senator DOUGLAS. The question I wanted to ask is this: If you take the carrying charges on the national debt as a percentage of national income, isn't the showing still more favorable because what we have had has been, until very recently, a very sharp fall in interest rates?

I made some computations indicating that as a percentage of national income the interest on the national debt in 1933 was a larger percentage than it was in 1952.

Mr. BURGESS. Yes, we have those figures. The interest rates now, for example, are actually lower, the rate of interest is lower, than it was 2 years ago, so that——

Senator DOUGLAS. I think as a percentage of national income, the cost of the national debt to the community was lower in 1952 than it had been in 1933, because roughly you have had a fall from 4 percent to 2 percent.

Mr. BURGESS. Yes, those figures are in the right area, Senator; I will have the figures inserted in the record.

Computed annual interest charge on interest-bearing public debt as a percent of national income

	Computed annual interest charge (as of June 30)	National income (calendar year) [1]	Interest charge as a percent of national income
	Millions	*Millions*	*Percent*
1932	$672	$42,500	1.58
1933	742	40,200	1.85
1934	842	49,000	1.72
1952	5,981	291,000	2.06
1953	6,431	305,000	2.11
1954	6,298	[2] 298,900	2.11

[1] Rounded to nearest hundred million.
[2] Annual rate for first three-quarters.

It shows that—we have two ways of going at this problem of the debt. It is an ugly thing to have such a big debt. One way is to try to keep it down and try to pay it off, and the other is to grow up to it. This, of course, means that one of the important things we are dealing with in respect to the debt is to encourage a dynamic growing economy.

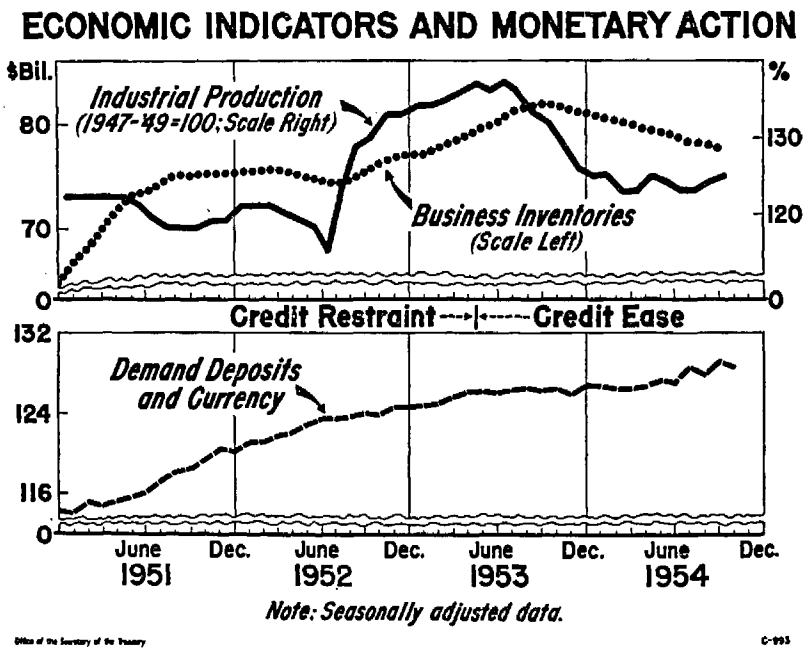
Now, to come to the debt action in the past 2 years: As Secretary Humphrey has said in his presentation, one of our objectives was to gear our operations with the operations of the Federal Reserve System, and that is in accordance with the recommendation of your two subcommittees.

Chart 4 is an attempt to single out from the great mass of economic facts one or two that might shed some light on the situation that we have been facing.

The first thing you will notice is the color on the left side of this chart. The pink color is the area during which the Reserve System was exercising credit restraint. Now, those are the years from 1951 through to May 1953. We put in that color in a gradually deeper shade because they were gradually increasing their credit pressure during that period. The evidence of their policy, of course, is contained in the reports of the Federal Reserve Board, which shows the policies they were following during those years.

Now, what were the economic events against which they were doing so? This solid black line represents industrial production, as shown by the index of the Federal Reserve Board. The dotted line represents business inventories, and this lower dashed line represents the

Chart 4



volume of money, as shown by adjusted demand deposits and currency.

Now, the interesting thing is that production was going through a great bulge from the middle of 1952 until about August of 1953, a bulge that carried it well above the levels that it had been and is now; in fact, it carried it above the highest level reached during the war.

Now, that bulge represented in considerable measure the increase of inventories, as well as the normal flow of production into consumption; inventories increased something like $7½ billion over that period, and at the same time, you had a period of rapid credit growth.

There was a budget deficit of $9.4 billion in the fiscal year 1953.

At the same time in this period, the wage-price controls were removed so that you had again a question of restraining possible overexpansion.

Now, this area over here on the right represents a period when the Reserve System was operating under a policy of credit ease, again as demonstrated by the reports that they made in the annual reports of the Federal Reserve Board.

One of the things about it is that they turned their policy about very quickly when there was evidence of change in the business atmosphere; even before it showed up in inventory figures and in the production index.

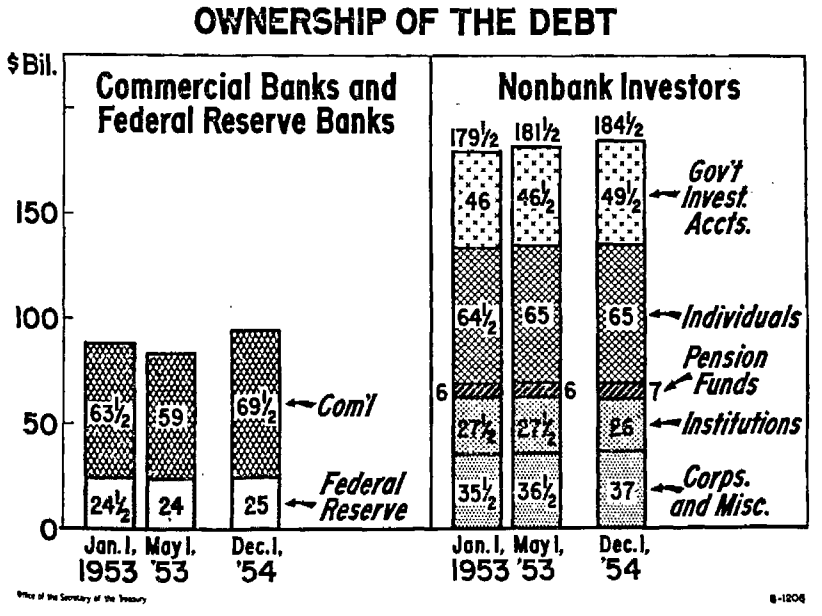
Now, our problem was to adjust our debt action to this sort of a situation.

There were two major problems of debt management that we faced. One was to do exactly what the Secretary indicated, to adjust our debt management to the business situation, and to the monetary policy, and the other was gradually over a period to lengthen out the debt so it would not be so heavily concentrated in short-term maturities.

Now, the first job with the volume of money rising, and with an inflationary situation in the early months of 1953, was to see that our debt operations did not add to the volume of bank credit, that is, that our securities were sold as largely as possible outside the banks; and chart 5 shows that from January 1 to May 1, 1953, bank holdings of governments showed a decline rather than an increase. The Federal Reserve holdings also were down a little.

Then after the change in policy, commercial bank holdings of securities went up; the volume of money increased in accordance with what you would call a classical pattern. It no longer was so important for us to concentrate on selling outside the banks, but on the contrary, some increase in the volume of bank credit was a desirable thing for the economy.

Chart 5



Now, the right-hand side shows the absorption of Government securities by nonbank investors. The corporations and miscellaneous group increased their holdings slightly throughout the period; nonbank institutions, which means insurance companies and savings banks, and so on, decreased their Government holdings over this period, as compared with no change during early 1953. That was in a way a beneficial thing because they were putting the money in mortgages and in industrial securities and in other investments which created employment and offset the recessionary tendencies of the period.

Pension funds held $6 billion of Government securities in that period, and they now hold $7 billion, when those figures are rounded off; that is a steadily growing market for Government securities.

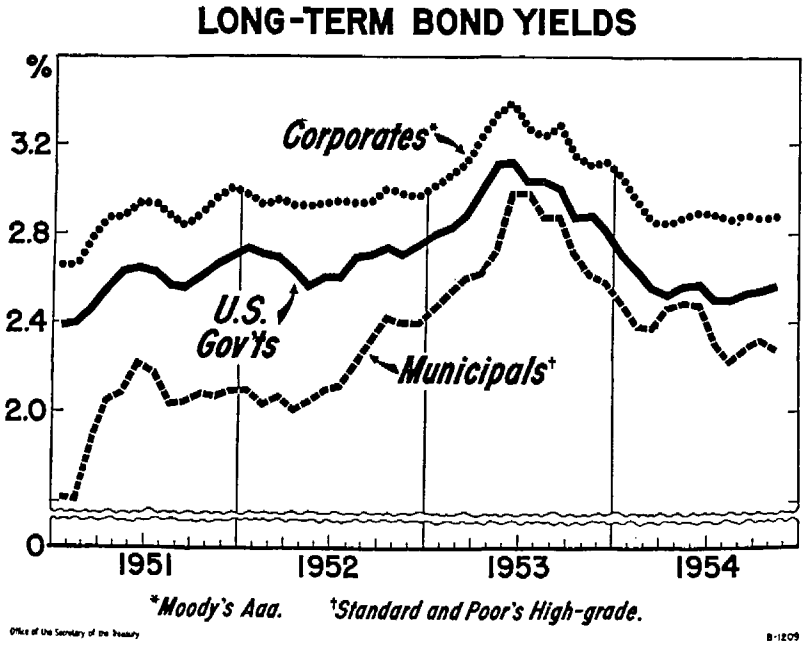
Individuals have increased their holdings slightly, and that is where our savings-bond program comes in, which is a long-term program for getting individuals to buy Government securities, and getting a wide distribution of the debt.

Another steady absorption of the debt outside the banks is in the trust funds of the Federal Government—social security, unemployment funds, and so on—and that has increased over this period of 2 years by $3½ billion.

In a way, it is a kind of funding of the debt although it is, of course, on call if there is heavy unemployment or other economic situations that may lead to a more rapid withdrawal of social-security funds.

Now, responding to these changes in policy and the change in the pressure on the situation, you have had this change in long-term bond yields (chart 6). They have been going up since early in 1951; in fact, if I projected the chart back further, they would show some rise before then. The rise was, of course, sharper in these last months of the boom period in 1953, when there was more pressure on the situation from the Federal Reserve, and when we were selling a billion dollars of long-term bonds outside of the banking system.

Chart 6



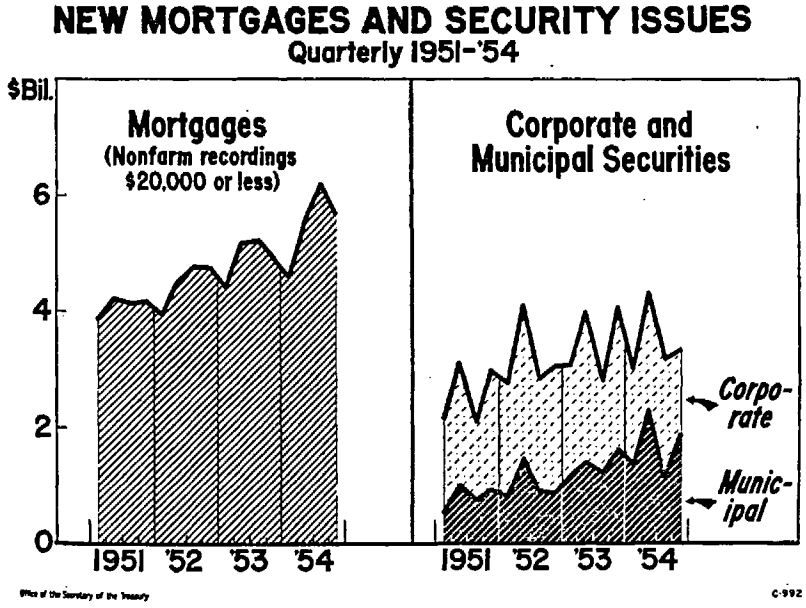
There is one rather interesting thing about this chart, which is that the rate on municipal bonds—and that is the broad figure of the municipal and State, of course, with the big element being State bonds. That has gone up faster than the yield in the other categories, due to the fact that the huge volume of State and municipal issues was pressing on the market and congesting the market during that period. The amounts were so large that they overflowed the true tax-exempt market and had to go over into the life-insurance companies and other investors, so that State and local governments really lost a great deal of the benefit of tax-exemption.

All these yields have come down sharply since that time, and are now lower than they were in the latter part of 1952.

The corporate yields are about even with what they were in late 1951 and 1952, and the Government yields are somewhat lower.

Now, one thing that we have been watching very intently during all this period in our policy—and the Federal Reserve has been watching it as well—is the flow of money into new investment in the form of mortgages and corporate and municipal securities. The employment of money in those markets has been a great underlying strength in this transition period.

Chart 7



Now, as to the restraining money policies in early 1953, the left-hand side of chart 7 shows the mortgage market, as represented by nonfarm recordings of $20,000 or less; and the right-hand column shows new corporate and municipal securities in separate areas.

The credit restraint policy in 1953 came at a time when there were very heavy offerings of mortgages in the market, and similarly when there were very heavy offerings of these securities.

The higher interest rates and decreased credit availability led to the deferment of a certain amount of mortgage financing, and a certain amount of corporate and municipal financing. This meant that the work represented by that financing was available during the latter part of 1953 and 1954 to help hold things up.

I noticed one of the speakers yesterday said that he believed that the policy took something off the peak, and helped to fill in the valley. That, of course, is exactly what we were trying to do.

We were watching all during this period very carefully to see that money was freely available in these markets, and it is rather interesting that as you look at the charts, you will have difficulty in finding when this credit restraint policy was because the high volume of financing went on rather continuously. The presumption

is that without the policy of credit restraint and subsequent ease more financing would have been done in early 1953 and less later on.

Now, a few words about the other phase of our financing.

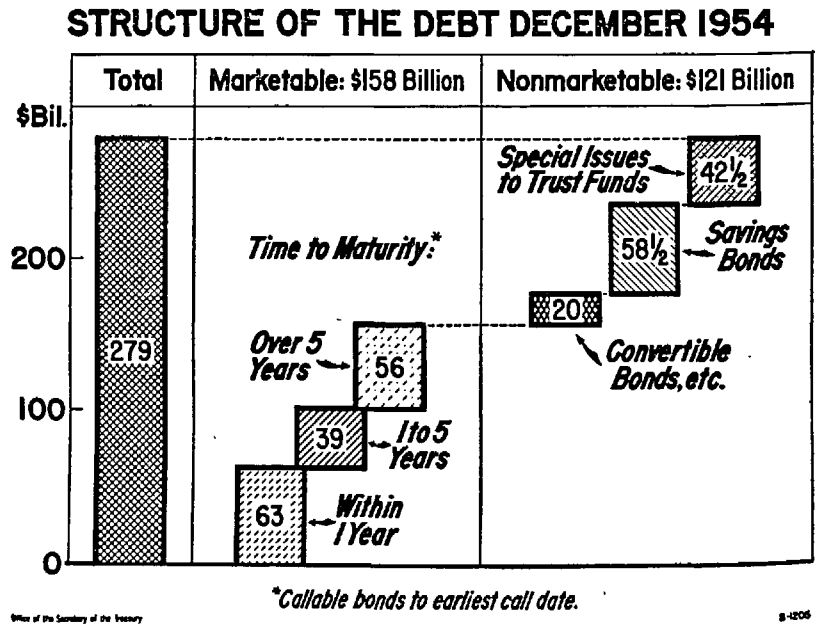
The first and most important phase is to adjust our debt management policy to the business situation and to the policies of the central bank in such a way as to encourage, and not discourage, a high level of employment and honest money.

The other problem, the longer-term problem, is to distribute this debt more widely among the people, and to lengthen the maturities, partly so we will not run into embarrassing jams in having so much financing to do in any one year, and partly also to see to it that the amount held by the banks is gradually reduced because that has a long-term inflationary tendency.

We do not want to reduce it any faster than the economic situation calls for, but some bank reduction is good over a period.

Now, chart 8 is an attempt to show the structure of the debt today. The left-hand column is the total debt, and then a group of blocks are shown to represent the marketable debt of $158 billion. About $63 billion of that now matures within 1 year, and of that close to $20 billion is in the form of Treasury bills. About $39 billion matures in 1 to 5 years, and $56 billion in over 5 years. All callable bonds are considered to their first call date.

Chart 8



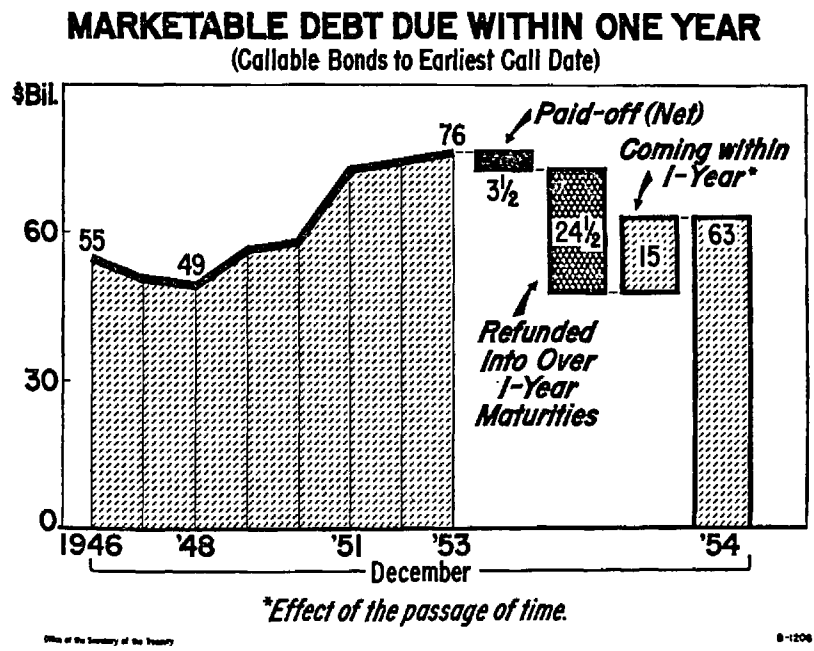
The other section of the debt is the nonmarketable debt and that amounts to $121 billion. Of that, $20 billion is convertible bonds, savings notes, and miscellaneous issues. About $12 billion of that is the 2¾ percent bonds which were used in refunding a great big indigestible lump of 2½ percent marketable bonds in the spring of 1951.

Savings bonds total $58.5 billion. We think that is a good way to get the debt better distributed.

Then there are the special issues to the Government trust funds. Of the amount held by the Government trust funds, part is in special issues, which we issue directly from the Treasury, and part is in marketable bonds; the figures on the chart are the specials.

Now, I want to show you what we have been trying to do on the short-dated debt. Chart 9 is an illustration.

Chart 9



When we came in, the marketable debt due within 1 year was about $74 billion. Before we got through the calendar year of 1953, it had risen to $76 billion. We had not been able to do as much about it as we would have liked to because we faced, as you know, a deficit of $9.4 billion in 1953, and the credit situation was such that it was not desirable during the summer and early fall of 1953 to put any financing out other than short terms, so we wound up with $76 billion.

Now, over the past year we have gradually reduced that $76 billion due within a year to $63 billion; $3½ billion of debt was paid off; $24½ billion was refunded into issues longer than 1 year; most of that went to the banks, but it stretched out their maturity to put their holdings in more manageable form. Then, as an illustration that you have to run pretty fast in this business to stand still, $15 billion of debt issued in earlier years came within the 1-year total. It had been longer, and time had gone on, and it came within the 1-year period. That brings us out with $63 billion maturing within a year, which is a more manageable figure than at the end of 1953.

Now, another way of illustrating the change in the debt as to maturities is by figuring out the average length of the marketable debt.

As I say, there has been a period during the last 2 years when we had to temporize with this problem—when we could not go out and try to spread the maturities very vigorously.

We have been criticized for not putting out long bonds this year. I think we were absolutely right in not doing so, because it would have been clearly in competition with the enormous loan funds in the mortgage market and the new issue market. We have had to work within rather narrow limits, and those are the limits set largely by the maturities the banks are interested in. But we have tried to stretch out our maturities.

Chart 10

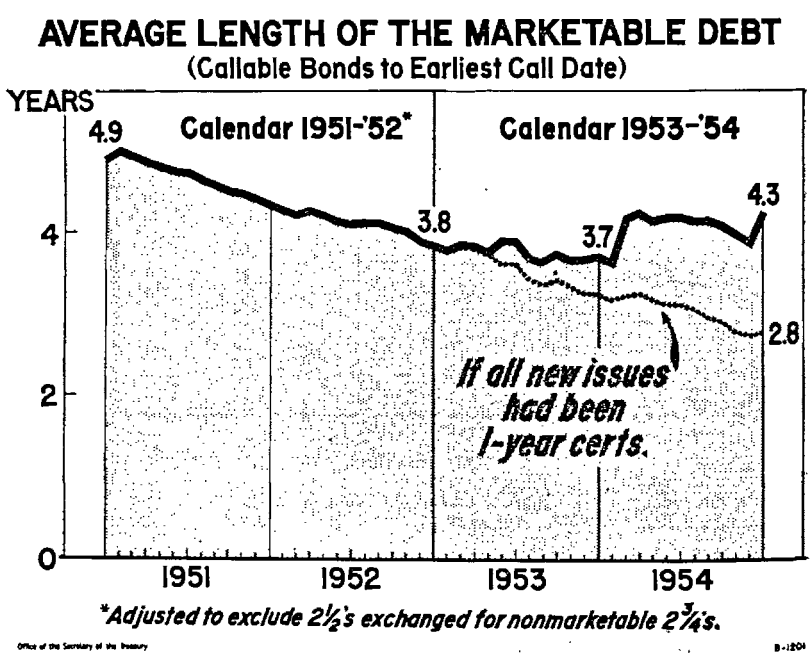


Chart 10 shows the average length of the marketable debt, which was 4.9 years at the beginning of 1951. Then it went steadily down as the Treasury financed itself largely with short-term issues, so that at the beginning of 1953 it was 3.8 years. That is the average length of the entire marketable debt.

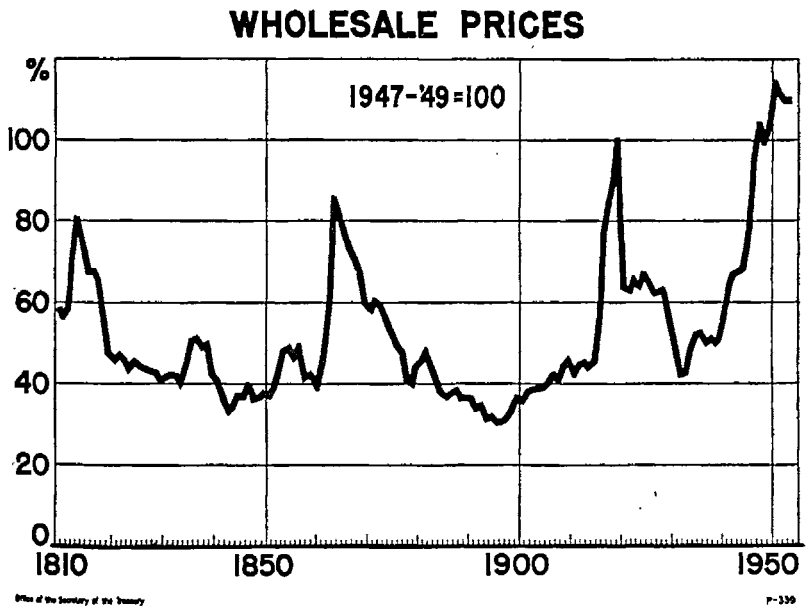
Now, as I have indicated before, in 1953 we did reasonably well just to hold even. We came out at the end of the year with about the same figures as at the beginning. This year we have been able to stretch out the debt somewhat in refundings, particularly in February and in our current December financing, so we will finish up the year with an average length of debt of about 4.3 years.

If we had refunded all the securities that matured during 1953 and 1954 in 1-year certificates, the average length of the whole marketable debt would have been only 2.8 years.

Now, chart 11 is a final chart. That does not draw any conclusions, but it keeps our sights upon the horizon, and relates to where we now are in the economic picture and to where we were in the past.

I present this familiar chart of wholesale market prices running back to 1810, over 144 years, just to have that in mind.

Chart II



In a way, it is not too good an index, as Senator Douglas knows. But it does give a pretty good indication of the trend of prices, although we have to rely on relatively thin data as you go further back. It shows that each war, the War of 1812, the Civil War, the First World War, the Second World War, and the Korean war, and the cold war have tended to produce a rise in wholesale prices.

Another interesting feature of it is that the general trend line, except for those war bulges, was moderately level over the first 125 years or so of that period. After each war we did tend to come back to the old price level, right or wrong, so that when people say, "Well, in my mother's day prices were just so much cheaper than they are now," that is really only true in the last 15 years or so.

Certain prices did go down, and certain others went up. The price of manufactured goods came down over the long span. The prices of many other articles tended to go up.

But here we are with a new kind of thing. We have got one war piled on another, and it leaves us in what is in the history of the past, an inflated position. But we are trying something new this time. We are trying to hold the general level of prices stable rather than trying to go back to any previous level.

Our firm belief is that we should benefit best from a stable-price level rather than trying to go backward and forward. I think it does

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indicate that the inflationary forces are always there, waiting around the corner to leap on us. The fact is that the present high-price level does represent a tragedy for many people who have accumulated savings; but any attempt to readjust it would bring more of a tragedy than you would correct by doing it.

We are trying to do something new; we are trying to use all our forces to give us stability instead of the pattern you see on that chart.

I think, Mr. Chairman, that concludes it.

Senator FLANDERS. Thank you, Mr. Burgess.

I would like to pick up a question which arises from your last few words. Are we to conclude from what you have just said that your main interest in these matters is in price stability? There are other criteria, but price stability seems to be the one that you have emphasized.

Mr. BURGESS. Well, I think if I emphasized that exclusively, it would be a mistake, because what we want is economic stability and growth, Mr. Chairman; the buying power of the dollar is a most important element in that, but it is certainly less important than having a good, sound, solid economic growth.

We believe that a stable dollar is one of the very important desiderata of growth as well, but, as in the old Federal Reserve days, there is not any single measure that you can follow and recognize exclusively as the guide. As the Congress, indeed, demonstrated when it was considering the Employment Act, they found they had to use a pretty broad brush to paint the objectives that they wanted.

Senator FLANDERS. Now, getting it into human terms, we think of high production and consumption. Do you feel that a stable price level leads to those ends?

Mr. BURGESS. Yes, sir.

Senator FLANDERS. One thought came to my mind in connection with your chart No. 4, which showed the rapid increase of industrial production up until the middle of 1953, the rise in business inventories slightly beyond that, and then a gradual decrease.

Would not a drop, not in wholesale prices necessarily, but a drop in the general price level have moved the inventories? It seems as though that used to be considered the old free-market operation, but this time there was not any particular decrease in prices to the consumer, so the inventories dropped off slowly. As they were worked off, production went down.

Mr. BURGESS. That is one of the very extraordinary features of this business movement.

As you indicate, in previous ones, there has tended to be an adjustment in prices which has helped to move the goods. I think that, perhaps, there has been a little more price adjustment than shows in the indices, the sale of cars at discount or white goods, and so on. One can debate that question that you raise at great length. The difficulty is that if you do have a sharp drop in prices it tends to accentuate the whole movement, and may lead you into a spiral downturn.

I think also that the fact that there was no great drop in prices was an indication of confidence in the future that business had, so they thought they would wait it out, and so far it looks as though they may have been right in so doing.

Senator FLANDERS. Then in business practice and in certain governmental operations we must qualify some of our ideas about the automatic effects of free market supply and demand on production, and employment. We think of that as sort of a norm which we look at occasionally; is that about the size of it?

Secretary HUMPHREY. Well, I think, Mr. Chairman, in connection with this, just from a practical viewpoint, that we had large consumer buying during all this period, and I think that with that large consumer buying, that was the thing that tended to help stabilize the situation, and the goods kept moving, and there was not the pressure, the price pressure, that you otherwise would have.

Further than that, you have not had the great rise in prices immediately preceding it, either, that usually occurs just before this sort of thing.

Senator FLANDERS. Yes.

Secretary HUMPHREY. So that with the combination of rather stable prices on the way up, and with a continuing distribution going on, you did not have the wide price swings that you might otherwise have had during the last 2 or 3 years. I would not say that that phase of our economy was gone for all future time.

Senator FLANDERS. Well, that is a good subject for contemplation; I will not press it further.

Now, there is one element in our debt structure which ought to be perfectly simple to me, but somehow or other I get tangled up every time I look at it. That is the special issues to trust funds; who owes what to whom. These funds flow in from the States and from the beneficiaries into the Treasury; with this money the Treasury buys for its own account some special issues which are put into trust funds as reserves against future payments.

How do these issues get into circulation as Government funds? Are they paid out?

Secretary HUMPHREY. I can illustrate this in a kind of common garden way.

Senator FLANDERS. That is the only way I shall understand it.

Secretary HUMPHREY. And by a little story that I have told before. I had a businessman one day speak to me about these funds, and he said, "Isn't that just crooked? Aren't you just deceiving people by that?"

And I said, "Well, I really don't think so." I said, "You have"—this was a businessman running a large business—I said, "You have a substantial pension fund for your company, don't you?" And he said, "Yes," that they had a big pension fund; that every year they contributed to that pension fund so as to not have a big burden all come at one time, and that they, perhaps, were not actuarilly sound, but they reached toward actuarial soundness in their fund, and they kept putting annual deposits each year in this fund so the fund would be available for use when the occasion required it.

I said, "Now, what have you done with that fund? How have you got it invested?"

He said, "Why, we have our fund invested in Government bonds. That is what we put our fund's investment in."

I said, "That is exactly what we do. The United States has its funds invested in exactly the same way. We charge to income annually an amount to bring these funds into the realm of actuarial soundness."

You can get into all kinds of arguments about actuarial soundness, but it is in that realm. Then I said, "We invest our money in Government bonds just as you do."

Senator FLANDERS. And the money received for those bonds is available for expenditures?

Secretary HUMPHREY. That is right.

Senator FLANDERS. I have another question.

Secretary HUMPHREY. I will just say one more thing, that I think we should never fail to keep in our minds: That practice—while I do not know what else you can do with your money, or how else you would handle it—does hold this fear that we might just as well recognize. This applies particularly to unemployment funds or other funds that are subject to emergency withdrawal. In the event of an emergency withdrawal, an emergency need for funds, not only the private funds will be wanting to sell their bonds in order to turn them into cash to use the cash currently, but the Government funds—for the same emergency purpose—would do the same thing. So that we might run into a period where you would have the private funds and the Government funds and a number of other people all trying to realize on funds which they have laid aside in bonds for their protection. Then you might have an emergency in which you would have an excess of Government bonds offered on the market which might present a serious problem for the time being.

Senator FLANDERS. One further question on that line: How much interest does the Government pay itself, and does it make any difference?

Secretary HUMPHREY. Well, I think it does make a difference. I think you have to treat these funds just as you would treat the private funds.

Senator FLANDERS. Except that you do not have to market them.

Secretary HUMPHREY. You may have to market them sometime.

Senator FLANDERS. It would then be these very instruments which you put into the trust funds that you would market in an emergency?

Secretary HUMPHREY. No. They would be changed into the kind of thing that would sell to meet the market condition at the time.

Senator FLANDERS. Then the marketability is not a determinant of the interest which you pay yourself?

Secretary HUMPHREY. Not necessarily.

Senator FLANDERS. Well, I have always wondered how you determined the interest you should pay yourself and whether, as debtor, you ever had any arguments with yourself as creditor on that particular subject.

As I say, I personally do not see that it makes any difference.

Secretary HUMPHREY. Many of the interest rates are fixed by law. So that part is settled.

Senator FLANDERS. Yes; I see.

In order to give time for others, I will be as brief as possible in questioning.

We had some discussion here yesterday to indicate that there was something in the nature of a near panic in the money market around

June 1 last year. Would you say that that was a correct description of what happened?

Mr. BURGESS. Well, Mr. Chairman, I think that is a little exaggerated. There was no doubt about it; the market was disturbed and disorderly for some days. The new 3¼ percent bonds went to a discount of just over 1 percent; it was not very bad. It restored itself reasonably well.

The Federal Reserve put money into the market through the purchase of Treasury bills, and that was taken as an indication of a change in policy. The market cleared itself up over a period of weeks. It undoubtedly was a crisis of sorts.

Of course, most changes from a boom to a leveling off in economic conditions do have some sort of crisis, and in the light of other crises, this was a relatively mild one.

Senator FLANDERS. Do you feel that it would be helpful if the Reserve System went back to the policy of offering some support while securities were being marketed, or are you content to go along with the plan of their holding off during that period?

Mr. BURGESS. Well, I want to say, first, that during these nearly 2 years that we have been working with the debt, we have had very fine cooperation from the Federal Reserve System. We have not been conscious of any deficiency in their cooperative efforts.

Now, I think in the discussion yesterday, and in other discussions, there was a tendency—you may want to ask Mr. Martin about this—to overstate the decision of the Reserve System to stay out of the market.

I think they have always qualified that by saying that if the market became thoroughly disorderly they would be prepared to go in and do whatever was necessary to straighten the market out.

Senator DOUGLAS. Mr. Chairman, before you proceed, might I refer to the previous question asked of Mr. Burgess?

Senator FLANDERS. Yes.

Senator DOUGLAS. Mr. Burgess, you spoke of the fact that in June of 1953 the new bonds fell by only 1 percent, but is it not true that the bonds of older issues had fallen by approximately 10 percent?

Mr. BURGESS. Well, they fell by 10 percent from 1951 to June of 1953.

Senator DOUGLAS. Yes; but I mean was not the sudden decline from March to June of 1953?

Mr. BURGESS. That was not 10 percent, Mr. Senator. As I remember it, it was about 4 points—from 94 to 90. Those bonds had already been declining for 2 years. The decline was sharper, admittedly, in that last period.

Senator DOUGLAS. Excuse me.

Senator FLANDERS. Now, one other question: Is there such a thing as a free market for paper representing debt when, in your chart No. 2, you show that at the present time 40 percent of the total public and private debt is Federal, and back in 1946, 58 percent was Federal?

How can a market be free when so much of it is on the terms of a single issuer?

Mr. BURGESS. Well, Mr. Chairman, of course, it is not entirely free. We are in and out of the market constantly, and the Federal Reserve, with almost $25 billion of governments, is a constant factor in the market. It is a relative term, but the market is certainly freer than

it was, a great deal freer, and the question is how much leeway there is for the natural forces of supply and demand for money to operate.

Now, we believe that things will be healthier if the natural forces of supply and demand have a good deal of leeway to operate, and that they tend to be self-corrective of difficulties in the market—I say tend to be.

When we are such large factors, the Federal Reserve and ourselves, we always have to be alert to the market, and ready at some point to see that at least we do not upset it, and at times to act as a stabilizing factor, but whatever freedom you can give it we believe is very useful.

Senator FLANDERS. Mr. Patman?

Representative PATMAN. Mr. Secretary, you mentioned the possibility of an emergency arising through the sale of Government securities by these trust funds to take care of their obligations. Don't you consider that a pretty good reason to consider support for Government bonds under certain conditions, at least?

Secretary HUMPHREY. Well, I think that I would answer that just exactly as Mr. Burgess answered the previous question. I think that there are times when there ought to be some attempt to stabilize market conditions; but that, by and large, the best thing we can do is to keep our activities in such shape that we are not influencing the market either way, but to let the market use its natural correctives to the greatest possible extent.

Representative PATMAN. Will you put that first chart back up, about the public debt; that is $279 billion? You do not list Federal Reserve notes in that, do you?

Secretary HUMPHREY. No.

Representative PATMAN. Federal Reserve notes, after all, are obligations of the United States Government, carrying the same obligation as a bond, is that right, Mr. Secretary?

Mr. BURGESS. They are secured obligations; they have gold and the assets of the Federal Reserve System behind them.

Representative PATMAN. But they are obligations. They state on their face, just like a Government bond; they are obligations of the United States Government.

Now, when the Federal Reserve bank, for instance, buys $1 million in Government bonds, and it gives $1 million in Government Federal Reserve notes, that is paying out one form of Government obligation for another.

You are just listing one of them up there now in the public debt. Why should not the Federal Reserve notes be listed because there are $30 billion worth of them outstanding today, and the Government has got to pay every one of them?

Secretary HUMPHREY. Well, you understand this does not attempt to reflect all of the obligations of the Government in any way.

Representative PATMAN. I know, but this is a debt obligation.

Secretary HUMPHREY. There are a whole lot of obligations much larger than that. If we put in all of the contingent liabilities and all the other things, you would have a far different picture than this.

Representative PATMAN. We have an enormous debt, the total debt being $697 billion, public and private.

Now, 1 percent interest on that would be $6,970 million.

In view of the fact that the public debt—I mean the national debt—represents such a large part of that, don't you think the cost of money should be considered in all the policies that you are adopting, Mr. Secretary? Should it be a major factor?

Secretary HUMPHREY. The cost is an important factor.

Representative PATMAN. It is an important factor, of course.

Now, Mr. Burgess said a while ago that he placed the level of prices, the buying power of the dollar, I believe, No. 1 on your list in importance.

Secretary HUMPHREY. I think that is very important.

Representative PATMAN. What would you list second?

Secretary HUMPHREY. For what purpose? I do not know what——

Representative PATMAN. For the purpose of looking after the public interest and economic interest of the Nation.

Secretary HUMPHREY. Well, I think what we are trying to do is this: We are trying to create stable conditions and conditions that are favorable for the making of jobs. I think this whole thing gets back to the people and the making of jobs.

Representative PATMAN. That is the point I am coming to, Mr. Secretary. Don't you think that full employment is more important than the level of prices?

Secretary HUMPHREY. I think the making of jobs is probably the most important thing that this country has to do. We have a growing population, and I think the basis of our prosperity, of the living of the people in this country, gets back to the making of jobs.

Representative PATMAN. Well, I am glad to hear you say that because that puts the Employment Act No. 1, does it not?

Secretary HUMPHREY. Well, I do not know that I would say the Employment Act, is it?

Representative PATMAN. Well, I mean the policies set forth.

Secretary HUMPHREY. I think I would put it just as I set forth, the making of jobs.

Representative PATMAN. And the policies set forth——

Secretary HUMPHREY. There are certain things that help to make jobs, and certain things that help to discourage that.

Representative PATMAN. I think that is the Employment Act.

Secretary HUMPHREY. And I think we ought to help to make jobs.

Representative PATMAN. Isn't that one of the things in the Employment Act, the making of jobs?

Secretary HUMPHREY. I will not quarrel with you on words; in my point of view it is making jobs.

Representative PATMAN. I think you have dovetailed it in, and I think it parallels the Employment Act. I am glad to hear you say that is more important than the level of prices.

I want to ask you about this 3¼-percent bond issue of last year. When was that issued, April 1 or April 30?

Secretary HUMPHREY. I do not remember the exact day, but it was in April.

Representative PATMAN. I believe it was dated May 1.

Mr. BURGESS. Yes; for payment on May 1.

Representative PATMAN. It was announced in the early part of April.

Secretary HUMPHREY. Some part of April.

Representative PATMAN. I cannot understand, Mr. Secretary, why you put out that issue at all. You did not have to have the money?

Secretary HUMPHREY. We needed to borrow about a billion dollars, and we wanted to do it that way for a number of reasons. One reason that does not show in the charts I would like to just call to your attention: We had had since early in the Korean war extensive controls in our economy. Those controls covered many prices, wages, and so forth.

We had great bureaus down here exercising those controls. During the latter part of the preceding year there had been some discussion as to whether or not those controls could be taken off.

When we first came into this Government, there was a great division of opinion as to whether or not the controls could be removed. It was thought that it was beneficial by some to get controls off just as rapidly as possible, and let the economy begin again to function freely.

It was said by others that if that were done we would have a runaway inflation, prices would go right through the ceiling, and we would have a lot of difficulties.

That was the atmosphere in which we were operating in the early part of the spring of 1953. We decided that it would be best for the economy if those controls were removed, and removed just as rapidly as possible, to return the economy to a free operating basis.

In order to attempt to keep prices from running away, with the removal of those controls, there were several things that could be taken into account. One of them was the productive power of industry coming up; another was prospective demand; another was some restraint on credit which would help dissuade speculative buying for inventory purposes, and all those things were taken into account, and this issue was part of the program that was used in taking off those controls. We did take off the controls, and all of the calamity howls that we might set off an impossible price rise proved to be false, and our prices did not rise. We went along without the controls, and I am sure the country was much better off because we did so.

Representative PATMAN. I have great respect for your judgment, Mr. Secretary, but I don't think that was related to issuing $1 billion in 3¼ percent bonds.

Secretary HUMPHREY. That was part of the program.

Representative PATMAN. No. 1, it was not necessary to issue them. You had the money.

No. 2, the rate was excessive, as is evidenced by the fact that a purchaser of the 3¼ percent bond at the low point, selling them at the high point within 1 year, would have made more than 15 percent.

Secretary HUMPHREY. Everybody had the same chance. The bonds have always been freely traded in the market.

Representative PATMAN. A windfall.

Secretary HUMPHREY. Everybody had a chance. They were available in the market at par or below all during May and June.

Representative PATMAN. Somebody got an awful windfall in that. That is about the biggest windfall I know of in the history of Government bonds.

Secretary HUMPHREY. The bonds went below par after they were put out and they didn't get above par again until July.

Representative PATMAN. I know, but some people bid on those bonds, their subscriptions were cut in half and the commercial banks

got them. Mr. Burgess said you were trying to take them out of the commercial banks.

Secretary HUMPHREY. There were plenty in the market for many weeks. Nobody was denied an opportunity.

Representative PATMAN. And another question, Mr. Humphrey: Why did you permit the F- and G-bond holders to exchange their bonds at 3¼ percent, and not permit the E-bond holders to do the same thing?

Secretary HUMPHREY. I will ask Mr. Burgess to answer that.

Mr. BURGESS. Well, the E-bonds are an entirely different kind of bond. The E-bond holder was already getting 3 percent for a bond that is completely protected from all fluctuations in the market.

Representative PATMAN. I know, but this is 3¼. You let the F and G's, getting 2.9 percent, the same that the E's were getting, exchange theirs that were maturing for the 3¼ percent, although you didn't permit the little fellow, the E-bond holder, to do.

Mr. BURGESS. We did permit him, Mr. Congressman. Any E-bond holder that wanted to cash in his bonds and buy the others had the full privilege of doing it. They were available in the market.

Representative PATMAN. If he could get them through a bank or a broker who would be paid a commission.

Secretary HUMPHREY. Of course, he could get them. But the E-bond buyer is a completely different kind of buyer. He is a small buyer who doesn't want to take the risk of the market. He, typically, hasn't any reason to buy 3¼'s or 2½'s, or any other marketables.

Now, for example, suppose you sold 2½'s to the E-bond buyer, he would have suffered, as you indicated awhile ago, 10 percent——

Representative PATMAN. I am not talking about 2½ percent. I am talking about 3¼ percent.

You gave the F and G holders, who are in a higher income class than the E bondholders, an opportunity to exchange their maturing bonds that were drawing 2.9 percent interest for the 3¼ percent without going through any market or anything else, just exchange them, but you did not permit the little fellow with the E bonds, to do the same thing, and that is the point I can't understand.

Secretary HUMPHREY. Well, I just want to insist that the E-bond man could get his money at any time from the banks and invest it in that market if he wanted to.

Representative PATMAN. Why didn't you give him the same privilege you gave the F and G holders?

Secretary HUMPHREY. He had it automatically.

Representative PATMAN. Well, he didn't.

Secretary HUMPHREY. He could cash his bonds and take the money and put it in the other bonds.

Representative PATMAN. E's are held by the little fellows.

Secretary HUMPHREY. Sure.

Representative PATMAN. The F and G's by the big fellows. You specifically stated in your notice that the F and G bondholders could make an exchange directly with the Treasury. They didn't have to go through a broker or a bank. They just made a direct exchange of their 2.9 percent bonds for the 3¼ percent bonds.

You made it very easy for them which was fine, but why didn't you let the E bondholder do the same thing? He had the same type bond,

2.9 percent. Why didn't you let him exchange them for the 3¼ percent bonds?

Secretary HUMPHREY. He could automatically have done exactly the same thing by redeeming his E bonds.

As a matter of fact, we have given holders of maturing E bonds an even better proposition. They can automatically extend their bonds and get 3 percent interest on an obligation that can be turned into cash on demand without any market risk. The fact that the great majority of holders of matured E bonds did not turn them in to buy the 3¼ percent marketable bond is fairly good proof that they preferred to keep the E bonds.

Representative PATMAN. I know you went to a lot of trouble to do it. You made it easy for one and hard for the other. That is what I can't understand.

Secretary HUMPHREY. No; there wasn't any trouble for anybody.

Representative PATMAN. And brokers' commissions, possibly, and expenses of different kinds.

Secretary HUMPHREY. No. There are no brokers' commissions or anything like that. All those bonds are redeemed without charge.

Representative PATMAN. The reason I say you shouldn't have put this issue out, Mr. Humphrey, is because you had nearly $6 billion in the banks that could have been used and should have been used. There was never a time during that year that you didn't have 2 or 3 times the amount of that issue in the banks, subject to your use, if you wanted to use it, and that is the reason I can't understand it.

Secretary HUMPHREY. Two or three times the amount of issue hasn't got a thing to do with it. What we need to have is cash funds to operate on, and I don't think you can find a business in the country that operates any closer than we do on cash on hand.

Representative PATMAN. I know, but Congress——

Secretary HUMPHREY. We have been operating with less than 30 days' cash must of the time we have been here.

Representative PATMAN. You are overlooking something.

Secretary HUMPHREY. Wait a minute.

We've been keeping less cash than was on hand relative to expenditures at any time for a long time prior to that. We have operated this Government with relatively less money than has been used for years.

Representative PATMAN. You are overlooking something. Congress has very wisely provided for a $5 billion overdraft between you and the Federal Reserve banks.

In other words, if you exhaust these funds, you can get $5 billion directly from the Federal Reserve banks at any time. You have a $10 billion leaway there.

Why should you want over 5 billion? And if you don't want over five, why don't you use this money that is in the banks?

Secretary HUMPHREY. Do you want an answer to that?

Representative PATMAN. I do.

Secretary HUMPHREY. The day you are talking about we had in the tax and loan accounts in commercial banks four billion, nine eighty-three——

Representative PATMAN. What day was that?

Secretary HUMPHREY. That was the last day of March. The end of April, we had $1,589 million in these accounts.

Representative PATMAN. Well, that is three times as much.

Secretary HUMPHREY. The end of May, we had $2,109 million and so the end of June we had $3,071 million.

Representative PATMAN. I have here on March 31, you had $6,108 million; on April 28, you had $3,627 million.

Secretary HUMPHREY. I think your trouble is you are counting in there a billion dollars of gold that was on hand, and about $500 million in Federal Reserve accounts.

Representative PATMAN. I think that's right. You had $500 million in the till.

Secretary HUMPHREY. I am talking about usable cash in our working accounts in the commercial banks.

The figures I just gave you are the correct figures.

Representative PATMAN. I reiterate according to your own figures, not counting this $1 billion of which you have used about half since you had about $1 billion gold and $500 million usable cash.

Not counting that you still had 2 and 3 times as much money all during that period as the amount of this bond issue, and what I can't understand is why you would issue a bond and at three and a quarter——

Secretary HUMPHREY. It was an amount of——

Representative PATMAN. Wait just a minute. Let me finish. Why you would issue bonds and of the highest rate clear out of reach, as evidenced by the fact that they had gone so high since that time, when you didn't need the money. You could have gotten every bit of that money from the banks and had twice as much left there.

In addition to that, if you needed more money, you could have gotten $5 billion from the Federal Reserve banks as you are permitted to do by congressional law.

Secretary HUMPHREY. Well, now you are saying two things at once. You are saying first we didn't need the money and, second, you are saying we could have gotten the money elsewhere.

Repersentative PATMAN. No. No. 1, I will close right there. You didn't need it.

Secretary HUMPHREY. Whether we got it one place or another is not what you are now talking about. You are now saying we didn't need the money.

Representative PATMAN. That's right.

Secretary HUMPHREY. I am saying we did need the money, as shown by our balances where, at the end of April, we had $1.8 billion in the tax and loan accounts. Do you know how long that lasts? We were spending $6 billion a month at that time.

Representative PATMAN. That doesn't make any difference, Mr. Secretary. Why keep on saying that?

Secretary HUMPHREY. We had on hand about 10 days of cash. You pretty nearly have to write checks——

Representative PATMAN. That is not alarming at all, when Congress has very wisely provided that you can get $5 billion instantly from the Federal Reserve banks. It is in the law. You asked for the law to be renewed here a while back.

Secretary HUMPHREY. You have got to have it right now if you are going to write checks against it.

Representative PATMAN. You can get it right now, draw it on the Federal Reserve. That is the only bank you draw on, anyway.

Secretary HUMPHREY. Wait a minute. Now you have switched again. Now you are talking about where you get the money, not whether we need it or not. Let's talk about one thing at a time.

Representative PATMAN. That came up.

Secretary HUMPHREY. As to whether we needed it?

Representative PATMAN. That came up, assuming you did need it. I don't say you needed it, you didn't need it.

In other words, you put out an issue to give somebody—you didn't do it deliberately, I am not charging you with that. There is nothing personal in this, Mr. Secretary—you gave these fellows a big windfall. It gave these people a big windfall equal to about 15 percent in one year on the finest and best securities on earth.

It has never happened before, I don't think in any country on earth, and when you didn't need the money and you had twice that much in the banks that you could use, as to why you would do it, I still can't understand, to save my life.

Secretary HUMPHREY. I think if you will look at the figures, you will understand it much better.

Representative PATMAN. Furthermore, why should you keep those deposits in these banks at all, anyway? You don't have to.

Secretary HUMPHREY. There is another subject, and we will be very glad to talk about that.

Representative PATMAN. All right, now, I have your very fine comprehensive report on that, for which I now want to express my thanks. The report is very full and very complete. I ask that it be inserted in the record at this point.

(The report referred to is as follows:)

THE SECRETARY OF THE TREASURY,
Washington, October 29, 1954.

HON. WRIGHT PATMAN,
House of Representatives, Washington 25, D. C.

DEAR MR. PATMAN: In response to your letter of September 3, which I acknowledged on September 13, I am enclosing herewith a memorandum giving you the history of the depositary practice of the Treasury Department, legislative authority therefor, and other information concerning the maintenance of deposit accounts by the Government in commercial banks.

I trust that this memorandum will furnish the information you desire.

Very truly yours,

G. M. HUMPHREY,
Secretary of the Treasury.

WHY THE FEDERAL GOVERNMENT KEEPS FUNDS IN COMMERCIAL BANKS

This memorandum has been prepared in response to Congressman Patman's letter to the Secretary of the Treasury, dated September 3, 1954, regarding the practice of the Federal Government in keeping funds in the commercial banks of the Nation. The memorandum presents the following information requested by Congressman Patman:

1. History of depositary practice of the Treasury Department.
2. Legislative authority.
3. Complete and definitive statement explaining the operations of, and reasons for, this practice.
4. Specific terms on which banks accept these deposits.
5. Precisely how decisions are arrived at as to leaving funds on deposit and to transferring them.
6. Why these funds are not transferred to the Federal Reserve banks immediately upon receipt.
7. What the high, low and the average balance carried in commercial depositaries has been during the fiscal year ending June 30, 1954.
8. Same information for each of the 12 Federal Reserve districts.

1. History of depositary practice of the Treasury Department

Except for brief intervals the United States Government has throughout its history followed a practice of depositing its public funds in the banks of the Nation. Among the first acts of Alexander Hamilton as Secretary of the Treasury was the designation of the Bank of North America and the banks of New York, Massachusetts, and Maryland as depositaries of Government funds.

The First Bank of the United States, chartered in 1791, served as a Government depositary and fiscal agent. When the bank was not rechartered, the Government funds were transferred to State banks. The act authorizing the chartering of the Second Bank of the United States in 1816 specifically authorized the Secretary of the Treasury to deposit Government funds "in places in which the said bank and branches thereof may be established." When the Second Bank ceased functioning as a national institution in 1836, the Government again relied upon State banks to act as depositaries.

In 1846 a system was set up to separate, as completely as possible, the Government's financing operations from the money market. Congress passed a law establishing the Independent Treasury System, and the Government became its own banker. This act created four subtreasuries, located in New York, Boston, Charleston and St. Louis. Their duties were to receive deposits of public moneys, to make disbursements, and to transfer money from one point to another, functions theretofore performed by commercial banks.

The financial history of the ensuing years proved the inadequacy of the Independent Treasury System to meet the needs of a growing country. This System received a serious setback at the beginning of the Civil War when the attempt to collect in specie the money which the Treasury needed to finance the war forced the suspension of specie payments. The result was the establishment in 1863 of the National Banking System, which provided for the designation of these banks as depositaries of public funds.

One of the disadvantages of the Independent Treasury System, not fully met by the National Banking System, was its inability to supply business with sufficient note circulation when needed and to avoid overexpansion when speculation reached the danger point. It was not capable of keeping pace with the growth of business in the United States and had become obsolete by the time the Federal Reserve System was established in 1914.

The Federal Reserve Act contained authority for the Federal Reserve banks to act as fiscal agents for the United States Government and to hold deposits of Federal funds. In order to give the Federal Reserve banks time to become organized, the Treasury did not appoint them as fiscal agents until January 1, 1916. The Independent Treasury System was abolished by act of Congress, approved in May of 1920, when the remaining duties of the subtreasuries were taken over by the Federal Reserve banks. However, it was necessary for the Treasury to continue to utilize commercial banks as depositaries in those principal cities which did not include Federal Reserve banks or branches.

In the Second Liberty Bond Act of 1917, the Congress provided for the establishment of Treasury war loan accounts to take care of the financing of the Liberty loans. These accounts were originally established to enable the banks to retain, until withdrawn by the Treasury, the proceeds arising from sale of Liberty bonds to such banks or their customers. Later authority for use of these accounts was extended to the sale of other Government securities, including United States savings bonds and Treasury savings notes. Under the Current Tax Payment Act of 1943, and later legislation, withheld income taxes, certain quarterly income and profit-tax payments, social-security taxes and excise taxes are deposited in these accounts which have become known as tax and loan accounts.

2. Legislative authority

The legislative authority for deposit of Government funds in commercial banks is provided under several basic acts of Congress. Citations of these acts and the pertinent provisions are as follows:

(1) Revised Statutes, section 5153, derived from the act of June 3, 1864 (13 Stat. 113, as amended), relating to the designation of national bank associations as depositaries of public moneys:

"All national banking associations designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform such reasonable duties, as depositaries of public money and financial agents of the Govern-

ment, as may be required of them. The Secretary of the Treasury shall require the associations thus designated to give satisfactory security, by the deposit of United States bonds and otherwise, of the safekeeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the Government: * * *" (12 U. S. C. 90).

(2) The Federal Reserve Act of December 23, 1913 (38 Stat. 259) as amended on May 7, 1928 (45 Stat. 492), relating to the designation of member banks as depositaries:

"All banks or trust companies incorporated by special law or organized under the general laws of any State, which are members of the Federal Reserve System, when designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary * * *" (12 U. S. C. 332).

(3) The act of September 24, 1917, with regard to authority to deposit the proceeds of sales of bonds, certificates of indebtedness, and war savings certificates (40 Stat. 291, as amended):

"The Secretary of the Treasury, in his discretion, is authorized to deposit, in such incorporated banks and trust companies as he may designate, the proceeds, or any part thereof, arising from the sale of the bonds and certificates of indebtedness, Treasury bills, and war-savings certificates * * * and arising from the payment of internal-revenue taxes, * * *" (31 U. S. C. 771).

(4) Act of June 19, 1922 (42 Stat. 662), relating to depositaries in foreign countries, territories, and insular possessions:

"The Secretary of the Treasury may designate such depositaries of public moneys in foreign countries and in the territories and insular possessions of the United States as may be necessary for the transaction of the Government's business, under such terms and conditions as to security and otherwise, as he may from time to time prescribe; *Provided*, That in designating such depositaries American financial institutions shall be given preference wherever, in the judgment of the Secretary of the Treasury, such institution is safe and able to render the service required" (31 U. S. C. 473).

(5) Act of June 11, 1942 (56 Stat. 356), relating to insured banks:

"All insured banks designated for that purpose by the Secretary of the Treasury shall be depositaries of public moneys of the United States * * * and the Secretary is hereby authorized to deposit public money in such depositaries, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government as may be required of them. The Secretary of the Treasury shall require of the insured banks thus designated satisfactory security by the deposit of United States bonds or otherwise, for the safekeeping and prompt payment of public money deposited with them and for the faithful performance of their duties as financial agents of the Government * * *" (12 U. S. C. 265).

(6) The Current Tax Payment Act of 1943 (57 Stat. 126) with respect to the designation of depositaries for withheld taxes:

"The Secretary may authorize incorporated banks or trust companies which are depositaries or financial agents of the United States to receive any taxes under this chapter in such manner, at such times, and under such conditions as he may prescribe; and he shall prescribe the manner, times, and conditions under which the receipt of such taxes by such depositaries and financial agents is to be treated as payment of such taxes to the collectors" (26 U. S. C. 1631).

(7) Section 6302 (c) of the Internal Revenue Code of 1954 (derived from the act of August 27, 1949, 63 Stat. 668), with respect to depositaries for collections:

"Use of Government Depositaries.—The Secretary or his delegate may authorize Federal Reserve banks, and incorporated banks or trust companies which are depositaries or financial agents of the United States, to receive any tax imposed under the internal revenue laws, in such manner, at such times, and under such conditions as he may prescribe * * *."

3. Complete and definitive statement explaining the operations of, and reasons for, this practice

The Congres has vested in the Secretary of the Treasury authority to utilize the services of the Federal Reserve banks and the commercial banks of the country as depositaries and fiscal agents of the Government. Not only has the Congress granted authority to the Secretary to utilize the services of banks but it has also established, by law, the basic procedures for handling the receipts and expenditures of the Government.

The 12 Federal Reserve banks are now the principal fiscal agents of the United States Government. Each Reserve bank maintains an account in the name of the Treasurer of the United States. Into these accounts virtually all Government receipts eventually are credited, and from them nearly all payments are made.

Implementing the Treasurer's accounts at the Federal Reserve banks is a nationwide network of deposit accounts in commercial banks. Most of the money collected by the Government feeds into the United States Treasurer's accounts at the Reserve banks through the banking system of the country. Any incorporated bank is eligible to qualify as a Government depositary. All Government deposits in banks must be secured by a pledge of collateral security, this collateral usually being in the form of United States Government securities.

(*a*) *Operation of Special Depositaries (Tax and Loan Accounts).*—The system of "special depositaries" originated during World War I. The first Liberty Loan Act of 1917 provided that banks purchasing securities issued under terms of the act, for their own accounts or for the accounts of their customers, could deposit the proceeds from such purchases into special accounts known as war loan accounts. Until 1935, deposits in these accounts were not subject to reserve requirements. Originally the banks were required to pay 2 percent interest on such deposits. However, this was considerably below prevailing interest rates at that time. In the early 1930's, this interest rate was lowered and then eliminated entirely along with interest payments on other demand deposits in keeping with the provisions of the Banking Act of 1933.

During the 1930's, receipts from the sale of Government securities were relatively small and comparatively little use was made of the war loan accounts.

The heavy borrowing requirements of the Federal Government accompanying World War II provided a need for the Treasury to utilize more fully the war loan accounts. The act of April 13, 1943 (57 Stat. 65), suspended, for the duration of hostilities plus 6 months, against balances in these accounts, all reserve requirements and Federal deposit insurance assessments. The reserve and insurance requirements were reimposed after June 30, 1947.

Following World War II, the Congress provided for wider use of these accounts by authorizing the Treasury to use them for processing certain tax receipts. Beginning with March 1948, the banks were permitted to credit to these accounts their receipts of withheld income taxes, which previously had been turned over to the Federal Reserve banks monthly or more frequently. On January 1, 1950, the Treasury revised the system for deposit of withheld income taxes and extended the provisions for deposit to war loan accounts to include deposits of payroll taxes from the old-age insurance program. The war-loan accounts were renamed tax and loan accounts on January 1, 1950.

Other appropriate taxes have since been made eligible for deposit in these accounts. Under a special arrangement, large quarterly payments (checks of $10,000 or more) of income and profits taxes, may be deposited in tax and loan accounts when, and to the extent, that the funds are not immediately needed by the Treasury. This arrangement was first provided for quarterly tax payments of March 1951.

Beginning in July 1951, railroad retirement taxes became eligible for deposit to these accounts. In July 1953, certain excise-tax payments became eligible.

It must be borne in mind that deposits are not made by the Treasury into these accounts. Deposits to the tax and loan accounts occur in the normal course of business under a uniform procedure applicable to all banks whereby customers of banks deposit tax payments and funds for purchase of Government securities. In most cases the transaction involves merely the transfer of money from a customer's account to the Government's account in the same bank. On occasions, to the extent authorized by the Treasury, banks are permitted to deposit in these accounts proceeds from subscriptions entered for their own account as well as for the account of their customers.

The working cash of the Treasury is held mainly in the Federal Reserve banks and branches. The Treasury draws upon these balances for its daily disbursements. As these balances become depleted they are restored in part through various receipts deposited to the Treasurer's account at the Federal Reserve banks. However, the larger part of receipts to these accounts is derived by calling in funds from the tax and loan accounts. Well over half of the Government receipts now flow through tax and loan accounts.

In order to reduce the administrative cost to the Treasury by avoiding making frequent withdrawals from small accounts, Treasury has classified special depositaries into group A and group B. The present classification places in group A those banks whose Treasury tax and loan account balance as of Febru-

ary 16, 1954, was less than $150,000. Banks with balances in excess of this amount on that date are classified in group B. Banks are regrouped at least once a year. Still another classification in use is what is known as X balances. These are the balances derived from deposit of large quarterly payments of income and profits taxes. These balances are usually depleted more rapidly than those of the A and B accounts. These X balances may be held by banks of both group A and group B.

Calls for withdrawals from group B depositaries and on X balances are usually announced on Monday or Thursday and payments scheduled for several working days subsequent thereto. Withdrawals from group A depositaries are made less frequently, usually only once a month.

The tax and loan accounts are very active, and the flow of deposits and withdrawals is rapid and continuous. As a result of the uneven flow of the Government's receipts and expenditures the balances fluctuate considerably. (See attachments 1 and 2.) Using end-of-the-month figures, the balances in these accounts fluctuated during the fiscal year 1954 from $6,690,000,000 on July 31, 1953, to $2,406,000,000 on January 31, 1954. The volatility of these accounts is indicated by the frequency and size of withdrawals made against uncalled balances in the group B accounts. (See attachment 3.) Withdrawals from these larger accounts are usually made twice weekly and frequently reach 25 to 50 percent of the balance in the account as of a particular date. The single monthly withdrawals on the smaller accounts usually equal or exceed 50 percent of the balances.

The volume of receipts and disbursements flowing through the tax and loan accounts has increased almost steadily during the past 7 years as follows:

[In millions of dollars]

Fiscal year	Receipts	Withdrawals	Fiscal year	Receipts	Withdrawals
1948	$8,575	$7,765	1952	$36,492	$37,066
1949	15,231	15,233	1953	41,267	43,302
1950	16,876	15,380	1954	41,645	39,880
1951	24,128	21,716			

Out of approximately 14,500 eligible banks in the United States, nearly 11,000 have qualified as tax and load depositaries.

(*b*) *Operation of other depositaries.*—While the principal balances are held in the tax and loan accounts of special depositaries, relatively small amounts (aggregating about $500 million) are held in other types of depositaries which are designated by the Treasury to hold balances of Government funds and to perform certain services for the Government. It is the policy of the Treasury to utilize the facilities of the Federal Reserve banks and branches to the fullest extent possible for these services. However, as these facilities are available at only 36 points in the United States, it has been necessary to supplement them by designating banking institutions as depositaries at other points when justified by the volume and character of essential Government business. These depositaries, which extend to all areas of the United States, our Territories and insular possessions, and foreign countries, are briefly described as follows:

General depositaries: There are approximately 1,420 general depositaries which hold about $400 million of Government deposits exclusive of balances they may have in tax and loan accounts. This type of depositary is authorized to maintain on its books an account in the name of the Treasurer of the United States. It is maintained only at points where there is a necessity to meet cash requirements of Government officers for payrolls or other expenditures, or to receive deposits of cash from depositors of public moneys. General depositaries are given a stated balance which is fixed in relation to the volume of business in the Treasurer's account and which may be retained until the need therefor no longer exists. All moneys received in excess of the authorized amount must immediately be remitted to the Federal Reserve bank of the district.

Limited depositaries: Limited depositaries are designated at such points as are required to receive up to specified maximum amounts deposits made by postmasters, officers of United States courts, and other officers in special cases for credit in their official checking accounts with the depositary. As a general rule, no Treasurer's balances are maintained in limited depositaries for this purpose.

Bank draft depositaries: These depositaries are designated by the Treasury to issue bank drafts to Government officers in exchange for funds received by the officer for the account of the United States. These designations are made when the volume of business does not justify a general depositary. Small Treasurer's balances are maintained in these depositaries. The balances are fixed in relation to volume of business handled.

Depositaries for State unemployment compensation accounts (social security) and veterans' unemployment compensation benefit payment accounts: Depositaries for State unemployment compensation accounts are designated for the purpose of handling receipts and payments for social security unemployment compensation under arrangements with the Social Security Board. Likewise, depositaries for veterans' unemployment compensation are those designated to handle the receipt of Government funds and the payment of unemployment compensation to veterans under arrangements with the Veterans' Administration. In both instances payments are made by checks signed by State officials. Treasurer's balances are maintained in these depositaries.

Banking Facilities: Banking facilities are those offices provided by commercial banks, primarily at military posts, to render certain necessary banking services to the post and its personnel. These services include cashing Government checks, furnishing cash for payrolls, receiving deposits of Government funds, and similar services. The facilities are located at Army posts, Air Corps installations, naval stations, military and veterans' hospitals, Atomic Energy Commission plants, and other Government establishments where regular banking services are not readily available. Treasurer's balances are maintained with the banks designated to operate banking facilities.

Check-Cashing Facilities: Because of the large concentration of Government employees in the District of Columbia and adjoining area, certain banks have been designated for cashing of Government payroll checks for noncustomers. Treasurer's balances are maintained with these banks.

Territorial and Insular Depositaries: These may be either general or limited depositaries located in the Territories or insular possessions of the United States.

Foreign Depositaries: Banks in foreign countries may be designated as general depositaries, limited depositaries, or depositaries of foreign currency. Substantial amounts of foreign currency are acquired from foreign governments without payment of dollars in connection with various economic, technical and military foreign-aid programs, as well as in settlement for lend-lease, surplus property, etc. Foreign branches of American banks are given preference when available and able to render the service required.

As a basis of offsetting expenses incurred by the banks in handling Government business of this nature the Government has long followed a practice of maintaining Treasurer's balances with the depositaries, or, as with limited depositaries, authorizing Government officers to maintain minimum operating balances in their official checking accounts.

Briefly, the procedure followed in establishing these depositaries and in determining the balances to be authorized for handling Government business is as follows:

The request to establish a particular depositary is generally initiated by a Government officer in the field, who presents to his administrative officer in Washington the reasons for needing a Government depositary in the particular area. An estimate is made of the amount of business the depositary would be called upon to perform. If the Washington headquarters of the agency agrees with its field officer that a depositary is necessary, the agency requests the Treasury to designate such depositary. In addition to considering the volume of business to be transacted and the possibility of utilizing other depositary facilities already established, the Treasury will usually estimate, or call upon the banks under consideration for designation to estimate, the cost of performing such service. Any possible earnings accruing to the bank as a result of serving as a Government depositary must be shown as an offset against cost.

If, in view of all factors concerned, it is believed to be in the best interests of the Government to establish a depositary, the Treasury will issue the necessary designation. A Government deposit will be made to the depositary in an amount sufficient to offset the expenses incurred by the bank for servicing the Government. The initial allotment of a Treasury balance to a depositary must be based upon an estimate. Each depositary is advised that the initial allotment will be subject to adjustment upon the basis of the volume and character of the Government business actually handled. Depositaries

submit monthly analyses of business handled and their costs. Due to differences in the size and location of banks, nature and volume of business handled, etc., it is not practicable to adopt uniform standards which may be applied to all banks. However, based upon experience gained in reviewing analyses submitted by banks throughout the Nation, and even in foreign countries, and a day-to-day review of cost studies made by banking associations and individual banks, certain guides have been established for use in determining reasonableness of bank costs.

Treasury balances maintained with these depositaries are generally time deposits. They are subject to both reserve requirements and Federal deposit insurance assessments. Depositaries at present are required to compute the earning value of the average daily loanable balance in the Treasurer's account at the rate of 2 percent per annum for analysis purposes. Depositaries may, if they so desire, purchase 2 percent depositary bonds, in amounts equal to their authorized Treasury balances. The depositary bonds are held as collateral security for the Treasury balance. If the depositaries do not purchase depositary bonds, they must pledge other acceptable collateral.

(*c*) *Reasons for this practice.*—The Treasury uses commercial banks as depositaries of Government funds for two reasons: (*a*) The system provides the most efficient and most economical way of transacting the Government's business and (*b*) it reduces to a minimum the effect of Treasury financial operations on the economic stability of the country. These advantages will be discussed in turn.

There have already been described those services which are performed for the Government by the commercial banks and for which the Treasury authorizes maintenance of Government balances as an offset to bank costs. In addition, the banks incur expenses in rendering a number of other important services for which no reimbursement is made.

One of the most important public services the banks render is the sale and issuance of United States savings bonds, either by direct cash sales or through the servicing of payroll savings plans. They do this work without charge to the Treasury, notwithstanding the fact that in many cases it is necessary to employ full-time employees on the work. The banks distribute announcements and receive subscriptions for the purchase of marketable securities, and they handle matured marketable securities for redemption or for exchange into new issues, all without reimbursement by the Government.

Commercial banks render considerable assistance to the Treasury in the weekly sale and distribution of Treasury bills. Treasury bills are usually issued with maturities of 91 days, with an issue maturing each week for 13 consecutive weeks. The proceeds of these bills are not deposited in tax and loan accounts. In bidding for Treasury bills, many subscribers submit their tenders through commercial banks. The banks check with dealers on possible bid ranges and enter their customer's bid for the amount requested. This work is done without compensation to the banks.

In World War I and again in World War II the banks played a major role in the success of the war-loan drives. Three-quarters of the dollar volume of war-loan campaign sales were made through commercial banks.

Banks handle without charge to the Government remittances from employers in connection with the deposit of withheld income and social-security taxes. As a means of assisting the Treasury in preventing or reducing tax evasion, banks furnish the Internal Revenue Service, without charge, information regarding large currency transactions. They report to the Internal Revenue Service interest paid on savings accounts and the payment of dividends where banks act as financial agents for corporations. They cooperate with the Government's foreign funds control activity in order to prevent leakage of American assets into certain foreign hands, requiring the keeping of supplemental records and the filing of many reports with the Treasury.

There are only a comparatively few areas where banks receive fees for services such as the redemption of savings bonds and the servicing of Commodity Credit Corporation crop loans. These services entail risks of loss as well as expense which the Government could hardly expect the banks to assume without reimbursement. For instance, when a bank redeems a United States savings bond, it is liable for any loss resulting from an error in identification.

Thus the banks perform for the Government, and particularly for the Treasury, a number of indispensable services. Most of these services are performed free of charge, either as a public service or in the interest of fostering good customer relations. Without such services a large increase in the number of Federal employees would be necessary and a large expense to the Government would be

entailed. Even though the Government did perform these services itself, and at a great cost, it could not provide many of these services as expeditiously and as conveniently for the public as can the banking system. By having the commercial banks perform certain fiscal agency functions of the Federal Government in conjunction with serving the regular business needs of their customers these functions can be handled most efficiently and most economically for the Government. This arrangement works to the mutual advantage of the Government, the public, and the banking system.

The second reason for depositing Government funds in the commercial banks of the Nation is that this practice provides the most effective method yet devised for maintaining a smooth flow of funds from the banking system into the Treasury and back again into the channels of trade through Government disbursements.

Nearly all Government disbursements are made from funds held on deposit in the Federal Reserve banks. This means that virtually all funds, both receipts and expenditures, sooner or later, flow through the Treasurer's accounts with the 12 Federal Reserve banks. When checks drawn on the commercial banking system for payment of taxes or purchase of Government securities are deposited in the Treasurer's accounts at the Federal Reserve banks, there is an equivalent drain on member bank reserves, since the member banks pay the checks by drawing the amounts from their reserve balances held in the Federal Reserve banks. Each payment from the public into a Federal Reserve account involves a corresponding reduction in bank reserves. Each disbursement by the Treasury from a Federal Reserve account causes an equal increase in member bank reserves. The impact of these money flows could be held to a minimum if each day's inflow of funds into the Federal Reserve accounts were approximately offset by a corresponding amount of disbursements. Obviously it is not possible for the Government to time its borrowing operations and to make its tax collections in such a manner that daily receipts will equal the Government's daily disbursements. The uneven flow of Government receipts and expenditures and the need for spacing cash borrowing operations make such perfect balancing impossible. However, the likelihood of abrupt changes resulting in intense stringency in the money market can be lessened immeasurably by Treasury's practice of initially funneling a considerable part of its receipts from borrowing and taxation into its deposit accounts at the commercial banks. In this manner, reserves are not withdrawn from the banking system until such time as they can be returned by Treasury disbursements. Through the utilization of its tax and loan accounts the Treasury can largely neutralize the money market impact of the flow of funds through its accounts and can so regulate the impact of Treasury financing operations on the money market as to avoid disruption to the market.

If the special depositary system did not exist there would be heavy drains on bank reserves during periods of heavy taxpayments or of large-scale borrowing operations. The banks would have to draw down their reserves to transfer funds to the Treasurer's accounts at the Federal Reserve banks. In order to meet this drain on their reserves the banks would have to liquidate Government securities previously purchased, restrict normal extension of credit to their customers, or obtain credit from the Federal Reserve System. As the balances built up in the Federal Reserve banks were disbursed by the Government they would be deposited by the customers of the commercial banks and bank reserves would be built up again. The Federal Reserve System would then have to absorb the resulting excess reserves. These fluctuations in bank reserves would have an extremely disrupting effect on the money market and the Nation's business.

Not only does the system of tax and loan accounts make it possible to leave funds in the banking system until such time as they are required for Government disbursement, but it also permits such funds to be retained in the communities from which they come. For example, assume that a commercial bank in Panhandle, Tex., sells $100,000 of savings bonds to its customers. This money is left on deposit in Panhandle until such time as it is needed to pay the Government's bills. If this money should be immediately deposited in the Federal Reserve bank before it can be returned to channels of trade through Government disbursement, the money in the community of Panhandle would be transferred to Dallas. Without the tax and loan accounts there would be during periods of heavy taxpayments or during borrowing operations tremendous shifting of funds between banks and communities.

On occasion, the Treasury, in anticipation of heavy tax receipts during heavy tax months, will, under statutory authority, replenish balances at Federal Re-

serve banks by borrowing directly from such banks through the issuance of special certificates of indebtedness, rather than withdrawing funds from Treasury tax and loan accounts. These funds are borrowed for only a few days and enable the Treasury temporarily to make disbursements in excess of its current receipts thus providing the banks with additional reserves in advance of a later unavoidable drain. Such an operation is, of course, consistent with the overall policy of smoothing out the effects on bank reserves of the Government's financing operations.

The tremendous growth of the Federal Government budget and of the public debt in recent years has made Treasury operations the largest and most important single influence on the flow of funds through the money market. Federal fiscal operations growing out of an annual budget of more than $60 billion and a public debt of more than $275 billion also underscores the importance of the Treasury maintaining a sufficiently large cash operating balance to be able to meet any unusually heavy drains upon the Treasury. The Federal Government, like any private corporation or business, cannot be prudently managed if its cash operating margin is so close that every time unexpected bills come in, it has to rush out and borrow the money to cover them.

In the case of the Federal Government it seems reasonable to carry an operating reserve at least equal to a month's expenditures. Not only are there great fluctuations in the Government's receipts and expenditures within the year, but, in addition, there is a huge volume of demand debt outstanding—such as savings bonds—which adds to both real and potential demands on the Treasury. Many of these fluctuations are predictable and cash can be built up ahead of time. But the timing of many of the demands cannot be anticipated exactly and the Treasury has to be prepared to meet them. By providing an effective mechanism for smoothing out the impact of the Government's financial operations on the banking system and the economy, the Treasury tax and loan accounts render a service of inestimable value.

4. Specific terms on which banks accept deposits

Specific terms on which banks accept deposits are spelled out in Treasury circulars, the more important of which are Circulars 92 and 176. However, for the major types of depositaries the most important terms are: (1) The banks must be designated by the Treasury subject to qualifications set by the Treasury, (2) the banks must pledge collateral at least equal to deposits, (3) deposits may not exceed limitations set by the Treasury, (4) deposits are subject to reserve requirements and Federal deposit insurance assessments, (5) the banks must perform the services stipulated in the designation and submit such reports as prescribed by the Treasury. All deposits to tax and loan depositaries are of a demand nature and can be called by the Treasury at any moment.

5. Precisely how decisions are arrived at as to leaving funds on deposit and to transferring them

Treasury's calls for withdrawals of funds are based upon its cash requirements. Balances with the Federal Reserve banks are maintained at a fairly constant level adequate to cover expected daily cash needs and to provide for a proper regional distribution of funds. A day-to-day analysis is made of these balances, of anticipated direct deposits to the Federal Reserve accounts, and of estimated disbursements. Calls for withdrawals are issued on tax and loan accounts to the extent that additional funds will be required to meet Treasury's daily cash requirements.

As pointed out earlier the calls generally provide that payments be made several days subsequent to date of call. The calls provide for withdrawal of a specified percentage of the balance within the account. All accounts are treated uniformly except that withdrawals from banks holding balances in excess of $150,000 are made more frequently than from banks holding balances in smaller amounts. The Treasury does not take money from one bank to put into another. It draws out money as needed for Government expenditures.

6. Why these funds are not transferred to Federal Reserve banks immediately upon receipt

There are two principal reasons why funds are not transferred to Federal Reserve banks immediately upon receipt. The most important one is that such a procedure would have damaging effects on the economy of the country. The second reason is that it would result in no financial gain to the Treasury—on the contrary, it could easily result in increased overall costs of Government financing.

As discussed at considerable length earlier in this memorandum, the immediate transfer of Government funds from commercial bank accounts to Federal Reserve accounts would disrupt the even flow of money and the Nation's system of bank reserves. Serious dislocations would occur if the Government receipts should be transferred immediately from local communities to the Federal Reserve banks, perhaps long before the money is returned to channels of trade by Government disbursements. This action would, in fact, remove the economic stability advantages now derived from the use of tax and loan accounts.

There would be no financial gain to be derived from such action inasmuch as it does not cost the Treasury any more to keep the money on deposit in commercial banks than in the Federal Reserve banks. While no interest is received from the commercial banks on their Government deposits, neither would interest be received if the money were immediately deposited in the Federal Reserve banks. Moreover, all Government deposits in Treasury tax and loan accounts are fully protected by collateral pledged by the commercial banks.

On the other hand, such action would likely result in substantially increasing the Government's general financing costs. The transfer of the funds immediately to Federal Reserve banks might affect commercial banks' decisions to buy Government securities and banks might feel that they should be reimbursed for the numerous services the Treasury now receives free of charge, such as issuance of savings bonds and assistance in the sale of marketable issues.

7. *What the high, low, and the average balance carried in commercial depositaries has been during the fiscal year ending June 30, 1954*

The high, low, and average balances in the tax and loan accounts by months for fiscal year 1954 are shown in the following table:

Tax and loan balances fiscal year 1954

[In millions]

	High	Low	Average		High	Low	Average
July 1953	$7,493	$1,649	$4,944	January 1954	$3,114	$2,081	$2,536
August	6,448	5,758	6,095	February	3,659	2,507	3,129
September	5,642	3,984	4,957	March	4,546	2,450	3,450
October	5,164	2,812	3,698	April	4,727	2,698	3,541
November	5,177	2,573	4,268	May	4,574	1,902	3,303
December	4,194	2,302	3,223	June	4,836	1,722	3,297

The tremendous fluctuations occurring in these balances is well illustrated for the month of July 1953, when the balance ranged from a high of $7,493 million down to $1,649 million.

The above figures do not include balances in general and limited depositaries. These balances are fairly consistent running usually slightly below $500 million (see attachment 4). If balances in these depositaries exceed certain stated maxima the excess is immediately sent to the Federal Reserve banks.

An important yardstick in assessing whether Treasury tax and loan balances appear to be unduly high or dangerously low is to measure the Government's cash operating balance (which is made up primarily of tax and loan balances but also includes our deposits in Federal Reserve banks and gold in the general fund) in terms of average monthly budget expenditures. As pointed out previously, to be on the safe side this operating reserve ought to be at least equal to 1 month's operating expenditures. For the 1954 fiscal year as a whole, for example, budget expenditures averaged $5.6 billion a month and the end of month cash operating balances averaged about $5.4 billion—less than a month's expenditures. Furthermore, the fiscal year average hides the fact that there were many times during the year when the balance was under $3½ billion, or less than two-thirds of a month's outgo.

Viewed historically, the Treasury's cash balance margin in relation to budget expenditures has been much smaller recently than earlier years. Obviously, it was necessary to carry unusually high balances during World War II, but even in the 1930's the average balance was well over double the average monthly expenditures. (See attachment 5 for table and chart showing Federal expenditures and the operating cash balance for fiscal years 1932–54.)

8. Same information for each of the 12 Federal Reserve districts

Tax and loan balances fiscal year 1954 by Federal Reserve districts

[In thousands of dollars]

Federal Reserve district	High balance		Low balance		Average balance
	Date	Amount	Date	Amount	
Boston	July 16, 1953	$286,805	June 15, 1954	$91,024	$182,961
New York	do	2,905,084	do	407,287	1,219,953
Philadelphia	Aug. 24, 1953	322,799	July 14, 1954	88,265	204,344
Cleveland	July 17-19, 1953	543,362	May 12, 1954	135,992	325,170
Richmond	July 16, 1953	282,285	July 14, 1953	77,253	160,855
Atlanta	July 17, 1953	310,802	do	59,499	156,795
Chicago	July 21-23, 1953	1,231,064	June 15, 1954	344,189	744,767
St. Louis	July 17-19, 1953	228,094	July 14, 1953	64,721	137,914
Minneapolis	July 16, 1953	197,028	Jan. 11, 1954	57,467	102,020
Kansas City	July 17-19, 1953	232,659	July 14, 1953	68,502	152,002
Dallas	July 16, 1953	179,397	do	56,593	114,557
San Francisco	July 18, 19, 1953	840,138	July 10, 1953	166,437	370,189

LIST OF ATTACHMENTS

1. Treasury tax and loan accounts—deposits and withdrawals and balances by A, B and X accounts (table).
2. Treasury tax and loan accounts—analysis of deposits, withdrawals and balances (table).
3. Calls on Treasury tax and loan accounts (table).
4. Deposits in banks (table).
5. Federal expenditures and operating cash balance (table and chart).

ATTACHMENT No. 1.—*Treasury tax and loan accounts—Deposits, withdrawals and balances in A, B, and X accounts*

[In millions]

Period	Deposits [1]	Withdrawals [2]	Balance [3] (at end of period)			
			Group A banks	Group B banks	"X" accounts [4]	Total
Fiscal year:						
1941	$767	$911	$661			$661
1942	6,902	5,884	1,679			1,679
1943	33,231	27,243	[5] 7,667			7,667
1944	54,018	43,678	[5] 18,007			18,007
1945	50,102	45,487	[5] 22,622			22,622
1946	27,007	36,609	$575	$12,447		[6] 13,020
1947	7,430	19,488	231	731		962
1948	8,575	7,765	272	1,501		1,772
1949	15,231	15,233	160	1,611		1,774
1950	16,876	15,380	347	2,921		3,270
1951	24,128	21,716	285	2,404	$2,991	5,680
1952	36,492	37,066	327	1,915	2,865	5,106
1953	41,267	43,302	217	1,527	1,328	3,071
1954	41,645	39,880	553	1,944	2,339	4,836
Fiscal year 1954:						
1953:						
July	7,336	3,718	422	6,268		6,690
August	2,545	3,410	324	5,501		5,825
September	3,110	3,681	476	4,779		5,255
October	1,969	4,331	368	2,524		2,893
November	4,404	2,752	461	4,084		4,545
December	2,339	3,526	428	2,930		3,358
1954:						
January	1,349	2,301	382	2,024		2,406
February	2,369	1,316	391	3,067		3,458
March	4,607	3,685	264	2,321	1,794	4,379
April	2,494	3,601	336	2,936		3,273
May	4,486	3,656	652	3,451		4,103
June	4,636	3,903	553	1,944	2,339	4,836

[1] Deposits consist of proceeds from sales of securities, deposits on account of withheld taxes, beginning March 22, 1948, deposits on account of taxes withheld under the Federal Insurance Contributions Act, beginning Jan. 1, 1950, deposits on account of Railroad Retirement taxes, beginning July 1, 1951, and deposits on account of excise taxes, beginning July 1, 1953.

[2] Includes calls by Treasury and voluntary prepayments accepted by Treasury.

[3] Effective May 11, 1943, Federal Reserve banks were instructed to establish subsidiary controls so as to classify war loan depositaries in their districts into two groups, group A including all depositaries having balances of $300,000 or less and group B those having balances of more than $300,000. Various amendments have since been made to the original disposition, the current dividing line being $150,000.

[4] Represents income taxes deposited under a special procedure, first adopted in March 1951, for crediting in tax and loan accounts the proceeds of checks of $10,000 or more. This procedure is usually followed in quarterly tax payment periods.

[5] Breakdown into A and B banks not available.

[6] Does not agree with daily Treasury statement. Breakdown based on telegraphic reports for last day of fiscal year which was a Saturday.

ATTACHMENT No. 2.—*Treasury tax and loan accounts—Analysis of deposits, withdrawals and balances*

[In millions]

Period	Credits to tax and loan accounts						Withdrawals	Balance at end of period	Outstanding calls at end of period
	Proceeds from sales of securities			Taxes		Total credits			
	Savings bonds	Savings notes	Other	Income taxes not withheld [1]	Other [2]				
Fiscal year:									
1941	(3)	(3)	(3)			$767	$911	$661	
1942	(3)	(3)	(3)			6,902	5,884	1,679	
1943	(3)	(3)	(3)			33,231	27,243	7,667	(4)
1944	(3)	(3)	(3)			54,018	43,678	18,007	
1945	(3)	(3)	(3)			50,102	45,487	22,622	
1946	(3)	(3)	(3)			27,007	36,609	13,020	$2,103
1947	[5] $4,493	[5] $2,937				7,430	19,488	962	291
1948	[5] 3,931	[5] 2,024	$804		$1,820	8,575	7,765	1,772	796
1949	4,879	3,878			6,473	15,231	15,233	1,774	804
1950	3,755	5,834			7,287	16,876	15,380	3,270	310
1951	3,390	3,347		$6,971	10,331	24,128	21,716	5,680	1,400
1952	2,227	4,678	2,738	13,270	13,581	36,492	37,066	5,106	1,475
1953	2,667	2,231	10,285	10,227	15,858	41,267	43,302	3,071	934
1954	3,457	2,333	11,164	4,791	19,899	41,645	39,880	4,836	1,233
July 1953	240	378	5,874	136	708	7,336	3,718	6,690	938
August	211	363			1,971	2,545	3,410	5,825	1,825
September	211	911			1,988	3,110	3,681	5,255	1,728
October	222	681			1,066	1,970	4,331	2,893	888
November	208		2,150		2,046	4,404	2,752	4,545	1,782
December	263				2,077	2,339	3,526	3,358	1,261
January 1954	389				961	1,349	2,301	2,406	345
February	339				2,029	2,369	1,317	3,458	1,501
March	396			2,134	2,076	4,606	3,685	4,379	1,101
April	349		996	180	969	2,494	3,601	3,273	1,487
May	300		2,144		2,043	4,486	3,656	4,103	1,688
June	330			2,341	1,966	4,636	3,903	4,836	1,233

[1] Represents income taxes deposited under a special procedure, first adopted in March 1951, for crediting in tax and loan accounts the proceeds of checks of $10,000 or more. This procedure is usually followed in quarterly tax payment periods.

[2] Represents withheld income taxes, beginning Mar. 22, 1948; taxes withheld under the Federal Insurance Contributions Act, beginning Jan. 1, 1950; Railroad Retirement taxes, beginning July 1, 1951; and excise taxes, beginning July 1, 1953.

[3] Breakdown not available.

[4] Not available.

[5] Partly estimated.

ATTACHMENT No. 3.—*Calls on Treasury tax and loan accounts, fiscal year 1954*

[In millions]

Date	A accounts [1]			B accounts [2]			X accounts [3]		
	Calls		Uncalled balance	Calls		Uncalled balance	Calls		Uncalled balance
	Percent	Amount		Percent	Amount		Percent	Amount	
1953									
July 2				10	$161	$1,450	(4)	$424	
July 6				22	387	1,211			
July 9				22	413	916			
July 13	50	$133	$133				(5)	106	
July 16				8	541	6,214			
July 20				4	278	6,136			
July 23				5	336	5,967			
July 27				5	325	5,698			
July 30				10	613	5,181			
Aug. 3				5	313	5,016			
Aug. 6				6	350	4,981			
Aug. 10				9	501	4,554			
Aug. 13				4	216	4,518			
Aug. 17	50	245	245						
Aug. 20				9	496	5,019			
Aug. 24				6	352	5,369			
Aug. 27				16	928	4,355			
Aug. 31				16	897	4,498			
Sept. 3				7	365	3,580			
Sept. 10				16	694	3,258			
Sept. 14				6	254	3,102			
Sept. 21				6	251	3,924			
Sept. 24	50	230	230	6	280	4,135			
Sept. 28				13	648	3,927			
Oct. 1				18	860	3,271			
Oct. 5				6	283	3,241			
Oct. 8				24	993	2,574			
Oct. 13				13	480	2,221			
Oct. 15				8	268	2,106			
Oct. 19				8	251	2,133			
Oct. 22				8	220	2,149			
Oct. 26	50	177	177	14	370	1,925			
Oct. 29				12	298	1,819			
Nov. 2				6	151	1,811			
Nov. 5				9	211	1,886			
Nov. 9				8	197	1,902			
Nov. 12				10	441	3,559			
Nov. 16				5	217	3,483			
Nov. 19				8	364	3,821			
Nov. 23	50	219	219	9	427	3,731			
Nov. 25				18	812	3,093			
Nov. 30				18	760	2,437			
Dec. 3				19	723	2,049			
Dec. 7				10	350	1,923			
Dec. 10				15	398	1,662			
Dec. 22				10	274	2,465			
Dec. 28	50	202	202	12	358	2,348			
Dec. 30				24	702	1,730			
1954									
Jan. 4				20	587	1,288			
Jan. 21				15	321	1,821			
Jan. 25				6	133	1,769			
Jan. 28				5	101	1,786			

See footnote at end of table.

ATTACHMENT No. 3.—*Calls on Treasury tax and loan accounts, fiscal year 1954*—Continued

[In millions]

Date	A accounts [1]			B accounts [2]			X accounts [3]		
	Calls		Uncalled balance	Calls		Uncalled balance	Calls		Uncalled balance
	Percent	Amount		Percent	Amount		Percent	Amount	
1954									
Feb. 1				12	$243	$1,679			
Feb. 4	50	$206	$206	4	99	2,033			
Feb. 11				4	93	2,224			
Feb. 15				6	144	2,168			
Feb. 18				15	429	2,287			
Feb. 23				6	199	2,545			
Feb. 25				27	871	1,870			
Mar. 1				14	429	1,566			
Mar. 4				15	400	1,550			
Mar. 11	75	363	121						
Mar. 15				55	1,081	884			
Mar. 18							25	$115	$343
Mar. 25							14	226	1,391
Mar. 29							16	294	1,318
Apr. 1							45	807	692
Apr. 5							30	569	226
Apr. 8				21	580	2,183			
Apr. 12							(4)	237	56
Apr. 15				[7] 10	[7] 259	2,090			
Apr. 19				5	122	2,055	(5)	71	
Apr. 22	50	188	188	10	246	1,962			
Apr. 26				30	722	1,316			
Apr. 29				33	1,001	1,311			
May 3				7	203	1,250			
May 6				32	274	1,274			
May 10				24	487	864			
May 13				10	150	861			
May 17				18	281	766			
May 20				15	563	2,834			
May 24	50	313	313	4	158	2,946			
May 27				24	845	2,331			
June 1				11	380	2,038			
June 3				12	386	1,891			
June 7				15	430	1,673			
June 10				40	979	844			
June 14				10	221	725			
June 17				15	196	890			

[1] Accounts with balances of $150,000 and under (approximately 8,000 banks).
[2] Accounts with balances over $150,000 (approximately 2,500 banks).
[3] These accounts are used during heavy tax-payment periods to avoid excessive strain on bank reserves. Income-tax checks of $10,000 and over are deposited in them.
[4] 100 percent of uncalled balances.
[5] 100 percent of remaining balances.
[6] 80 percent of uncalled balances.
[7] Includes $8.7 million special call of 28 percent on New Orleans district only to adjust for error made by that bank on previous B call.

NOTE.—Banks are segregated into groups A and B in the interest of economy. Calls are made usually twice a week upon the group B banks (the larger banks but smaller in number) and about once or twice a month on the group A banks.
Source: Office of the Fiscal Assistant Secretary.

ATTACHMENT NO. 4.—*Deposits in banks*

(End of month figures) on basis of daily treasury statement [1]

[In millions]

End of month or fiscal year	Federal Reserve banks (available)	Commercial banks				Total
		General depositaries	Special depositaries (tax and loan accounts) [2]	Foreign depositaries	Total	
June:						
1941	$1,024	$63	$661	----------	$724	$1,748
1942	603	69	1,679	$53	1,801	2,404
1943	1,038	228	7,657	51	7,946	8,984
1944	1,442	235	18,007	12	18,254	19,696
1945	1,500	225	22,622	16	22,863	24,363
1946	1,006	227	12,993	5	13,225	14,231
1947	1,202	215	962	14	1,191	2,393
1948	1,928	213	1,773	20	2,006	3,934
1949	438	238	1,771	27	2,036	2,474
1950	950	270	3,268	33	3,571	4,521
1951	338	319	5,680	37	6,036	6,374
1952	333	397	5,106	52	5,555	5,888
1953	132	413	3,071	49	3,533	3,665
Fiscal year 1954:						
July 1953	548	423	6,690	102	7,215	7,763
August	496	420	5,825	102	6,347	6,843
September	642	466	5,255	119	5,840	6,482
October	662	440	2,892	121	3,453	4,115
November	451	420	4,545	122	5,087	5,538
December	346	409	3,358	89	3,856	4,202
January 1954	404	484	2,406	86	2,976	3,380
February	548	422	3,458	89	3,969	4,517
March	722	459	4,379	87	4,925	5,647
April	579	427	3,273	91	3,791	4,370
May	422	426	4,095	88	4,609	5,031
June	875	433	4,836	88	5,357	6,232
Fiscal year 1955:						
July 1954	727	480	2,538	88	3,106	3,833
August	511	399	4,078	86	4,563	5,074
September	704	416	3,469	89	3,974	4,678
October	----------	----------	----------	----------	----------	----------
November	----------	----------	----------	----------	----------	----------
December	----------	----------	----------	----------	----------	----------

[1] These figures do not include Saturday transactions when Saturday falls on last day of reporting period.
[2] Prior to Jan. 1, 1950, these accounts were designated as war loan accounts.

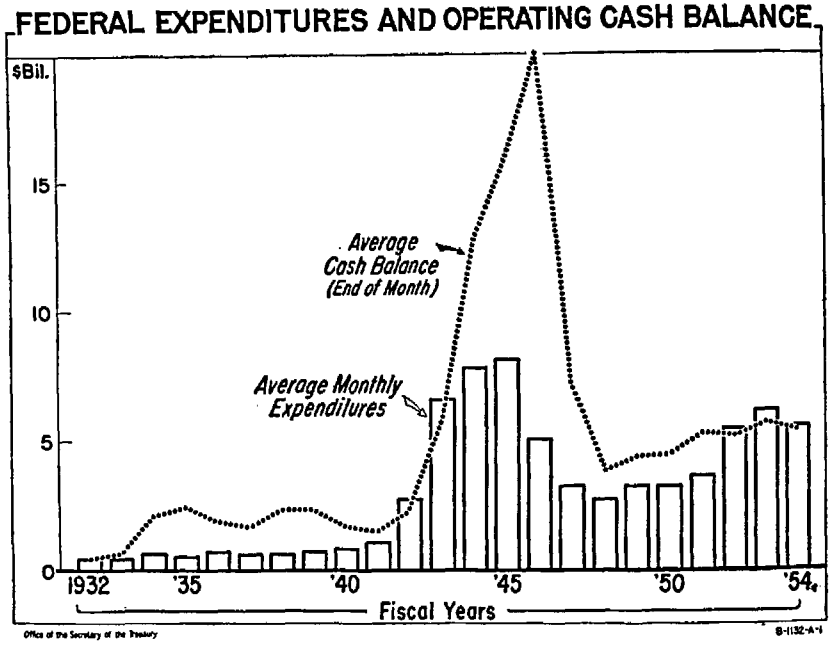
NOTE.—There are approximately 14,000 banks eligible to hold Government deposits. As of Aug. 31, 1954, there were 1,422 general depositaries; 11,113 special depositaries; and 34 foreign depositaries.

ATTACHMENT NO. 5.—*Treasury operating cash balance and average Federal budget expenditures fiscal years 1932–54*

[In billions of dollars]

Fiscal year	Average operating cash balance [1]	Average monthly budget expenditures	Fiscal year	Average operating cash balance [1]	Average monthly budget expenditures
1932	0.4	0.4	1944	12.9	7.9
1933	.6	.4	1945	16.0	8.2
1934	2.1	.6	1946	20.1	5.1
1935	2.4	.5	1947	7.2	3.3
1936	1.8	.7	1948	3.9	2.8
1937	1.6	.6	1949	4.4	3.3
1938	2.3	.6	1950	4.5	3.3
1939	2.3	.7	1951	5.3	3.7
1940	1.7	.8	1952	5.2	5.5
1941	1.5	1.1	1953	5.7	6.2
1942	2.3	2.8	1954	5.4	5.6
1943	5.8	6.6			

[1] 13-month average of end of month figures.



Representative PATMAN. But you say essentially in your memorandum that it is necessary to do this—I am not trying to use your language, or put words in your mouth, but the impression I received is—it is necessary to do that because the banks went to a lot of trouble in selling bonds.

Secretary HUMPHREY. No. That is not right.

Representative PATMAN. And rendering other services, and that you wanted to compensate the banks by leaving these deposits there a certain time.

Secretary HUMPHREY. No.

Representative PATMAN. Was my conclusion correct or was it incorrect?

Secretary HUMPHREY. It is incorrect.

Representative PATMAN. All right, why did you want to leave all this five or six billion dollars there all the time?

Secretary HUMPHREY. We have to have it for working funds that move in and out. When you are spending as we are anywhere from four and a half to six billion dollars a month, you have to have cash on hand to pay your bills with, to meet your checks as your checks are presented.

Representative PATMAN. Let's analyze that.

Secretary HUMPHREY. So we have to keep a working balance on hand to meet our bills.

Now, the reason we do it through the banks is because with the money coming in and the money going out, if we keep this money spread throughout the country and run tax and loan accounts in the commercial banks we have less dislocation of funds througout the country and we don't pull one area way down and build another area way up.

Private deposits in a bank are just shifted to Government deposits in the same bank until we have to pay our bills. We don't put most of that money there ourselves, you know. It gets there as people pay their taxes or buy bonds. That's all explained in the material I sent you in October, and again in the answer to question 8 of the subcommittee's questionnaire.

Representative PATMAN. That is the object of the Federal Reserve. Let the banks go to the Federal Reserve and borrow temporarily.

Secretary HUMPHREY. By doing it this way we avoid that difficulty.

Representative PATMAN. But you are going around the Federal Reserve.

Secretary HUMPHREY. We keep an even flow of money throughout the country and we do not dislocate bank reserves or bank balances by doing it in this way. It is the way you get the most even flow you can possibly work out, and that is very desirable.

Representative PATMAN. I don't want to take up too much time, Mr. Chairman.

There is nothing personal in this, but there is just 2 or 3 New York banks that had a quarter of a billion dollars all the time that you were putting out this issue, and I venture to say that there wasn't a time that the banks, just a few banks in New York City, didn't have as much as $1 billion on deposit, and I can't understand why you would keep that money on deposit when it is unnecessary.

Secretary HUMPHREY. We don't discriminate among banks. Why don't you come up, Mr. Patman, and sit——

Representative PATMAN. Wait just a minute, please. If the banks render service, pay them for it. I want them adequately compensated.

I am not trying to take anything away from them, but I don't believe in just having those accounts there, keeping that money there idle and unused. You don't even check on it.

Secretary HUMPHREY. Do you keep a personal checking account?

Representative PATMAN. You don't even check on these banks.

Secretary HUMPHREY. Do you keep a personal checking account?

Representative PATMAN. I try to.

Secretary HUMPHREY. You try to keep a balance in it, don't you, so your checks are good?

Representative PATMAN. That's right.

Secretary HUMPHREY. And that balance has something to do with the amount of checks you are going to write.

Representative PATMAN. But you don't check on these banks, you check on the Federal Reserve.

Secretary HUMPHREY. The effect is the same as checking on the banks.

Representative PATMAN. Don't you call on them for a certain percentage?

Secretary HUMPHREY. That's right.

Representative PATMAN. In other words, you check on the Federal Reserve.

Secretary HUMPHREY. It is the same thing as checking on the banks, because we are constantly transferring funds, day by day from those accounts to our accounts at the Federal Reserve were the checks are paid.

Representative PATMAN. And I just wonder if some person were charged for failing to pay his taxes and the defense lawyer should

contend before the jury that the charge really is that this taxpayer didn't turn it over to the corner national bank so that the corner national bank could use it, it might have some weight on the jury in the collection of taxes, and this money is powerful money, every dollar of it; they expand six times.

In other words, if they have $1 billion on deposit, they can make loans aggregating $6 billion, and if they charge them 6 percent like the Small Business Administration charges, that you happen to be connected with, 6 percent, that would be 36 percent interest there.

Secretary HUMPHREY. The fact that we have a billion dollars on deposit in the banks certainly does not mean that they can turn around and expand their lending power by $6 billion. These are deposit liabilities; they aren't reserves, which are assets. It's the reserves that enter into the expansion of lending power—not the deposits.

I think it might be very helpful to you if you would come up and sit with Ed Bartelt for a while and see this actual operation and see how fast you have to move when you are trying to pay $6 billion worth of bills with only $4 billion worth of money.

Representative PATMAN. Well, that is the reason Congress very wisely provided that you had that $5 billion cushion there, $5 billion, and that is a fine cushion, and that could take care of any of these temporary upsets, or upsets that are not temporary.

Secretary HUMPHREY. The authority given the Treasury to borrow up to $5 billion directly from the Federal Reserve was never intended to cover anything but situations where temporary borrowing is helpful, as around tax dates. Its purpose is to smooth out the effect on the economy of short-run peaks in the Government's cash receipts and disbursements. Now the Treasury and the Federal Reserve have never used this borrowing authority on other than a temporary basis and have no intention of doing so. If we did, I think the Congress would properly object.

Representative PATMAN. Now, another thing, and I shall be through, Mr. Chairman, about the interest rates on the housing, and particularly the veterans' loans, the Veterans' Administration, and the FHA.

There was pressure brought to bear to raise those interest rates. Do you have coordination between the Treasury and the Federal Reserve?

You know what they are doing, don't you? They have been telling you all the time.

Secretary HUMPHREY. We have very cordial relations with them, and we try to keep informed as well as we can.

Representative PATMAN. You knew that the Federal Reserve was going to take an about-face on May the 6th last year and reverse their policy and take the easy-money road instead of the hard-money road, didn't you?

Secretary HUMPHREY. I knew that they were buying some bills in the open market at some point, but I can't tell you exactly when.

Representative PATMAN. That was May the 6th.

On Saturday, May 2, 4 days before that, the Veterans' Administration raised the interest rates on veterans loans. The FHA raised interest rates on FHA mortgages.

Now, if you have liaison between the Treasury and the Veterans' Administration and the FHA, why didn't you warn them not to raise

those interest rates, that the Federal Reserve was going to change its policy in a few days, and there would be no need to raise them?

The excuse was—and it was a good excuse—that the mortgage lender is entitled to a 1½-percent spread, and, as long as the long-term Government rate was 2½ percent, he was satisfied with 4 percent. That was a 1½-percent spread.

But, when the long-term Government bond rates went up under this hard-money policy and they kept going up and got to 3, with a great deal of logic and reason, and it is very persuasive, the mortgage lenders said, "We are entitled to a 4½-percent rate to make that spread 1½ percent."

It is irresistible logic and reason, so the VA and FHA were persuaded to raise that rate on the theory that the long-term rate was going to remain 3 percent. I am not trying to say that it was bad faith or you did anything that was wrong. However, you, or someone in your organization, failed to exercise due diligence in stopping that tremendous raise which went into effect. Four days later the necessity for it was changed but the increase has never been rescinded. They are continuing to pay that high rate.

Secretary HUMPHREY. As soon as you get through, I will tell you why.

Representative PATMAN. I am through now.

Secretary HUMPHREY. What happened was this, that with these interest rates as they were, veterans were not able to get their loans because the loans didn't pay enough interest.

Representative PATMAN. I explained that. It was partly because the long-term interest rate was increasing and partly because an increase was expected after you issued the 3¼ percent 30-year bond.

Secretary HUMPHREY. That's right, and that is what the interest rates were then, and that is what the interest rates were for months later. Investors wouldn't lend them enough money at 4 percent. We wanted the veterans to have the benefit of getting that money to use, and so they changed the interest rate, so that veterans could have the benefit of the law and actually build some houses, rather than having something on the books that wouldn't work.

Representative PATMAN. I am in sympathy with the objective of building homes for veterans.

Secretary HUMPHREY. That is why it was done.

Representative PATMAN. But why do that just before you knew that the policy——

Secretary HUMPHREY. Because we wanted them to be able to build some houses.

Representative PATMAN. That the policy that caused the 3 percent long-term rate, which would justify 4½ percent for mortgages, that policy was going to be changed in a few days?

Secretary HUMPHREY. And it didn't change in 3 days, and you knew it wouldn't work in 3 days.

Representative PATMAN. It didn't even go into effect in 3 days.

Secretary HUMPHREY. That's right, and the veterans have had the benefit all the rest of the time of having something that would work.

Representative PATMAN. Why haven't you reduced it since? Why don't you reduce it now? Why don't you reduce it today?

Secretary HUMPHREY. Because it is still working in the right way.

Representative PATMAN. But you are getting a 2-point spread when they never did want but 1½-point spread.

Secretary HUMPHREY. The veterans are getting the benefit of it right now.

Representative PATMAN. They are getting a 2-point spread.

Secretary HUMPHREY. And one of the great things that has happened has been this great building going on, and that is one of the reasons for it.

Representative PATMAN. It looked like just increased interest, Mr. Secretary, and you know 1 percent interest is a lot of money.

You take 1 percent on $697 billion, it is $6.7 billion a year.

That is about $50 per person. That's about $200 per family of 4 a year.

That means that they have got to divert that much purchasing power, at least that much purchasing power is diverted from comforts and conveniences of life to the family to paying interest.

Secretary HUMPHREY. Mr. Patman, you know perfectly well——

Representative PATMAN. That is a lot of money.

Secretary HUMPHREY. That the real interest cost depends not only on the dollar amount of interest but also on the amount of principal. If you have to cut your principal to make the rate fit, you might better adjust the rate and keep the principal.

Now, that is the way it was done. The home builders began to get the money they needed, they began to go forward, they began to build things, and we have had the benefit of that, and they have had the benefit of it ever since.

Representative PATMAN. They would have still gotten it if you hadn't raised it, because the monetary policy was changed.

Secretary HUMPHREY. No.

Representative PATMAN. And the direction was 2½ percent long-term, and they were perfectly satisfied with the 1½ percent spread. Under your policy they are not only getting 1½, they are getting a 2 spread which they never asked for.

Secretary HUMPHREY. One is theory and the other is practice. One won't work and the other did.

Representative PATMAN. I would like to yield my time for the present, and when the others get through I have another question or two I would like to ask.

Senator FLANDERS. Before calling on the next member of the subcommittee, I am reverting to a suggestion made by Mr. Patman a few minutes ago to the effect that there might be some correspondence between a Federal Reserve note and a Government bond, each of them representing an obligation.

Now, I have on my bedside table a book called the Treasury of American Humor. I read it when I get distraught.

I have here in my hands another document which I would call Humor of the American Treasury, and I think it is decidedly humorous, Mr. Secretary. It says: "Federal Reserve note, the United States of America will pay to the bearer"—I am the bearer—"on demand $20."

I turn it in, they hand it back. Now, I think that is Humor of the American Treasury.

Representative PATMAN. But don't overlook the fact that you can pay debts, including taxes, with that, and they don't hand it back.

Senator FLANDERS. But it says that in the fine print, print so fine that I have difficulty in reading it. The humorous part is the way in which it is redeemed.

Representative PATMAN. Well, you are making it humorous, Mr. Chairman, when the fact is you turn it in on taxes and they keep it. They don't give it back to you.

Senator FLANDERS. Senator Goldwater.

Senator GOLDWATER. I don't have a question at this time, except one that might clear the record a little bit.

Mr. Secretary, during the last colloquy with Representative Patman, I am sure he didn't want to indicate this but, nevertheless, he did, that your actions in the spring of 1953 added 1 percent to the total debt of the country. Now, what portion of the total debt did that 1 percent actually apply to?

Secretary HUMPHREY. Oh, it was a very, very small percent.

Senator GOLDWATER. It wouldn't add $50 to $200 per family, as might be indicated by the question?

Secretary HUMPHREY. Oh, no, no.

Representative PATMAN. I said it was creeping in that direction. It would have finally gone clear across the board.

Secretary HUMPHREY. It is almost infinitesimal when you take it as you have indicated.

Senator GOLDWATER. Thank you.

Senator FLANDERS. Senator Sparkman.

Senator SPARKMAN. Thank you, Mr. Chairman. I am not a member of the subcommittee. I pass.

Senator FLANDERS. Senator Douglas.

Senator DOUGLAS. Mr. Secretary, there is a question which Congressman Patman raised as to whether the May issue should have been issued at all. The question I should like to raise is whether however it was wise to raise the interest rate as rapidly and as quickly as you did, namely, from 2¾ to 3¼ percent. I would like to ask whether it was the fact that you wanted to check past inflation of prices, which caused you to raise the interest rate by this amount, which was half a percent in absolute terms, and relatively almost one-fifth.

Secretary HUMPHREY. No, Senator. The reasons we put out a long-term issue at that time were that we were trying to stretch the debt out and trying to help Federal Reserve in its monetary restraint policy.

Senator DOUGLAS. Mr. Humphrey, that goes back to the question Mr. Patman raised. It does not deal with my question.

Secretary HUMPHREY. Now, that is as to the reasons for putting out the issue. Now, as to the interest rate which you are now speaking about——

Senator DOUGLAS. That's right.

Secretary HUMPHREY. As to the interest rate itself, the thing that determines the interest rate itself is this, and it determines the interest rate almost always: We have quite wide markets in bonds, in these Government bonds. Every day somebody is buying and selling Government bonds.

Every day the public is fixing the interest rate that will be paid on Government bonds, and as you go through the list, you will find what

the public is willing to pay for certain maturities of these bonds daily, so that the Treasury doesn't fix the interest rate.

The public fixes the interest rate, and we have to adopt a rate, when we have an issue to sell, which is what the public is demonstrating daily that they are willing to buy bonds at.

Senator DOUGLAS. In other words, you need to give 3¼ percent in order to issue the bonds at par?

Secretary HUMPHREY. That is right.

Senator DOUGLAS. What are they selling for now?

Secretary HUMPHREY. They are selling considerably above that figure.

Senator DOUGLAS. Aren't they selling for 110?

Secretary HUMPHREY. Yes.

Senator DOUGLAS. May I say this. To err is human. We all make mistakes.

Secretary HUMPHREY. Sure.

Senator DOUGLAS. Senators make mistakes, Secretaries of the Treasury make mistakes, and so on.

Secretary HUMPHREY. Sure, lots of them.

Senator DOUGLAS. But in view of the fact that a year and a half after issuing this 3¼ percent interest rate has produced price of bonds at 10 percent higher than par, if you could have foreseen what was going to happen, would you have put it up at 3¼ percent?

Secretary HUMPHREY. Yes; let me put it this way:

Let's go back to when we took off the controls. I think to leave the controls on would have been a very bad thing. If when we took the controls off we had had runaway prices, that would have been bad, too. I think either one of those would have hurt the public so much more than any possible change in this relatively small amount of interest rate that there is no comparison.

Senator DOUGLAS. Now you are going back to the price question.

Secretary HUMPHREY. That was the price at the time.

Senator DOUGLAS. You mean, the price of bonds or the price of commodities?

Secretary HUMPHREY. The price of interest. The price of borrowed money, as fixed by the market at that time, was that price. That is where it came from. We didn't pick it out of thin air.

Senator DOUGLAS. Just a minute, Mr. Humphrey.

In view of the tremendous importance of Government issues, you certainly cannot say that the Government merely accepts the interest rate fixed by the market.

You helped fix that interest rate. The raising of the interest rate from 2¾ to 3¼ percent caused all interest rates to move up.

Secretary HUMPHREY. No. The interest rates——

Senator DOUGLAS. When the public debt was only a small fraction of the total debt, then perhaps you could argue that the Government merely has to accept the interest rate dictated by the market, but when, according to your own figures, it forms such a large percentage of the fluid capital, certainly the terms upon which you issue Government bonds affect other interest rates.

You do not merely accept the market. You help to determine the market, and that was evidenced in what happened to the price of previous issues at lower rates of interest, which went down because you were raising the interest rate. It is what happened in interest rates

where other flotations had to be issued immediately afterwards. I don't think you can say you merely accept conditions. You help frame conditions.

Secretary HUMPHREY. Let me see if I can explain that to you as we see it, and let's get it into very simple terms.

We are selling eggs, and the current price that eggs are selling for is 50 cents a dozen. Now then, we come along and we have some eggs to sell. If we go out and offer those eggs at 55 cents, nobody is going to buy them, so if we have a dozen eggs to sell, we have to offer them at a price that the market will take. If we come out and offer them at above the market, nobody is going to buy them. If we come out and offer them approximately at the market, we have a chance to sell them.

Now then, we do affect the market somewhat by the amount of eggs that we do offer. If we came out with thousands of cases, we would present an oversupply of eggs and it would tend to push the market down. If we came out with a very little bit and there was a strong demand, we would have to come at approximately the market.

Now, the same thing is true of bonds. These bonds, the rate that people were buying bonds for at the very day we put these bonds out was, as nearly as we could figure it, about 3¼ percent. Now, by coming out and adding some more bonds to the supply we, of course, did to some extent affect the rate.

That is why we put out as small an issue as we did, because we didn't want to affect the rate any more than we could help, so we met the market with as small an amount as we could that we thought would not affect the rate, and in that way did not increase interest rates by these bonds over what they then were.

Senator DOUGLAS. Well, Mr. Humphrey, the analogy which you draw between the housewife who sells eggs, a few dozen eggs, on the market of millions of dozens of eggs, and therefore sells only an infinitesimal proportion to the total eggs sold, and hence has to accept the price, is not applicable to the Government, which sells a large proportion of the securities which are issued.

Secretary HUMPHREY. Now, wait just a minute.

Senator DOUGLAS. There is a difference. You are assuming perfect competition in the egg market and carrying it over into the bond market, which doesn't apply.

Secretary HUMPHREY. No, I don't think that is correct, Senator. We sold just a little over $1 billion, and compared with the Government debt outstanding at that time in the hands of the public—leaving out the Government accounts—it looks very small. We put out $1 billion or a little better, and there was outstanding in the hands of the public at that time about $220 billion. Now, when you put 1 out in 220, it isn't such a large proportion, after all.

Senator DOUGLAS. Then you were treating this as purely an extraordinary occurrence raising the interest rate on this one issue?

Secretary HUMPHREY. We didn't raise it.

Senator DOUGLAS. But it didn't indicate any permanent policy? Is that what you are now saying?

Secretary HUMPHREY. We didn't raise the interest rate. We accepted the interest rate as the market had it determined that day, and we took that interest rate and offered to sell our goods at the price the market was paying at that time.

Senator DOUGLAS. The previous issues of comparable bonds, as I remember it, drew some 2¾——

Secretary HUMPHREY. I don't know what their market yield was.

Senator DOUGLAS. Is that not true, that they drew 2¾ percent?

Secretary HUMPHREY. No, it is not true, and the reason is this: Interest is a function of both principal and rate, and unless you take into account both principal and rate you can't figure interest. Interest of $2 on $100 of principal is 2 percent. That same $2 on a principal of $50 is 4 percent.

Senator DOUGLAS. Then let me ask you this——

Secretary HUMPHREY. So you always have to take two things into account to figure what interest is.

Senator DOUGLAS. What was the yield on comparable Government securities at the time?

Secretary HUMPHREY. It was approximately this same rate.

Senator DOUGLAS. 3¼ percent?

Secretary HUMPHREY. That's right.

Mr. BURGESS. There is a difference in maturity.

Secretary HUMPHREY. For that maturity.

Mr. BURGESS. There weren't any Government bonds that long outstanding at that time. The longest bonds were 2½'s which had become medium-term maturities. They were selling around a 3 percent yield basis.

Senator DOUGLAS. Three?

Mr. BURGESS. That's right.

Senator DOUGLAS. That is what I understood.

Secretary HUMPHREY. But that was for a shorter maturity.

Senator DOUGLAS. May I just finish?

Secretary HUMPHREY. You have got to take maturity principal, and interest into account in figuring what a new interest rate should be.

Senator DOUGLAS. Now you have introduced a third dimension.

Secretary HUMPHREY. That is always true.

Senator DOUGLAS. May I say I can understand your raising the rate to 3 percent, but I have thought that that extra quarter of a percent was a mistake; that the yields were 3 percent on comparable securities.

Secretary HUMPHREY. No, they weren't comparable. Those were medium-term maturities, and were much shorter.

Now, we thought, based on all those rates——

Senator DOUGLAS. How long is this issue?

Mr. BURGESS. The longest marketable bonds outstanding then were December 1967–72's, so you were stretching this new issue very substantially into an area where there was no marketable debt outstanding. The new issue was more than 10 years longer.

Senator DOUGLAS. That raises the question immediately as to whether you should have issued it for so long a period.

Secretary HUMPHREY. All right. We thought that it was the right thing to do, and I still say that I believe it was the thing to do if it was helpful in deterring runaway markets in commodities, and I think it was.

Senator DOUGLAS. Now, when you speak of deterring runaway markets in commodities, I think there has been a lot of—I won't say issued by you, Mr. Humphrey, but a lot of—misapprehension on this point.

Sometimes this rise in the interest rate has been spoken of as a move to check price inflation. I am happy to see that this morning neither you nor Mr. Burgess have advanced that argument.

I have here a sheet of wholesale prices and consumer prices, and they indicate that wholesale prices fell from 116.5 in March 1951 when the accord between the Treasury and the Reserve was negotiated, to 109.6 in December of 1952, and approximately to 110 in March of 1953, so that there has been a fall in wholesale prices.

There had been a slight increase in consumer prices from 110.4, 110.3 in March 1951, to 113.6 in March of 1953, but if you take the two together, there was roughly price stability. In fact, there was a slight price decline, so that I do not think it can be maintained as some have maintained in their speeches that this was necessary to check price inflation, and I hope the record is clear that whatever the justification may have been for it, that this was not a justification. Would you agree with that?

Secretary HUMPHREY. Let me put it this way, Senator, I have to get these things into very simple form or I don't understand them myself.

Senator DOUGLAS. You are a very clever man, Mr. Humphrey, to be able to put them in a simple form.

Secretary HUMPHREY. To just be simple about it, when you take controls off there are several things that have to be taken into account in judging where prices will go.

In the first place you have to judge as best you can looking ahead, and it is always easier to be a Monday morning quarterback than it is to do the job Saturday afternoon. Looking ahead you have to judge how the relative increase in productivity was coming up in production of goods. That was increasing.

There was a lot of plant capacity that was coming in, and it was increasing. You also had to look at what the demand probably was going to be.

Now in addition to all of that, there was the question of how purchasing agents throughout the country thought things were going. They don't study economics particularly; they just go the way you and I go along in judging how things are going to go. If they think prices are going to go up, they want to raise their inventories to protect themselves. If they think prices are going down, they cut down on their inventories somewhat.

If it costs them a little more money to carry an inventory, they are not quite so apt to speculate with it.

So that with all of these things, with the production, gaging the production that would probably be available, gaging the demand that would probably be made, and with it costing a little more to carry a speculative inventory, all those things converged to a point where you didn't have an increase in speculative inventory.

And it was the most fortunate thing in the world that we didn't get it because we were accumulating inventory at that time, anyhow, and if we had added substantially to our inventory accumulation at that time we would have had a much farther down curve in business, which was what you were predicting yourself only a few months ago.

Senator DOUGLAS. Mr. Humphrey, for the record I have never made any predictions. I have never made any predictions about the future. The record is perfectly clear on that point. I merely stated what was occurring, namely a decline in industrial activity or a recession.

Secretary HUMPHREY. In any event, we didn't have that severe down curve partly because we had not had that speculative inventory buying.

Senator DOUGLAS. Now, Mr. Humphrey——

Secretary HUMPHREY. All these things contributed to stop that, and I think that by and large the whole thing did stop the inventory accumulations that would have driven us further down had it occurred.

Senator DOUGLAS. Then what you were afraid of was not past increases in prices, but anticipated increases in prices.

Secretary HUMPHREY. That is right.

Senator DOUGLAS. Resulting from the removal of controls.

Secretary HUMPHREY. That is what many people said. That is what the big argument was, and there are many people who argued very sensibly that if those controls were removed, there would be an immediate rise in prices that would be uncontrolled.

Representative PATMAN. Would you permit an interruption there?

Senator DOUGLAS. Certainly.

Representative PATMAN. He said if those controls were removed.

Secretary HUMPHREY. That is right.

Representative PATMAN. Indicating that you were going to take them off.

Secretary HUMPHREY. That is right.

Representative PATMAN. The 83d Congress in 1953—isn't it a fact, Mr. Secretary, that the Defense Production Act of 1952 passed in the 82d Congress provided for the automatic decontrols that went into effect, and practically all of them had been removed before April 1953?

Secretary HUMPHREY. Only because we took them off.

Representative PATMAN. They were automatic.

Secretary HUMPHREY. And if they had been taken off earlier, we would have been better off. If that had been done in the fall before, we would all have been better off.

Senator DOUGLAS. As a matter of fact, Mr. Humphrey, even under the imposition of controls, what we had was a fall in wholesale prices. The controls pegged prices at their peak, of January–May 1951 but did not appreciably impede the rise in prices. The trouble had occurred by the time controls were imposed, and a business fall of 7 points.

Secretary HUMPHREY. Of course, you don't know what the peak would have been if you hadn't had them. When a control is put on, it will always peg it at the peak because that is where you stop the rise.

Senator DOUGLAS. What I am trying to say, is I see no evidence that there was any pent-up inflationary movement at the time the interest rate was raised so sharply, and that this was taken as an indication of Government policy.

The rise was not merely an isolated occurrence. It was said to be the shape of things to come, and the result was that it was not merely a coincidence that the yield on municipals went up, that other yields went up as well due to the falling of prices of securities already issued. It had a profound effect, and the very fact that it was not needed was shown in that within a month you reversed yourself. I wish that as public men we didn't always have to take the position that we are infallible. It is possible that we make mistakes, honest mistakes.

Secretary HUMPHREY. I am not taking that position at all, but if we had to do it again tomorrow, I would do exactly the same thing, and let me tell you why.

I think that one of the greatest things that has happened has been the stabilization that has resulted during this period, the maintenance of that stability, the stopping of inflation. We had been for 15 years in a period of self-imposed inflation that was fostered and carried on, and it was depreciating the value of the dollar very rapidly.

Now the value of the dollar stopped depreciating. It all has to do with the reduction of Government expenditures, with the handling of the taxation, with all of these things that all contributed, and it is not a bookkeeping fetish or anything of the kind.

The stopping of this inflation saved the people of America, the savers of America, the people of America a great deal of money, and it has stabilized the economy. It has helped to make jobs for them to work at, and I think it is the foundation of the conditions that we have today.

Senator DOUGLAS. It is always impertinent to play the role of amateur psychiatrist, Mr. Humphrey, but I would say that your subconscious has oozed out in your reply, because now you are making emphasis upon the checking of inflation, which a few minutes ago you disavowed.

Secretary HUMPHREY. No; I didn't disavow it. I never disavowed it. I have said right straight along that our objective has been to stop these inflationary pressures. Our objective has been to stop this depreciation of the dollar, and so far we have done it.

Senator DOUGLAS. This is my point: That had already been done by the Federal Treasury Reserve Board in March 1951, as indicated by what happened after that.

Secretary HUMPHREY. No; that is not the whole story.

Senator DOUGLAS. What I think happened is you carried over your impression of what existed prior to that accord into a period in which it no longer applied.

Secretary HUMPHREY. No; I don't think so. In any event, it has worked.

Senator FLANDERS. Will the Senator yield?

Senator DOUGLAS. I have taken up too much time.

Senator FLANDERS. I would just like to express this situation as I see it. I may not be seeing it rightly.

In the first place, inflation was checked before you, sir, came to the Treasury. In the second place, a new factor entered after you came to the Treasury in that controls were removed. The assumption you are making, which seems to me a valid assumption, is that positive action on your part was required to maintain an already existing situation in the face of the removal of controls.

That, at least, is the way I see the picture. And just one other point, and that is this: that you have disavowed the direct fixing of interest rates by saying that you put that issue out at the market.

There had to be an element of judgment in your case because there were no Government issues of that length of maturity in the market. You had to make a judgment as to what the market was for maturities for that length. It would seem to me then that your policy is either approved or disapproved on the basis of your decision to issue securities of greater length than any that were present in the market.

Secretary HUMPHREY. That is right, Mr. Chairman. You might want to add that there were, of course, other influences that also bore on this.

We inherited a $9½ billion deficit that year, which was an inflationary pressure in itself, so that to say that inflationary pressures were all removed is not correct.

We were under many inflationary pressures at that time. Consumer credit was rising rapidly. New issues of corporate and municipal securities were running very high and credit demands were threatening to spill over at a time when our productive capacity was already fully utilized. We felt it necessary to resist those pressures so that we would not have a runaway rise in prices, and we could stabilize the dollar.

Now, the proof of the pudding is in the eating. What was done did stabilize prices.

It did arrest the threatened rise and it continued stabilization and the value of the dollar didn't depreciate further. That is very beneficial for the American people in the form of jobs, in the form of savings, in the form of insurance, in the form of pensions, in all the things that the American people want to have.

Senator FLANDERS. Senator Douglas, you still have the floor.

Senator DOUGLAS. I don't want to monopolize the questioning, but I would say this.

I think this argument that it was necessary for stabilization is very dubious. It is true that the money supply was increasing, but it is also true that production was increasing, and it is important to view those two together in relationship to each other.

If you have the normal increase in production of 3 percent a year, and as a matter of fact, it was going up close to 5 percent a year during the preceding year, you can have some increase, a corresponding increase in the money supply without any inflationary effect on prices, and that is precisely what had been happening.

The Federal Reserve had allowed the money supply to increase in absolute terms, but not in relative terms. This is something that I think monetary managers should consider, not merely the question of absolute increases, but relative increases, and it is only when the relative supply of money is increasing more rapidly than the index of production or physical production that you get into danger.

Our good friends at the Treasury, I think erred in just being frightened at the absolute increase, and disregarded that increase in production which counterbalanced the increase of money, and had enabled stable prices to be maintained, which would have continued.

And the very fact that it wasn't necessary is shown in that within a month the Treasury had to beat a retreat, that interest rates were lowered, that this issue now stands out as a sore thumb at a price of 110, that the verdict of the market to which the Secretary has appealed has been that that was not necessary.

Now, I say it was a bad mistake, but I believe it was an honest mistake. But I know how hard it is for public figures to admit mistakes. I sometimes find it difficult myself, Mr. Secretary. But I think nothing is gained by trying stubbornly to maintain a position that you are correct, when history indicates you were wrong.

Secretary HUMPHREY. Senator, I have made a great many mistakes in my life, and I expect to make a lot more, and I have never been a bit backward in admitting them.

On the other hand, when you are looking forward and making judgments and those judgments work in practice, that is the test after all, I am not much of a theoretical economist. I don't care too much about the theory of it as long as it works.

This one worked, and it worked well, and therefore I think it was all right.

Senator DOUGLAS. Now, Mr. Secretary, I have kept off of this question of whether it worked, but since you have raised it, I want to address myself to that very point.

You say it has worked because prices have been stable, but there is no doubt that that rise in interest rates checked production, checked volume of output during the second half of 1953 and contributed to the recession and contributed to the employment of human beings.

Now, I do not say that it was the sole factor in the recession. I have never argued that. But I do say the rise of one-half percent in interest rates helped it along.

Secretary HUMPHREY. It is a mighty good thing it did check inflation.

Senator DOUGLAS. Did you consider the increase in unemployment, which has been very severe in many regions of this country? If you took that into consideration, then I think you would not be quite as self-satisfied with this decision that you say "worked."

Senator FLANDERS. May I interrupt a moment, Senator?

Senator DOUGLAS. Certainly.

Senator FLANDERS. It seems to me that one part of the production that it checked was the flow of production into inventories.

Secretary HUMPHREY. That is right; that is exactly right.

Senator DOUGLAS. Well, did it?

Senator FLANDERS. Yes.

Secretary HUMPHREY. Yes; it did, and if it hadn't we would have been in a lot worse trouble.

Senator DOUGLAS. But for about 5 months inventories continued to increase despite the rise in interest rates

Secretary HUMPHREY. And think how bad it would have been if it hadn't helped to check it.

Senator DOUGLAS. Your own chart shows that the inventories did not begin to decline until October, and you had placed your increase in interest rates into effect in May.

Secretary HUMPHREY. That is simply illustrating your point that we did need a check.

Senator FLANDERS. Now, I am anxious that Mr. Talle, if you will excuse me, shall have an opportunity, and so it is his turn now.

Representative TALLE. Thank you very much, Mr. Chairman. I will not take any time.

Senator FLANDERS. Well, now it lies between those who have already spoken. Let's see if Senator Sparkman would like to ask any questions.

Senator SPARKMAN. No, Mr. Chairman, don't save any time for me. I am a visitor, not a member of this subcommittee.

Senator FLANDERS. You are welcome as a member of the full committee.

Mr. Goldwater?

Senator GOLDWATER. Mr. Chairman, I have one question to ask, brought about by the chairman's first suggestion that possibly the law of supply and demand hasn't been working during this period of inventory adjustment. Isn't it true that temporary price reductions are not noted in price indexes?

Secretary HUMPHREY. That is right.

Senator GOLDWATER. Isn't it true that there has been in this country a great deal of price reductions, particularly in the automobile field and appliance field in the past 9 to 10 months?

Secretary HUMPHREY. In almost every field, Senator, there have been sales involving price reductions moving substantial quantities of goods that have tended to reduce inventory, and those price decreases are not noted in the figures.

Senator GOLDWATER. So wouldn't you say it would be safe for me to assume that the fact that the law of supply and demand has been allowed to operate with a minimum of Government interference has been the dominant factor in the present economic condition of the country?

Secretary HUMPHREY. That is exactly right, and price concessions have been effective in that operation.

Senator GOLDWATER. Thank you.

Senator DOUGLAS. Mr. Chairman, before we break up could I give a Biblical quotation which I think is applicable.

Senator FLANDERS. Well, now just before we have the Bible, I want to say that I, not quite tacitly, have offered Mr. Patman a chance to say something more.

Representative PATMAN. I will certainly yield to a Biblical quotation.

Senator FLANDERS. I don't believe you can quote the Bible indefinitely, so let's——

Senator DOUGLAS. I was going to only use the Bible as a jumping-off point.

Senator FLANDERS. Just give us the jumping-off point, anyway.

Senator DOUGLAS. Mr. Secretary, it finally comes down to this. You believe this increase in interest rates, or at least the extra quarter of a percent, was necessary to check increases in prices which had not yet occurred but which might do so, or increases in inventories which had not yet occurred but which might.

In other words, it was a faith that there would have been inflation in the future if this had not occurred.

That reminds me of St. Paul's definition of faith. It is the substance of things hoped for, the evidence of things not seen. But in this connection I would like to point out that despite the rise in the interest rate, inventories continued to accumulate until October, and on a seasonal basis even until November, and that within a month almost the Treasury and the Reserve, finding that they had made a mistake, though they did not wish to admit it publicly, had reversed their policies, and it was after the fall in the interest rates that the inventory ceased being accumulated.

Secretary HUMPHREY. These curves, Mr. Senator, as you know begin to show up long afterwards. If you don't live way ahead of the curves, you are going to be in a lot of trouble.

Senator GOLDWATER. Mr. Chairman, a question on that point.

Isn't it true that new orders in both retailing and manufacturing at that particular period were at quite a high point, and they had to be filled.

Secretary HUMPHREY. That is right.

Senator GOLDWATER. A businessman just can't cancel orders because he thinks something is going to happen.

Secretary HUMPHREY. If you wait until you see it on the chart, you will go broke.

Senator GOLDWATER. That is right.

Representative PATMAN. I raised the question of permitting the banks to have so much of the Government's money on hand all the time, an amount which in the recent past has been around 6 or 7 billion dollars.

Secretary HUMPHREY. I think our average is about 4 billion, but I won't quarrel with you over a billion or 2.

Representative PATMAN. I want the banks to be profitable. I am not going to do anything that will keep them from making money because they are so important in our entire economy.

But it occurs to me in permitting them to hold so much of the Government's money, every dollar of which has a potential credit of $6—in other words, if they have $6 billion, they can extend loans of $36 billion, that we are doing a lot for them that could possibly make them become a little indifferent toward talking to small-business people who want local loans.

The point is this, Mr. Secretary. I just feel like it is just doing too much toward making these banks a little bit indifferent and careless toward local loans, and I just wanted to invite that to your attention.

The value of the dollar today is about the same as it was in early 1953?

Secretary HUMPHREY. Yes.

Representative PATMAN. Now, during that time the gross national product has gone down; hasn't it?

Secretary HUMPHREY. It has gone down a little, a very small percentage.

Representative PATMAN. Dr. Burgess said you have to run awfully fast in this game to stand still.

Now, I think that is a good statement, but in our economy if we just stand still, if that line is just even, it doesn't go up, it goes just exactly like it has been, we are going backward; aren't we?

Secretary HUMPHREY. Mr. Patman, we have a growing economy. This country is growing right now. We have got to make more jobs for more people all the time.

Representative PATMAN. That is right, that is what I am talking about.

Secretary HUMPHREY. And this country is going to have a continual growth. I am a great believer in America. We are not going to stand still.

Representative PATMAN. Now, gross national product is the index; isn't it?

Secretary HUMPHREY. You aren't going to keep making new records every day. You are going to catch your breath now and then, and then run again.

Representative PATMAN. When are we going to start running?

Secretary HUMPHREY. We are on the way up right now.

Representative PATMAN. Right now? It must have been the last month.

Secretary HUMPHREY. It started last month and the month before.

Representative PATMAN. Mr. Clark yesterday made a very interesting statement. He seems to be concerned that if the economy does not respond adequately to the current automobile and steel expansion, this, coupled with the usual post-Christmas letdown, may not leave our economy in good condition. He suggested then that we should take a drastic step.

We should reduce reserve requirements of banks down to the bare minimum. Of course, that would release a lot of reserves and that would increase the potential lending power of the banks by possibly $75 billion. I would be afraid of it. I think it is too much.

But if the country doesn't respond to this stimulation via expanded automobile the steel production and doesn't come back after the seasonal letdown anyhow, do you not think we should do something drastic?

Secretary HUMPHREY. There is nothing in the present situation that would lead me to believe we should do anything drastic now.

I have no idea of it, and I don't think it is worthwhile to speculate on a lot of thoughts that nobody knows whether they are going to come true or how they will work out.

Senator FLANDERS. Are there any other questions that any of the members of the panel or any members of the committee here wish to ask?

If there are no other questions, we will call this hearing adjourned, and we are particularly grateful to the Secretary and the Under Secretary. We meet again at 2 o'clock when we have a most remarkable aggregation of talent. Never before has the entire Federal Reserve System faced a group of Senators and Representatives.

(Whereupon, at 12:20 p. m., a recess was taken until 2 p. m., the same day.)

AFTERNOON SESSION

Present: Senators Flanders (presiding), Goldwater, Sparkman, Douglas, and Watkins; Representatives Patman and Talle.

Also present: Grover W. Ensley, staff director, and John W. Lehman, clerk.

Senator FLANDERS. The hearing will come to order.

Congressman Patman?

Representative PATMAN. Mr. Chairman, the Federal Reserve System, made up of the regional banks and the central governing board in Washington, has been established for 41 years.

The Open Market Committee, with its broad powers over the economy, has been in existence for 20 years. In all that long history, this is the first time that any congressional committee has had the opportunity of meeting face to face with the men who, through their

position in the Reserve System and their control over the availability of credit and purchasing power, have more power than almost any group, in shaping the destinies of the economy of the Nation.

While the Chairman of your Board and some of the presidents of individual banks have appeared before Congress from time to time, never before has the top management of the Reserve System appeared as a group before representatives of the Congress, as you are appearing today.

In many ways, this is strange and, I believe, an unfortunate fact. It is strange and unfortunate because however one may choose to describe the relationship between Congress and the System, the fact is that under the Constitution, the powers to coin money and regulate the value thereof are expressly placed in the Congress.

The fact that Congress has seen fit, as a practical matter, to entrust or delegate the day-to-day exercise of this power to the Reserve System, does not lessen the ultimate power or responsibility of the Congress in this respect, nor does it make the functions which you and the Reserve System perform any less public governmental functions.

Congress, recognizing that restrictive monetary policies must sometimes be strongly stated to control inflation, has chosen to endow the System with a considerable degree of independence. But under the Constitution this independence can never rise above the relationship of a faithful and trustworthy servant and a responsible, watchful master, in this case the Congress.

Since the country cannot prosper without a sound basic economy and sound credit conditions, since the economy cannot exist without an adequate medium of exchange by which goods and services change hands, the powers which the Congress has delegated to the System are in many ways closer to the destiny of the country than many of the other congressional powers.

In many respects, the actions which you take at your regular meetings of the Open Market Committee are thus more important to the well-being of the plain citizen and to business, labor, and agriculture than most of the actions taken by a long session of the Congress itself.

I am sure that as individuals you fully appreciate this responsibility, but there can be no harm in its reiteration and emphasis.

In a dynamic and delicately balanced economy, such as we have, actions taken by monetary authorities must be constantly sensitive to economic changes and threatened instability.

Yours is thus a day-to-day task as well as a sensitive vital one.

Since it is such a sensitive and serious responsibility, it is appropriate that those entrusted with it should report frequently to the Congress, whose constitutional powers they exercise through delegation.

It is true that the Board of Governors does file an annual report with the Congress. Ideally this report should be even more complete than it is. For example, it should contain details on the volume of open-market purchases and sales which have to be made in pursuance of the policies determined upon.

It should report the success of the operation undertaken and explain fully the thinking behind the decisions and policies. Faithful and full reporting to the principal is expected of every agent.

It might indeed well be that reports should be made more frequently than once a year.

I hope that this hearing today will establish a precedent which will lead to similar meetings and your appearance before congressional committees regularly.

I certainly hope and feel sure that none of us want another 41 years to go by before repeating a meeting similar to this.

Thank you, Mr. Chairman.

Senator FLANDERS. Congressman Patman referred to the fact that this is an unusual occasion. It is a fact that a group of Congressmen and Senators who have the kind of responsibility that is laid upon the Joint Economic Committee have never before asked this group as a whole to appear before us.

I might remark, parenthetically, that in the 41 years of the Board, and in the 20 years of the Open Market Committee, it took a Republican Congress and the Republican chairman to get this result achieved, and——

Senator SPARKMAN. You just did get under the wire, Mr. Chairman.

Senator FLANDERS. There is an old hymn about the prize:

> The prize secure, the wrestler nearly fell, bore all he could endure, and bore not always well.

But the idea is that he won nevertheless.

Now, this is an unusual occasion. I think it is very much to the advantage of the Open Market Committee, the Board and the other members and the group of presidents and this committee to be personally acquainted with each other.

I assume there are opening statements to be made by Mr. Martin, the chairman, and by Mr. Sproul the Chairman of the Open Market Committee. That being the case in order not to take any further time from the statements we will want to begin with Mr. Martin immediately.

Let me first say that we greatly appreciate the care and thought which have gone into the preparation of the answers to the series of questions propounded by this subcommittee to the Federal Reserve Board prior to the hearings. These materials were inserted in the record at the opening of the hearings yesterday (p. 3).

Mr. Martin?

STATEMENT OF WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, ACCOMPANIED BY MEMBERS OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AND RESERVE BANK PRESIDENTS

Mr. MARTIN. Mr. Chairman, this is the first time that I have ever really felt comfortable in appearing before a committee of Congress, because I have a lot of artillery with me today.

Usually, I am up here all alone, although I am flanked by my very able staff assistants; but it seems to me very helpful for us to have a meeting of this sort, and I would like to reiterate what Congressman Patman has said.

I have no prepared statement today, but I would like to make a few comments on the Federal Reserve System, along the lines that are contained in the opening statement that Mr. Patman has given us.

The Federal Reserve System, I have tried to emphasize, has the word "System" in its title, and I believe that to be the most important word in its title.

In the history of credit and money policy in this country, it is obvious that the Congress has struggled to know how best to administer this great power that it has. The Congress has evolved, in accordance with the American way of life, an institutional concept, recognizing that decisions on money and credit policies are like the decisions of the judiciary, in that they depend for their effective exercise upon freedom to analyze the problems and act on the problems that, as Mr. Patman rightly says, occur from day to day and week to week and month to month and year to year, free of political pressures on the one hand, and of private pressures on the other hand. Therefore, in establishing the Federal Reserve System, after long and careful discussion, the Congress determined that they would not have a single bank with many branches, but that they would have a regional system, and that that regional system would be knit together by a governing board in Washington. You have today at this table the operating heads of the 12 Federal Reserve banks and the 24 branches under those 12 banks, as well as the members of the Board of Governors that knit the System together in Washington.

We might also have had here today the Federal Advisory Council, a statutory body which the Congress provided for in the Federal Reserve Act, and we might have had the chairmen of the 12 Federal Reserve banks and the some two-hundred-and-fifty-odd directors of the Federal Reserve banks, who are also an integral part of the System.

Now, this System represents a trusteeship over money which the Congress has granted to the Federal Reserve System under a trust indenture, which is the Federal Reserve Act.

That trust indenture can be changed at any time by the Congress, but it is under that trust indenture that we are acting, and what I am outlining as the regional system of the Federal Reserve is in accord with the trust indenture which you have given us to operate under.

Now, it is my firm conviction that credit and monetary policy has to be conducted not on a one-man basis, but by bringing together from all over the country, a country as large as this, a composite of views in such a way that they will be brought to bear on policy so that we will have some understanding of what we are trying to do, as well as some recognition of the nature of the problem.

And so, today it gives me a great deal of pleasure to be here and to be surrounded by my artillery, and to be in a position so that I do not have to answer all of the questions.

Now, I would just like to make one further comment, and that has to do with the questions which have been asked us by Mr. Ensley and the very able staff of your committee. They are very good questions; they are very searching questions, and they are questions that we welcome having the opportunity to answer at this time and put in the record.

We think they are deserving of study and careful consideration, and we welcome your comments and your judgment on them because only in that way can we be helpful.

I want you to know that the Board and the staff and many of the people in the System have worked as diligently and as faithfully as they can to give you the best answers that we can to these questions.

Thank you.

Senator FLANDERS. Thank you, Mr. Martin.

With regard to the artillery which you have massed here, I may say that they are not arranged in any respect with regard to their bore or the weight of the projectiles; they go alphabetically from Mr. Balderston, Mr. Bryan, Mr. Earhart, and then, take a great leap, and end up with Mr. Williams and Mr. Young.

I thought it would be interesting to know that we use the alphabet instead of protocol.

Without objection, we will insert in the record at this point brief notes on the members of the Board and the presidents, and a listing of the present members of the Federal Open Market Committee. In response to a request from Congressman Patman there is also included the membership of the Federal Open Market Committee and of the executive committee of the Federal Open Market Committee, March 1951 through February 1954, and a list of the present members of the Federal Advisory Council.

(The documents referred to follow:)

MEMBERS OF BOARD

William McChesney Martin, Jr., Chairman: Effective date of appointment April 2, 1951; term expires January 31, 1956; formerly president of New York Stock Exchange, chairman and president of Export-Import Bank; and at the time of his appointment was Assistant Secretary of the Treasury.

M. S. Szymczak: Effective date of appointment June 14, 1933; reappointed effective February 3, 1936, and February 1, 1948; term expires January 31, 1962; formerly engaged in banking; professor, DePaul University, Chicago, Ill.; and at the time of his appointment was comptroller of the city of Chicago.

James K. Vardaman, Jr.: Effective date of appointment April 4, 1946; term expires January 31, 1960; formerly engaged in business and banking in St. Louis, Mo., and at the time of his appointment was naval aide to the President of the United States.

James Louis Robertson: Effective date of appointment February 18, 1952; term expires January 31, 1964; formerly special agent of FBI, Counsel to the Comptroller of the Currency, and at the time of his appointment was First Deputy Comptroller of the Currency.

Abbot L. Mills, Jr.: Effective date of appointment February 18, 1952; term expires January 31, 1958; formerly engaged in banking since 1920, and at the time of his appointment was first vice president of the United States National Bank, Portland, Oreg.

C. Canby Balderston: Effective date of appointment August 12, 1954; term expires January 31, 1966; formerly director and deputy chairman of Federal Reserve bank of Philadelphia, and at the time of his appointment was dean, Wharton School of Finance and Commerce, University of Pennsylvania.

RESERVE BANK PRESIDENTS

J. A. Erickson, president, Federal Reserve Bank of Boston, since December 15, 1948. At the time of his appointment as president he was executive vice president of the National Shawmut Bank of Boston, having been associated with that institution since 1920.

Allan Sproul, president, Federal Reserve Bank of New York, since January 1, 1941. He has been associated with the Federal Reserve System since 1920, first serving as head of the division of analysis and research and assistant Federal Reserve agent at the Federal Reserve Bank of San Francisco until 1930 when he

came to the Federal Reserve Bank of New York as assistant deputy governor and secretary.

Alfred H. Williams, president, Federal Reserve Bank of Philadelphia, since July 1, 1941. At the time of his appointment as president he was dean of the Wharton School of Finance and Commerce of the University of Pennsylvania, having been a member of the faculty of the Wharton School since 1915.

Wilbur D. Fulton, president, Federal Reserve Bank of Cleveland, since May 14, 1953. He began his service with the System as an examiner at the Federal Reserve Bank of Cleveland in 1933, advancing through the positions of chief examiner, vice president in charge of the Cincinnati branch, and first vice president.

Hugh Leach, president, Federal Reserve Bank of Richmond, since March 12, 1936. He began his service with the Federal Reserve System in 1920 as a clerk in the auditing department of the Federal Reserve Bank of Richmond and advanced to positions of auditor, managing director of the Charlotte and Baltimore branches, and first vice president.

Malcolm Bryan, president, Federal Reserve Bank of Atlanta, since April 1, 1951. He taught economics at the University of Georgia, 1925–36; economist with Board of Governors of the Federal Reserve System, 1936–38; vice president of the Federal Reserve Bank of Atlanta, 1938–41, and first vice president, 1941–46; vice chairman of Trust Company of Georgia, 1946–51.

Clifford S. Young, president, Federal Reserve Bank of Chicago, since March 1, 1941. He began his service with the Federal Reserve System in 1921 as an assistant examiner at the Federal Reserve Bank of Chicago, advancing through the positions of examiner, assistant Federal Reserve agent, and vice president and secretary.

Delos C. Johns, president, Federal Reserve Bank of St. Louis, since February 1, 1951. He was in general law practice in Kansas City until 1945 when he was appointed general counsel and secretary of the Federal Reserve Bank of Kansas City.

Oliver S. Powell, president, Federal Reserve Bank of Minneapolis, since July 1, 1952. He has been associated with the Federal Reserve Bank of Minneapolis in various official capacities since 1920, except for his service as a member of the Board of Governors from September 1, 1950, to July 1, 1952.

H. Gavin Leedy, president, Federal Reserve Bank of Kansas City, since August 28, 1941. Engaged in the general practice of law prior to 1924, at which time he became counsel for the Federal Reserve Bank of Kansas City. Prior to his appointment as president, he served as general counsel, vice president, and first vice president.

Watrous H. Irons, president, Federal Reserve Bank of Dallas, since February 15, 1954. Professor of banking and finance at the University of Texas prior to coming to the Federal Reserve Bank of Dallas in 1945 as director of research. He was a vice president of the Dallas Reserve Bank at the time of his appointment as president.

Cecil E. Earhart, president, Federal Reserve Bank of San Francisco, since October 17, 1946. He began his service with the Federal Reserve System in 1917 as an auditing clerk at the Federal Reserve Bank of San Francisco, advancing through the positions of cashier, vice president, and first vice president of that institution.

PRESENT MEMBERS OF THE FEDERAL OPEN MARKET COMMITTEE

William McC. Martin, Jr., chairman (Chairman, Board of Governors of the Federal Reserve System)
Allan Sproul, vice chairman (president, Federal Reserve Bank of New York)
C. Canby Balderston (member, Board of Governors)
Malcolm Bryan (president, Federal Reserve Bank of Atlanta)
H. G. Leedy (president, Federal Reserve Bank of Kansas City)
A. L. Mills, Jr. (member, Board of Governors)
J. L. Robertson (member, Board of Governors)
M. S. Szymczak (member, Board of Governors)
James K. Vardaman, Jr. (member, Board of Governors)
Alfred H. Williams (president, Federal Reserve Bank of Philadelphia)
C. S. Young (president, Federal Reserve Bank of Chicago)

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PRESENT MEMBERSHIP OF EXECUTIVE COMMITTEE OF FEDERAL OPEN MARKET COMMITTEE

William McC. Martin, Jr., Chairman
Allan Sproul, Vice Chairman
J. L. Robertson
M. S. Czymczak
Alfred H. Williams

FEDERAL ADVISORY COUNCIL

William D. Ireland, Boston district
Henry C. Alexander, New York district
Geoffrey S. Smith, Philadelphia district
George Gund, Cleveland district
Robert V. Fleming, Vice President, Richmond district
Wallace M. Davis, Atlanta district
Edward E. Brown, President, Chicago district
W. W. Campbell, St. Louis district
Joseph F. Ringland, Minneapolis district
Charles J. Chandler, Kansas City district
Geo. G. Matkin, Dallas district
John M. Wallace, San Francisco district
Herbert V. Prochnow, Secretary

MEMBERSHIP OF FEDERAL OPEN MARKET COMMITTEE, MARCH 1953 THROUGH FEBRUARY 1954

(NOTE.—March 1 is the beginning of the committee's organization year.)

William McC. Martin, Jr., Chairman (Chairman, Board of Governors of the Federal Reserve System)
Allan Sproul, Vice Chairman (president, Federal Reserve Bank of New York)
J. A. Erickson (president, Federal Reserve Bank of Boston)
R. M. Evans (member, Board of Governors)
Ray M. Gidney (president, Federal Reserve Bank of Cleveland) [1]
Delos C. Johns (president, Federal Reserve Bank of St. Louis)
A. L. Mills, Jr. (member, Board of Governors)
Oliver S. Powell (president, Federal Reserve Bank of Minneapolis)
J. L. Robertson (member, Board of Governors)
M. S. Szymczak (member, Board of Governors)
James K. Vardaman, Jr. (member, Board of Governors)

MEMBERS OF EXECUTIVE COMMITTEE OF FEDERAL OPEN MARKET COMMITTEE, MARCH 1953 THROUGH FEBRUARY 1954

William McC. Martin, Jr., Chairman
Allan Sproul, Vice Chairman
J. A. Erickson
R. M. Evans
A. L. Mills, Jr.

MEMBERSHIP OF FEDERAL OPEN MARKET COMMITTEE, MARCH 1952 THROUGH FEBRUARY 1953

William McC. Martin, Jr., Chairman (Chairman, Board of Governors of the Federal Reserve System)
Allan Sproul, Vice Chairman (president, Federal Reserve Bank of New York)
Malcolm Bryan (president, Federal Reserve Bank of Atlanta)
C. E. Earhart (president, Federal Reserve Bank of San Francisco)
R. M. Evans (member, Board of Governors)

[1] On June 11, 1953, W. D. Fulton (president, Federal Reserve Bank of Cleveland) assumed his duties as a member of the Federal Open Market Committee, succeeding Ray M. Gidney, whose resignation was effective Apr. 16, 1953.

Hugh Leach (president, Federal Reserve Bank of Richmond)
A. L. Mills, Jr. (member, Board of Governors)
Oliver S. Powell (member, Board of Governors) [2]
J. L. Robertson (member, Board of Governors)
M. S. Szymczak (member, Board of Governors)
James K. Vardaman, Jr. (member, Board of Governors)
C. S. Young (president, Federal Reserve Bank of Chicago)

MEMBERS OF EXECUTIVE COMMITTEE OF FEDERAL OPEN MARKET COMMITTEE, MARCH 1952 THROUGH FEBRUARY 1953

William McC. Martin, Jr., Chairman
Allan Sproul, Vice Chairman
Hugh Leach
Oliver S. Powell [3]
James K. Vardaman, Jr.

MEMBERSHIP OF FEDERAL OPEN MARKET COMMITTEE, MARCH 1951 THROUGH FEBRUARY 1952

Thomas B. McCabe, Chairman [4] (Chairman, Board of Governors of the Federal Reserve System)
Allan Sproul, vice chairman (president, Federal Reserve Bank of New York)
Marriner S. Eccles (member, Board of Governors)
R. M. Evans (member, Board of Governors)
Ray M. Gidney (president, Federal Reserve Bank of Cleveland)
R. R. Gilbert (president, Federal Reserve Bank of Dallas)
H. G. Leedy (president, Federal Reserve Bank of Kansas City)
Edward L. Norton (member, Board of Governors) [5]
Oliver S. Powell (member, Board of Governors)
M. S. Szymczak (member, Board of Governors)
James K. Vardaman, Jr. (member, Board of Governors)
Alfred H. Williams (president, Federal Reserve Bank of Philadelphia)

MEMBERS OF EXECUTIVE COMMITTEE OF FEDERAL OPEN MARKET COMMITTEE, MARCH 1951 THROUGH FEBRUARY 1952

Thomas B. McCabe, Chairman [6]
Allan Sproul, Vice Chairman
Marriner S. Eccles [7]
M. S. Szymczak
Alfred H. Williams

Mr. Sproul, we would now like to have a few remarks from you.

Mr. SPROUL. Mr. Chairman, if I heard you correctly, you spoke of me as the Chairman of the Federal Open Market Committee. I am only the Vice Chairman. The Chairman of the Board of Governors is also Chairman of the Federal Open Market Committee.

I share with Chairman Martin the pleasure in having my associates here, having undergone, as he has, at times, the dubious privilege of being here alone without the support of these associates.

[2] Resignation of Oliver S. Powell as a member of the Board of Governors was effective June 30, 1952, at which time he ceased to be a member of the Federal Open Market Committee.
[3] As of July 1, 1952, A. L. Mills, Jr., as first alternate, succeeded Oliver S. Powell.
[4] In April 1951, William McC. Martin, Jr., succeeded Thomas B. McCabe as Chairman of the Board of Governors and as Chairman of the Federal Open Market Committee.
[5] Edward L. Norton resigned as a member of the Board of Governors effective Feb. 1, 1952, and as of that date ceased to be a member of the Federal Open Market Committee.
[6] In April 1951, William McC. Martin, Jr., succeeded Thomas B. McCabe as chairman of the executive committee.
[7] In July 1951, Oliver S. Powell, as first alternate, succeeded Marriner S. Eccles.

I am going to speak of something which I am sure is not the major concern of your hearing, just as it is not the major concern of the Federal Open Market Committee, but nevertheless it is something which I do not think was covered, from my point of view, in the answers submitted to you by the Chairman of the Board of Governors and, therefore, if I may take your time, I would like to refer to it. It is, perhaps, what might be called the negative, in answer to your question No. 3.

Your subcommittee addressed five questions to the Chairman of the Board of Governors, and his answers have been made available to other participants in these hearings, as well as to the public.

With respect to the answers to questions 1, 2, 4, and 5, I am in general and substantial agreement, even though there might be some shades of difference of opinion or degrees of emphasis in answers to the same questions which I might prepare.

This suggests the first point I would like to make: So far as general credit policy is concerned, there has been a high degree of unanimity within the Federal Reserve System throughout the period covered by your inquiry, that is, since March 1951.

Our differences, or my differences with other members of the Federal Open Market Committee, have related to the techniques of open market operations, not to general credit policies.

It is to these questions of techniques that your question No. 3 is directed. Here again I can express a good deal of agreement with much that is included in the answer of the chairman. It is a persuasive and stimulating discussion of the issues involved. Yet there is also a good deal with which I disagree, and my conclusions as to the most effective use of open market operations, to implement credit policy and to promote economic growth and stability, diverge quite sharply from those set forth in the answer of the Chairman.

His answer is, of course, responsive to the question of the subcommittee, which asked for affirmative support of the actions of the Federal Open Market Committee to which it refers, not for the arguments for and against such actions.

Obviously, there is not time here for a full-dress presentation of the negative side of the question. I should like to make certain points which, I think, are significant to an understanding of the problem, however, and I should be glad to submit to the committee later, if it so desires, a written statement of views which might match the answer of the chairman in completeness and I would hope, in persuasiveness.

First, as a matter of background, I think I should say that I am not for pegging Government security prices nor for trying continuously to determine the structure of interest rates by means of open market operations. As one of the principals in the fight to free the Federal Reserve System from the pegging of prices of Government securities, throughout a difficult period of controversy on this point, beginning in 1946, I think I have the right to make this clear. And, as one who has a great deal of respect for the operations of the market place, I would not want to be classed with those who believe that a continuously better result can be obtained, so far as the structure of interest rates is concerned, by completely substituting the judgment of the Federal Open Market Committee for the market place. If we want to find out how the patient is doing, there must be some place where we can take the patient's pulse.

Now, taking up the real issues in this minor problem. The least controversial issue was dropping from the directive of the Federal Open Market Committee the clause authorizing open market operations to maintain orderly conditions in the market for Government securities, and substituting for it a clause authorizing operations to correct disorderly situations in the market. I voted in favor of this change, and thought it desirable, not just as a question of semantics. But I would stress the avoidance of disorderly situations rather than their correction after they have happened.

One of the virtues of credit control is supposed to be its ability to take prompt action to head off financial disturbances which might otherwise have harmful repercussions throughout the economy. If open-market operations in longer term Government securities can be used to this end, I would use them rather than wait until a disorderly situation or a crisis has developed, and only then depart from operations solely in Treasury bills.

The most controversial issue was the instruction by the Federal Open Market Committee that open-market operations must be confined to the short end of the Government securities market, except in correcting disorderly situations which, in practice, has come to mean confining operations to Treasury bills. I did not get the impression that the action was merely an assertion of the power of the Federal Open Market Committee to determine whether and when the System Open Market Account should engage in transactions outside of the short end of the market. There need not be any question of the power of the full committee to determine the conditions and the general timing of operations in the longer term areas of the market.

I was concerned with the strong emphasis which I thought was given to permanence of the "bills only" doctrine. Suggestions for publishing a set of rules of the game, references to a constitution for open-market operations, and the repeated argument that Government security dealers could not create a broad, continuous market if we did not forego operations in long-term securities—except to correct disorderly conditions—gave me the disturbing impression that we were in danger of placing ourselves in a straitjacket which would not permit us to accomplish what the Congress and the public might expect us to accomplish in terms of monetary management.

I, therefore, welcomed the statement in the answer of the chairman to your question No. 3 that the door is being kept open to a change in the present basic technique of open-market operations, and the recognition in his answer that the present approach to open-market operations is still experimental and that insufficient time has elapsed to draw firm conclusions as to its performance. The publication of these views should help to dispel the idea that present techniques have been adopted for all time, and should help to avoid further hardening of the dangerous opinion that any future operations by the System in the long-term market will be the signal of a critical situation.

I also welcome the repeated references, in the answer of the chairman, to the concern of credit policy with developments in the long-term sector of the market and the assertion of the particular concern of the Federal Open Market Committee that its policies be reflected in the cost and availability of credit in the long-term markets. It has been, and still is, my contention that this concern can find its best

expression, at times, in open-market operations specifically directed at these longer-term markets.

This is, perhaps, the variant approach to open-market operations briefly commented upon, and summarily dismissed, beginning on page 20 of the answers of the chairman to your question No. 3. As set forth there, it is described as a method of operation in which—

> the Federal Open Market Committee would normally permit the interplay of market forces to register on prices and rates in all of the various security sectors of the market, but would stand ready to intervene with direct purchases, sales, or swaps in any sector where market developments took a trend that the committee considered was adverse to high-level economic stability.

That seems to me to be an eminently reasonable approach to our problem, but it has never really been tried—not even in the period 1951–53 to which the chairman refers. And now it has been dismissed on what I believe is the shaky assumption that it "did not appear to offer real promise of removing obstacles to improvement in the technical behavior of the market."

This probably brings us down to the nub of the differences. The Chairman's answer to your question No. 3 embraces the view, with which I agree, that the "depth, breadth, and resiliency" of the Government securities market, or its "continuity and responsiveness," should be furthered by all means that are consistent with a credit policy of maximum effectiveness, and that, in general, the greater the "depth, breadth, and resiliency" of the market, the greater will be the scope and opportunity for effective credit control through open-market operations. But the proof of that pudding must be found in the actual market, not in a theoretical discussion of a supposedly ideal market.

The answer of the Chairman asserts that the market has become increasingly stronger, broader, and more resilient since the Committee adopted the "bills only" technique. It suggests most persuasively why, theoretically, this should be so. But it does not prove that it has actually happened. In fact, I wonder whether we are talking about the same market, and what are the definitions of "strength" and "breadth" that are being used. It is my information and observation that the market for longer term securities has remained at least as "thin," under existing open-market procedures, as it was before these procedures were adopted.

I think it has lost depth, breadth, and resiliency, whether you view it in terms of dealer willingness to take position risks, volume of trading, or erratic price movements. We must not be misled by the claims of one or two dealers who urge the present techniques and now proclaim that they are helping to create a broader market for Government securities.

I do not think we have helped to create such a market. And, therefore, I do not see how the responsiveness of cost and availability of credit in all sectors of the market since June 1953 can have been the result of a progressive strengthening of the Goverment security market growing out of the actions of the Open Market Committee with respect to the open-market techniques. Much of the success of the System's actions during this period has derived from the promptness of adaptation of overall credit policy to changes in the economic situation, and to a high degree of coordination of Federal fiscal policy and debt management with credit policy. For the rest, it has sometimes

taken massive releases of reserves, under the techniques adopted or in support of those techniques, to accomplish what might have been accomplished more economically with the help of limited direct entry into the long-term market.

I am hopeful, therefore, that the present period of experimentation will not be too long extended, and that we shall soon have an opportunity to experiment with the middle way—the variant approach—which I mentioned earlier.

One final comment should be made, perhaps, in connection with your question 3 on the discontinuance by the Federal Open Market Committee of direct supporting operations in the Government's security market during periods of Treasury financing.

I would agree that the system open market account should not, as a matter of routine, provide such direct support, but I would also say that we cannot, as a matter of routine, turn our back on such support.

The emphasis in the present approach to Treasury financing is good. The Treasury should meet the test of the market, in relation to other credit needs of the economy, to the fullest possible extent. But too rigid application of this doctrine is questionable as a matter of market procedure and Treasury-Federal Reserve relationships. In periods of credit ease, when policy considerations point to the need of keeping Treasury demands from draining credit away from desirable private use, reliance on bill purchases alone may lead to unwanted consequences. The flooding of funds into the bill market, in order to assure adequate credit in the areas tapped by the Treasury, may produce an undue enlargement of bank reserves, or an extreme distortion in Treasury bill prices and yields, or both.

There will also be times, particularly in periods of credit restraint, as distinguished from the recent period of overall credit ease, when rigid application of the present rule may result in serious collisions of debt management and credit policy, which might have been avoided without jeopardizing the overall public interest.

Now, let me repeat, what I have been discussing are disagreements over techniques of open-market operations, not over general credit policy. It is good to have these differences opened up, and I hope that this hearing will result in more discussions of the problems involved by an informed public. We in the Federal Reserve System cannot consider ourselves to be the sole repositories of knowledge in these matters. What I have been most afraid of is that we might come to think that we can indulge in the luxury of a fixed idea. There is no such easy escape from specific and empirical decisions in central banking. We cannot have a general formula, a kind of economic law, which will serve the ends of credit policy under all sorts of economic conditions.

I apologize if I have taken too much of your time.

Senator FLANDERS. Mr. Sproul, the responsibility of the congressional committee across the table from you lies ultimately in recommendations for legislation. As preparatory to that, it lies in comprehension of the problem concerning which we are to recommend.

You have contributed to that comprehension. It is not quite clear in my mind whether you have the feeling—but I judge you do not have the feeling—that the structure which has been set up by legislation needs changing. At least if you do have the idea that it needs

changing, I did not note that you brought it out in your discussion.

Mr. SPROUL. I have no such idea.

Senator FLANDERS. So that you were engaged in the necessary and often difficult task of increasing our comprehension.

Mr. SPROUL. I hope so.

Senator FLANDERS. Yes; thank you.

Did I note that the points to which you addressed yourself related largely to the technique of operation?

Mr. SPROUL. Yes, you did, and they related to your question No. 3 which you addressed to the Chairman of the Board of Governors.

Senator FLANDERS. Yes.

Mr. SPROUL. It was an attempt to supplement his answer.

Senator FLANDERS. And the general impression I got from your statement was that you were not personally favorable to too rigid rules, but felt that there should be a good deal of flexibility.

You mentioned that in connection with the question of whether the Board and the Open Market Committee should concern itself solely with the short end of the market. I think you raised the same question of rigidity with regard to another point, as to whether the open market system should intervene in the markets at the time when the Treasury was floating a new issue.

In both of those cases, I take it, you feel that it is not wise to have too rigid rules to go by?

Mr. SPROUL. I think that is right. But I think my fellow members were not abandoning concern with other parts of the market than this short market. They were really confining their operations to that part of the market, but are still concerned, as I am, with the other areas of the market.

Senator FLANDERS. Yes.

Mr. SPROUL. But, in general, I was objecting to too rigid rules of conduct.

Senator FLANDERS. I think we have our minds clearer on that, I think, at the moment.

I would like to ask Chairman Martin to give us his understanding of the way in which the controls applied to the short end of the market affected (1) the whole range of Government securities and (2) affected the longer range purposes of the Federal Reserve Board's sphere of influence.

Mr. MARTIN. I would like to say, Mr. Chairman, that I am glad this statement is available. I hope that the members of the committee will read Mr. Sproul's statement along with the statement that I have made here, because this is a fairly complex subject.

Now, as Mr. Sproul has stated, this discussion is over techniques and procedures, not over policy itself.

Having come out of the Treasury and into the Federal Reserve, and having seen the open-market operation from both sides of the fence, my own view is directly contrary to Mr. Sproul's. I believe that the depth, breadth, and resiliency of the market is being improved: That is, that we are developing a broader, stronger, more vigorous market when the trade, so to speak, knows in a general way that we will deal, for the most part, though not as a fixed rule, nor for all time—as I have been very careful to spell out in my answer—in the closest equivalent to money that there is.

Now, that does not mean that we are not interested in interest rates or that we are not influencing interest rates. It does mean that we confine ourselves to supplying and absorbing reserves in the shortest area of the market and let the processes of the market channel those reserves throughout all the other areas and maturity sectors of the market. As Mr. Sproul states, and as I state, this is still an experimental technique, but it is my view that we will do better by not applying the slide rule to the market, thus permitting the market to make its own adjustments around the supply of reserves that we put in.

Now, Mr. Sproul would disagree with me as to how effective this technique has been during the period it has been in use.

My own judgment is that it has been very effective and very useful, and has contributed to a better Government securities market; but that is a matter that I think the Open Market Committee will continue to wrestle with for some time to come. Our sole objective is to operate in the most effective way in the public interest.

Senator FLANDERS. Perhaps I wished to ask an earlier question than the one which I just asked you, which related to the way in which, in your judgment, operations on short-term obligations affect interest rates, as a whole and, presumably, affect the market for the long-term operations.

There is, perhaps, a question which should be asked before that one. The primary question might be: What is the Federal Reserve System for? What are your ultimate objectives?

I may interpose there a remark of my own which is to the effect that in my conception, all governmental objectives are ultimately human objectives, they are for the sake of people.

Is there too long a connection, in your mind, from the open-market operation on short-term paper down here to where Mr. X lives so that it is difficult for you to tell us what this has to do with Mr. X?

Mr. MARTIN. Let me say, first, that I think that funds spread faster through the market with minimum intervention than with maximum intervention.

Now, when we talk about a free market, we are not talking about absolving the Federal Reserve of its responsibility to regulate the money supply. That is the problem that you gentlemen have charged us with resolving. We do that by supplying reserves and absorbing reserves. It is my conviction that we do the most service, for the individual that you are talking about, consonant with the concept of private competitive enterprise, by giving the play of the market the maximum influence that it can have without disruptive effects.

Senator FLANDERS. But now without going through all the multiple steps down to Mr. X, you are saying this: that the policies you have in mind lead toward a high degree of freedom in the market for Government securities and other evidences of debt; that, in your judgment, it supports the free competitive system and that, in your judgment, a reasonably free competitive system, as free as is practicable, in consideration of other interests, does lead toward a better living for Mr. X? Is that the chain that you are going to follow?

Mr. MARTIN. That is my contention.

Senator FLANDERS. I just wanted to establish that chain, because otherwise I have comparatively little interest in this hearing, just between you and me.

Now, that having been established, I shall shortly stop my questions, except for one horse which I want to trot out of the stable in a minute. I would like first to have your idea as to how your operations largely confined to short-term paper affect interest rates all through the structure and affect the long-term paper, as well.

Mr. MARTIN. Well, I think the process of arbitrage, which is the adjustment which Mr. Sproul thinks has more of a lag than I think it has, takes place very quickly in the market for Government securities.

I believe that when we inject funds via the closest equivalent to money that there is—and do not forget that does not always have to be 90-day bills, they might not be available, I am talking about the short end of the market—that the injection of those funds will quite rapidly permeate to the other areas of the market and will be reflected by the forces of the market in changes in interest rates throughout the market.

Now, if we should operate directly in all maturities, we could, perhaps, be wise enough to know just what the relationships between the prices of different securities ought to be at all times. But we would have to use a slide rule to determine these relationships. While I respect Mr. Sproul's judgment, I think that that is a step toward pegging which he deprecates just as much as I do.

Senator FLANDERS. The question then arises as to the timelag; the question is how quickly the one operates or how slowly, and whether it operates too slowly or not.

One other question on this point. When you speak of the nearest thing to money, you are speaking of short-term securities which are taken up by the banks?

Mr. MARTIN. That is right.

Senator FLANDERS. And it is the fact that they are taken up by the commercial banking system which makes them the nearest thing to money; am I right in that? And that long-term instruments which may be bought for semipermanent investment do not have the same effect of injecting money into the market as the short-term ones.

Mr. Sproul points out they can be taken up by others than banks also. Any purchase by the Open Market Committee injects money into the market.

Senator FLANDERS. Yes, that is right.

Mr. MARTIN. Yes.

Senator FLANDERS. Without any excuse whatsoever except that the horse is an old friend of mine, I would like to lead my steed out of the stable. It came to my mind a number of times in the discussion yesterday and this morning. For the life of me, when we speak about the quantity of money, I cannot understand why there is so little interest in the Board or anywhere else that I can find, in the velocity of money. Do you consider that is a constant?

Mr. MARTIN. Oh, I do not think that is correct, Senator. There is a very real interest in the Board in the velocity of money, and also in the individual Reserve banks.

Senator FLANDERS. Do you have information on that in your bulletin and on your charts? It seems to me one knows little about money if one does not join velocity and volume.

Representative PATMAN. Mr. Chairman, is it not in the Federal Reserve Bulletin each month?

Mr. MARTIN. Yes. We do have information in the monthly Federal Reserve Bulletin on the rate of turnover of demand deposits in New York City and other reporting centers. The data are also shown in our chart book.

Senator FLANDERS. It is a very important factor.

At this point, I will turn over the questioning to other members of the committee, and I would also like to say that I think it will not be out of order from your standpoint, Mr. Chairman and Mr. Vice Chairman, if other members of the Board and other members of the group of presidents, join in the discussion from time to time as you come across something in which they have particular interest or knowledge. That is agreeable to all, I take it.

Mr. Patman?

Representative PATMAN. Thank you, Mr. Chairman. In order to bring out the importance of this great committee, the Open Market Committee, composed of the members of the Board of Governors of the Federal Reserve System and the five presidents who are on the Board at this time, of the Federal Reserve banks, I desire to quote Mr. Eccles, who testified before the Banking and Currency Committee, in which he stated:

> Now, the fact that the interest is where it is, of course, is not just an accident. The rates during the twenties and during the last war, had there been an Open Market Committee, which there was not, in the Federal Reserve System, they could have financed the last war and financed the Government during the twenties, at prevailing rates.

Mr. Monroney, who was then a member of the House and sitting on the Banking and Currency Committee of the House, asked this question:

> Do you mean to say that with your present Open Market Committee and the operation of the Federal Reserve as it now stands, that regardless of what the national income is or other economic factors, that you can guarantee to us that our interest rate will remain around 2.06 percent?
>
> Mr. ECCLES. We certainly can. We can guarantee that the interest rate, so far as the public debt is concerned, is where the Open Market Committee of the Federal Reserve desires to put it.

I bring that out to show the tremendous power of this great committee that has been properly delegated, this power, by the United States Congress.

Certainly, the Congress itself cannot carry out the constitutional requirement relating to the money and credit supply; it must delegate that power. We have done the right thing by delegating the power.

But the point is, this committee has the power to determine whether we have high interest rates or low interest rates, or whether we have good times or bad times.

This committee also has the power to send over to the Bureau of Engraving and Printing and get the printed money of our country, the Federal Reserve notes, and properly distribute those Federal Reserve notes; and I assume in the course of a year that runs into billions of dollars. The power that is lodged in this committee is tremendous.

During the last 40 years, the Federal Reserve System has taken $135 billion worth of Federal Reserve notes from the Bureau of Engraving and Printing. I bring that out to show the importance of this committee.

Now, Chairman Martin, all these people are not members of the Open Market Committee. Of course, the Board is now composed, I assume, of six members, since you recently had a vacancy.

The other five members of the Open Market Committee representing the presidents of Federal Reserve banks, who are they?

Mr. MARTIN. I might ask them to raise their hands, that will be the simplest way. (Members of the Federal Open Market Committee are listed on pp. 220, 223 of the hearings.)

Representative PATMAN. Mr. Sproul is always a member, is he not?

Mr. SPROUL. That is by statute.

Representative PATMAN. The statute made you a permanent member, that is the New York member.

Now, the other change from time to time, and these other gentlemen who are here, representing Federal Reserve banks, they either have been—they are now or will be members of the Open Market Committee; is that right?

Mr. MARTIN. That is correct.

Representative PATMAN. And that is the reason you brought them along?

Mr. MARTIN. Well, I was requested to bring them.

Representative PATMAN. You work together, do you not, when you have a meeting of the Open Market Committee?

Mr. MARTIN. We usually do.

Representative PATMAN. Don't you have a meeting of all the presidents at the same time?

Mr. MARTIN. We usually do.

Representative PATMAN. And they, in effect, represent the Open Market Committee, whether they are officially on it that year or not?

Mr. MARTIN. Yes.

Representative PATMAN. In other words, the ordinary Federal Reserve bank, like Dallas, would have one-third of a vote at each meeting?

Mr. MARTIN. Oh, no; oh, no.

Representative PATMAN. I mean for all practical purposes. Of course, there is somebody officially on there.

Mr. MARTIN. No, you underestimate the stamina of the members of the Committee.

Representative PATMAN. I should not have named Dallas; I should have named some other city.

But now, then, these 11 members represent the Open Market Committee. The executive committee that carries out the orders and instructions of this committee, how many are they?

Mr. MARTIN. There are five.

Representative PATMAN. They are five. Now, you are always on that Committee, Mr. Sproul is always on that committee; who is on that committee now representing the banks?

Mr. MARTIN. Will the three members that are on the executive committee, please raise their hands.

Senator FLANDERS. Mr. Sproul is a member, I mean at the present time.

Mr. MARTIN. Mr. Williams——

Representative PATMAN. And Mr. Sproul for the banks, and Mr. Martin, and who else for the Board?

Mr. MARTIN. Mr. Robertson and Mr. Szymczak.

Representative PATMAN. They are the ones on now. Who will be on next year in Mr. Robertson's and Mr. Szymczak's places?

Mr. MARTIN. Well, it will go by rotation.

Representative PATMAN. I am bringing it up to indicate whether or not you have a certain policy or formula to go on, that certain people will come in automatically; is that right?

Mr. MARTIN. Well, we have a system of rotation; yes.

Representative PATMAN. All right.

Now, then, there is a vacancy on this Board. Who is the Vice Chairman of the Board of Governors?

Mr. MARTIN. There is no Vice Chairman at the present time.

Representative PATMAN. Does not the law say there shall be a Vice Chairman?

Mr. MARTIN. The President has the power to appoint a Vice Chairman.

Representative PATMAN. Well, does not the same law that says "shall appoint," does it not say that the President shall designate a Vice Chairman?

Mr. MARTIN. The law says that; you will have to take that up with the President, Mr. Patman.

Representative PATMAN. Well, I have taken it up with him.

How long has it been since you had a Vice Chairman?

Mr. MARTIN. I think it has been a number of years. I would have to look up the exact date.

Representative PATMAN. Is there any particular reason why you do not have a Vice Chairman, except that the President has just failed to designate one?

Mr. MARTIN. Well, we have had your committee and Senator Douglas' committee investigating us, and that has been one of the reasons why we have been studying the problem——

Representative PATMAN. What does that have to do with the Vice Chairman's selection?

Mr. MARTIN. Well, it only has to do with the fact that there might have been some changes in the composition of the Board.

Representative PATMAN. I do not see where that had anything to do with the failure of the President to—I am honestly seeking the correct information about that, Mr. Chairman.

Mr. MARTIN. Well, I am merely——

Representative PATMAN. How does that have anything to do with the failure to designate a Vice Chairman of the Board, when the law says that the Vice Chairman shall be designated?

Mr. MARTIN. I think it depends on whom you are going to designate, and I think that is a matter for the President to decide.

Representative PATMAN. That is what I say. But don't you think that the President should be importuned by the Board or call it to his attention?

I will not place that burden on you and require an answer.

How did it happen that the hard-money policy was pursued in the spring of 1953 right up to a few days after rates on veterans' guaranteed-mortgage loans were raised?

I will finish this and then ask you to comment. Does this not indicate either a failure of liaison among Government agencies or that the change in monetary policy was deliberately delayed until this action,

unfavorable to veterans and other mortgage borrowers, was put into effect? What is your answer to that, Mr. Martin? In other words, the interest rates on FHA insured and VA guaranty of veterans' loans were raised about 3 days before the Board met and decided to reverse its policy.

If I understand correctly, you testified before another committee that the Board met on May 6, 1953, and decided to reverse policy; am I correct in that or not?

Mr. MARTIN. I think May 6 is the date.

Representative PATMAN. When you decided to reverse your policy that meant that interest rates would decline, did it not?

Mr. MARTIN. No. It takes some time for policy to work, and it might have been changed again. As you pointed out very ably in your statement, this is a fluid operation. We decided to reverse the policy on May 6. We could not be sure then how long the reversal would be or what the degree of the reversal would be. That was something that had to unfold with time.

Now, the rates to which you refer had no connection with our action whatever.

They had been out of line with the market for some time past. So far as I was concerned, and so far as I know, nobody from those agencies consulted with me with respect to this change in direction of monetary policy. There was no way of telling on May 6 or even on June 1 whether our change in policy would continue or how far it would go.

Representative PATMAN. Let us see if we agree on that rate being too low for some time. Is it not a fact, Mr. Martin——

Mr. MARTIN. I did not say too low; I said out of line with the market.

Representative PATMAN. Language like that is very appropriate and discreet; I am not trying to criticize it. The truth is that the mortgage lenders were satisfied with 4 percent as long as the long-term Government bond rate was 2½ percent; is that not right? In other words, they were satisfied with a 1½-percent spread.

Mr. MARTIN. The volume of mortgages that was being placed with investors at that time was not really high. The change in mortgage interest rates was made to bring them in line with the market, so that mortgage credit would be more readily available to veterans and others.

Representative PATMAN. Well, am I correct in stating that the lenders, mortgage lenders, were satisfied with a 1½-percent spread which was considered the traditional spread over a long period of time, and they were satisfied with it; am I right about that or not?

Mr. MARTIN. I really do not know.

Representative PATMAN. All right; that is my contention anyway, whether it is right or wrong. It was the spread they accepted for a long time.

Then when your hard money policy went into effect, commencing in January 1953, Government bonds commenced to slide, and 1 issue went down to 89. That made interest rates go up in proportion and, as Government bonds declined to where the 2½'s sold at a price that yielded 3 percent, the mortgage lenders came in and said: "Now, we are entitled to an increase in the Veterans' rate from 4 to 4½ percent; we are entitled to an increase in the FHA rate from 4¼ to 4½

percent. The traditional spread is 1½ percent, and since the long-term rate is now 3 percent, we are entitled to 4½." Was it not on that basis that the interest rate on VA- and FHA-backed home mortgages was finally increased?

Mr. MARTIN. I have to go back a little bit, Mr. Patman. The so-called hard money policy that you are talking about was really initiated at the time of the Treasury-Federal Reserve accord, and it was not a case of——

Representative PATMAN. Well, you will cause me to take up these whole 40 minutes, and I did not want to do that, Mr. Chairman.

Mr. MARTIN. Well, in this kind of operation I cannot take a single specific point out of the picture as a whole. We are dealing with a process that goes on, with many ramifications. You cannot at any precise point say, "this is the end result." The forces of the market had been playing in the direction of higher interest rates, in my judgment, for some time.

Representative PATMAN. Well, it commenced in 1946 for the short-term rate?

Mr. MARTIN. I do not remember the precise date.

Representative PATMAN. But here is what I am talking about: The day before the inauguration, the rediscount rate was raised by important banks, most of the others had already raised it, Federal Reserve banks, one-half of 1 percent, was it not, January 1953?

Now, the rediscount——

Mr. SPROUL. One-fourth of 1 percent.

Mr. MARTIN. One-fourth of 1 percent.

Representative PATMAN. One-fourth of 1 percent, excuse me.

You know the rediscount rate is believed to have little practical significance outside of its purely psychological value, am I right on that or not?

Mr. MARTIN. The rediscount rate is a very important rate.

Representative PATMAN. Nobody was borrowing——

Mr. MARTIN. Don't you think $2 billion is a lot of borrowing?

Representative PATMAN. Is it not a fact that you have said it was strictly psychological?

Mr. MARTIN. Oh, no. The borrowings through the discount windows rose to $2 billion.

Representative PATMAN. Well, at any rate, that was my understanding. It was strictly psychological to let the Federal Reserve banks know that we are going to have tighter credit conditions, and "you fellows might just as well get ready for it." This is just kind of an unconversational understanding.

Mr. MARTIN. The adjustment of the discount rate at that time was to bring it closer in line with the market then existing.

Representative PATMAN. But that is when I thought that notice was given to the world that you were starting on a real hard money policy, and I think the bankers of the country recognized that as a signal, that is what I thought.

But, anyway, when the bonds began to decline afterwards more than they had in the past, and much more rapidly, and as the interest rates went up, that is when lenders began to ask for a higher interest rate on housing loans, and the rate was increased just 4 days before you took an about-face on your policy, Mr. Martin.

It occurs to me that there should be—if there was no liaison between your department and these other lending agencies, there should be. What liaison do you have?

Mr. MARTIN. I think we have pretty good liaison. I want to point out that when the policy was changed on May 6, there was no certainty at that time that we would continue the new policy. It gradually unfolded in response to developments.

Representative PATMAN. As to how long you would do it.

Mr. MARTIN. You have to move very delicately in this operation, and that is the way we started to move.

Representative PATMAN. I see.

This morning I interrogated the Secretary of the Treasury about the debt of the Government, and the question came up about the ability of the Treasury to borrow money from the Federal Reserve banks to take care of their unpaid bills. I think it has been referred to in the past as the Treasury overdraft. You know the bill I am talking about?

Mr. MARTIN. That is right.

Representative PATMAN. For years, commencing about 10 or 12 years ago Congress has passed a law which has been extended each year, sometimes 2 years at a time, that gave the Treasury the privilege, if it wanted to, to call on the Federal Reserve banks to finance any short-term obligations or debts up to $5 billion. Now, that is still the law, is it not?

Mr. MARTIN. That law was passed by the Congress.

Representative PATMAN. And it is up to the Secretary of the Treasury as to whether or not it is used, is it not? It requires no action on the part of the Federal Reserve banks.

Mr. MARTIN. Oh, yes, it requires action. The law gives the Reserve banks the power but does not make it mandatory on them. We discuss every instance with the Secretary of the Treasury.

Representative PATMAN. I know, but you cannot refuse to give the credit, can you?

Mr. MARTIN. We could. Also, if we thought it was being abused we could bring it to your attention.

Representative PATMAN. I know, you would bring it to the attention of Congress, but, as long as there is the law, you feel that you are compelled to finance any expenses of the Government up to $5 billion directly between Federal Reserve banks and the Treasury without going through the open market or the banks or any brokerage office. You are obligated to do that, are you not?

Mr. MARTIN. Not obligated—the Reserve banks have the authority. In practice, it is a very short-term operation.

Representative PATMAN. Well, that is right.

Mr. MARTIN. And I know of no instance when it has been abused.

Representative PATMAN. I am not talking about the abuse of it; I am talking about the use of it; use, not abuse.

Now, the point I am making is why should you have any deposits in banks at all? I will not ask you to answer that, because it is really the Treasury's business when they can call on you any time, and you will finance any of their obligations up to $5 billion; that is the reason I say that they should not keep six or seven billion dollars in the banks all the time; it is unnecessary.

Now, if the banks need that to compensate them for other things, why, pay them for it. I do not want to deprive the banks of anything, but I do not want to keep idle and unused balances there. I am just trying to show that the Federal Reserve banks may advance to $5 billion to the Treasury at any time, as long as this law is upon the statute books; that is right, is it not?

Mr. MARTIN. Only if they felt it proper. The authority is one that is used in connection with short-term advances.

Representative PATMAN. That is right; yes, sir; that is all. I will not press you on it, Mr. Martin.

Mr. SPROUL. I would question that, Mr. Congressman.

Representative PATMAN. All right, Mr. Sproul, what is your question about it?

Mr. SPROUL. I think the Congress has shown great reluctance to grant that power to the Secretary of the Treasury to borrow directly from the Federal Reserve banks, because it was unwilling to have such a grant of power except for very short-term use under very special conditions, and that the whole legislative history of the power would be one which would justify us in coming immediately to the Congress if the Secretary of the Treasury tried to abuse the power in the way you suggest.

If Congress wants to indicate that is the way it should be used, that would be a different matter, but it has not so far, and there is nothing in the legislative history to suggest it.

Representative PATMAN. I do not agree with you, Mr. Sproul. I have been on the committee that has handled it ever since it first passed.

Senator FLANDERS. Will you yield for a moment?

Representative PATMAN. Yes, Mr. Chairman.

Senator FLANDERS. It is my recollection that in the Finance Committee we have considered that authority primarily as a means for getting past the hump of the income-tax payments. From the standpoint of the Senate, at least, I think we had that purpose primarily in mind.

Representative PATMAN. That is right; that was given as an illustration. In other words, there is a certain time that the Treasury needs money. That was an illustration that has been given. It is given in the House all the time.

But the point is, and the fact remains, that the Treasury has the power to draw upon the 12 Federal Reserve banks up to $5 billion to finance its bills; that is the law of the United States Congress, and signed by the President of the United States; and, for that reason, there is no reason why you should have these idle deposits in the banks.

Now, I will go right ahead. Since the Secretary of the Treasury is legally enjoined from holding Government bonds, and properly so, for the reasons that we know, since their value may be influenced by his official decisions, should the chairman and members of the Federal Reserve Board, and the Open Market Committee, of course, be restricted in a similar manner as to trading in bonds and stocks whose levels can be influenced by monetary decisions? If the public buys stocks because of the easy money decision of the Board, isn't someone, the Board, in a good position to profit by advanced knowledge of these decisions?

What kind of rules or regulations do you have, Mr. Chairman, about members of the Board dealing in Government bonds or stocks on the market? Do you have any?

Mr. MARTIN. I am glad to tell you that I do not own a single stock, and I do not trade in stocks or bonds.

Representative PATMAN. I am not questioning you personally, Mr. Chairman, but I am just asking, as a matter of policy, for the Government of the United States.

Mr. MARTIN. I understand that, but I would like to put that in the record in connection with this case. I do not have a single stock nor own a bond, outside of series E bonds, personally, because I take my job that seriously.

So far as rules and regulations are concerned, we do not have any statutory rule on the part of the Board of Governors. However, the Board has a rule which is annually called to the attention of every employee that if he uses confidential information for any improper purpose he will be subject to appropriate disciplinary action. I know that the individual Reserve banks have watched this matter very closely and that their staffs are subject to a similar rule.

We take this matter extremely seriously. I do not believe there is any rule which would precisely bind people that would be effective. You are depending upon the integrity of this group. Nobody realizes more clearly than I do from my long association in markets how easy it would be to abuse the position that we have; that is why I am very careful not to make comments on margin requirements or comments on Federal Reserve policy in open meetings or around the country because it could be construed by speculators for their own use. I cannot prevent that sort of discussion from going on, but I have been extremely careful about making any comments of that sort.

Representative PATMAN. I do not bring this up to impugn the motives of yourself, Mr. Chairman, or any other member.

Mr. MARTIN. I understand that, Mr. Patman.

Representative PATMAN. I am just asking that as a matter of information, knowing that the Government has always been very careful about things like that, and I did not know of any rules.

Now, you do not have any rules yourself except just each member is supposed to do what is ethically right and not do anything wrong; but what about the people who conduct the Open Market Committee?

I read in a financial paper not so long ago that about a hundred people had something to do with the operation of the Open Market Committee; is that right or not?

Mr. MARTIN. I do not know the exact number.

Representative PATMAN. Mr. Sproul might tell us about that since he has charge of the Open Market Committee, I mean the executive part of it.

Mr. SPROUL. There are not a hundred people who know what the policy of the committee is and how it is going to be executed.

Representative PATMAN. How many know that, Mr. Sproul?

Mr. SPROUL. Really only the members of the committee and the manager of the system of the open-market account can know that in its entirety, although the staff of the committee itself will know pretty largely what the Open Market Committee has in mind, but the rest of the 100 people that you read about must have been people who are——

Representative PATMAN. Clerks and stenographers.

Mr. SPROUL (continuing). Clerks and stenographers and secretaries who do not know what the policy is and could not make any use of the information they have if they had any designs or desire to.

Representative PATMAN. Do you have any rules or regulations about the ownership of stocks and bonds, whether it is Government bonds or otherwise?

Mr. SPROUL. We have the rule that no one in our bank is allowed to purchase securities on margin. There is no prohibition against their purchasing securities of any kind outright.

We also have a general rule that no one is to engage in any transactions of any sort, particularly financial transactions, which would in any way bring the bank or the system into disrepute, and that is the kind, the only kind, of rule I think you can make to cover this situation which must place great reliance on the honor and integrity of the individuals you are working with.

Representative PATMAN. Do you not agree, Mr. Sproul, that since the Congress has had a standing rule that the Secretary of the Treasury, for instance, could not even own a Government bond, that that is notice to all other agencies, such as your own, that similar rules should probably be adopted?

Mr. SPROUL. That is a matter for the Congress to decide. Whether you get better results from a hard and fast rule of that sort, as to which there may be legal or technical evasions, or whether you get better results by having the general rule and trying in every way you can by adequate supervision to see that it is enforced, I could not say.

Representative PATMAN. All right.

Now, I will make it short, Mr. Chairman.

To prevent the accumulation of unemployment, and restore employment and production to normal capacity, it is estimated that we should increase the gross national produt rate by about $30 billion above the current rate in the next year. A normal capacity gross national product rate in 1955 should reach $386 billion.

Can we do this, Mr. Martin, and still have a sound money policy?

Mr. MARTIN. I cannot comment on whether it takes $30 billion of increase in the gross national product to provide that number of jobs.

Representative PATMAN. Well, we will change that. It is down $14 billion from last year, isn't it?

Mr. MARTIN. I want to say that it is my absolute conviction that inflation will not create jobs and sustain them. If we maintain a stable price level and a sound dollar, I believe we will create jobs that will be sustained and that will really add something to our economy.

I think that it would be a delusion to believe that we can disregard stability, the stability of the dollar, and create jobs by froth of the sort that occurs often from waste and extravagance and incompetence and imprudence, and all the bad habits that go along as byproducts of inflation. If we were to believe that, we would be doing a disservice to our goal of having as high levels of employment as we can possibly have in this country.

Representative PATMAN. Which do you consider comes first, full employment or a stable price level?

Mr. MARTIN. I do not believe you can separate them. It depends on your——

Representative PATMAN. Suppose there is an alternative, I mean, you cannot have both right at the present time. Which would you select?

Mr. MARTIN. The definition of the term "full employment" is a difficult one. But if you are talking about full employment in terms of having it for just a couple of months and then having the jobs disappear, that is one thing. If you are talking about employment that is——

Representative PATMAN. Lasting.

Mr. MARTIN (continuing). Permanent, lasting employment, I believe you can——

Representative PATMAN. You think the price level should come first?

Mr. MARTIN. I think it is an important ingredient. I do not know on which you put the most emphasis at a given time because the level of employment has an effect on the price level.

Representative PATMAN. I want to ask Mr. Sproul a question.

Mr. SPROUL. May I make a comment on that question?

Representative PATMAN. Certainly, sir.

Mr. SPROUL. I agree with the findings of the Patman subcommittee of the Joint Committee on the Economic Report that high-level employment and price stability are not necessarily incompatible, and I would like to see that spelled out in the declaration of policy in the Employment Act of 1946.

I think those who would seek to obtain high-level employment by a form of creeping inflation, induced by credit policy, are trying to correct structural maladjustments, inevitable in a highly dynamic economy, by debasing the savings of the people. They should tell the holders of savings bonds, savings deposits, building and loan shares, life-insurance policies and pension rights, and other small savers, that a rise in prices of say 3 percent a year is a small price to pay for removing the swings of unemployment.

If our dynamic, growing economy throws too many people out of work from time to time, we will have to devise further means, resting on the whole economy, to take care of the situation. We cannot debauch credit policy, trying to make it do the job, and we should not steal the savings of the people with one hand, while we promise them a steady job with the other.

Representative PATMAN. I want to ask you a question, Mr. Sproul: What was the nature of the Government bond transactions carried out by the New York Federal Reserve Bank from May 27 to June 10, 1953? What significance, if any, did the $20 million reduction in the New York bank's bond portfolio have for the investors in the Government bond market? Did the inter-bank bond transactions carried out in this period have any connection with the break in bond prices on June 1?

Mr. SPROUL. I cannot speak for every transaction during that period or on that date, but I would say that the actions of the New York banks were only one small part of a whole market situation which developed at that period. Our transactions, as you know, were wholly in Treasury bills during the period you mentioned.

Representative PATMAN. As I understand it, the Open Market Committee has been in operation for 20 years and the Federal Reserve for 41 years. Before the Open Market Committee was officially set up

by law, each bank carried on its own open market operations; did it not?

Mr. SPROUL. Yes, it did.

Representative PATMAN. One of the first reasons for having any open market operation was to get more earnings; was it not?

Mr. SPROUL. That was the original reason, but that quickly lost its meaning. The ultimate reason, and the continuing reason, for the Open Market Committee is to get coordination of open market operations throughout the system.

Representative PATMAN. Well, naturally, it was easy for a bank to get Federal Reserve notes and trade them for Government bonds and keep the bonds and collect the interest. They had earnings that way, and that is what started the open-market operations, as I understand it from your testimony and Mr. Martin's testimony in the past. But now I thought all the banks had to go along together in their bond selling and buying. I though that your bank, Mr. Sproul, was just a part of the Federal Reserve System—of course, it is a huge part, a major part—but it is a part, and that of the bonds that were bought by the Open Market Committee, you got your share and no more; is that right?

Mr. SPROUL. We get our proportionate share.

Representative PATMAN. That is what I mean.

Mr. SPROUL. It is based on the total assets of the Reserve banks with a formula related to it.

Representative PATMAN. That is what I am trying to say, your proportionate share. Why was it along during that period that your bank lost about $20 million in Government bonds and the banks, say, at Boston and at Atlanta, I believe they were, gained about $20 million? How did that happen?

Mr. SPROUL. Because in the formula which we then used there were allowances for the differences in the expenses and the reserve needs of the individual reserve banks. There is an adjustment made at the end of every quarter, and there may have been an adjustment at that time which transferred some securities from the New York bank to some of the other Federal Reserve banks, but it had nothing to do with the open-market transactions; it was a wholly internal transfer of a small amount of securities between the reserve banks.

Representative PATMAN. Now, the banks engage in no open-market operations themselves, I mean individually as a bank?

Mr. SPROUL. Under the law, the Federal Open Market Committee directs the Federal Reserve——

Representative PATMAN. That is right. They are compelled to carry out whatever the Open Market Committee says in the way of banks?

Mr. SPROUL. That is right.

Representative PATMAN. Suppose wage rates, Mr. Martin, through the process of collective bargaining, are adjusted upward, and threaten a sound money policy. Will monetary policy be permitted to adjust itself to wage developments?

Mr. MARTIN. Money policy will have to take each individual situation as it comes along. Now you are talking about wage rates which, in a country as large as this, cannot be adjusted at least at this time, across the board. You would have to be talking about it in a particular segment of industry.

Representative PATMAN. Well, suppose we put it another way. Suppose, in order to rid our country of unemployment, it becomes a real problem, that we have a certain degree of inflation or anything else you want to call it, expansion, and the cost of production goes up.

Now, what will you do, will you try to have policies, restrictive policies, that will cause production to go down, or will you increase the flow or volume of money so that the purchasing power will be increased to take care of the added production?

Mr. MARTIN. Monetary and credit policy is just one factor in the economy. It cannot make people borrow money if they do not think they can make a profit on it. Credit by itself is not a source of jobs.

It is just, as I have said a number of times, a stream or a river that courses through business and commerce and from which business and commerce can derive assistance, but it is not in itself a force which will give us the millennium. It never will be.

Representative PATMAN. Thank you, Mr. Chairman. I will stop. I have taken up too much time.

Senator FLANDERS. You have not taken up your full allotment. The thought came to me as I listened to the discussion that there was one question that came up upon which we might hear from the presidents from the different Federal Reserve banks. The question was raised as to the very short timelag which I would think myself was a little bit unfortunate, between that historic bond issue and the raising of the mortgage rate from 4 percent to 4½ percent.

The question is raised whether that increase was justified by a forthcoming increase in rate or whether it stood on its own? I would like to know if there are any of the presidents here who would like to comment on the question as to whether there was, previous to this issue, a satisfactory amount of mortgage money available for financing home building, and whether they would have felt it necessary to raise the rate in any event in order to get sufficient funds flowing for home building.

Do any of you wish to comment on that? What was the condition in your area, Mr. Leach?

Mr. ERICKSON. Mr. Chairman, I might comment that as far as a satisfactory amount is concerned, that is a very difficult thing to answer. There were bankers who would not buy mortgages at 4 percent at the time. They had to have a higher rate if they were going to do that. Both the FHA and VA were pinched in getting their mortgages out.

Senator FLANDERS. And the lending institutions were not interested at that time in a 4-percent rate?

Mr. ERICKSON. That is right.

Senator FLANDERS. Had that existed for some time?

Mr. ERICKSON. It was growing in intensity; yes.

Senator FLANDERS. When the rate was raised to 4½, money flowed more freely into that market, and building increased; was that your experience, Mr. Irons?

Mr. IRONS. Speaking for Dallas, I would say that our experience was the same in that during the latter part of 1952 and the early part of 1953 it was very difficult to get mortgage money at 4 percent. Subsequently, when the rate was raised, there was an increased flow of money into mortgage lending—very definitely.

Senator FLANDERS. And that resulted in a definite increase in new housing?

Mr. IRONS. Well, there have been very substantial increases, yes; but the big increase has come in more recent times since the relaxation of the credit terms. However, that increase in the rate did serve to bring about a better flow of money into the mortgage market and create a better mortgage market situation.

Senator FLANDERS. Is there any variation of the experience of the presidents on that matter?

Senator SPARKMAN. Mr. Chairman, may I intervene there?

My recollection is not in accord with the statements made. I know that that pressure was before us on the Banking and Currency Committee for a long time with reference to raising the interest rates.

The interest rates were raised on June 6 or June 3, was it—it was somewhere about that time.

I believe, if you will check, you will find that it was several months after that before there was any appreciable easing up of the housing mortgage; the home-mortgage market. I remember we remarked on it frequently during that time, and it is my opinion that the thing that started moving money into the home-mortgage market was not the increase in the interest rate. As a matter of fact, it seemed for 2 or 3 months to have the adverse effect, to dry it up still further.

I believe that the record will show that there was no appreciable effect until sometime probably several months after the reversal of the policy that the chairman referred to was anounced and put into effect.

Now, I think that is something that could very easily be explored, but in my own opinion, that is what we would find to be true.

Senator FLANDERS. From your point of view and from the experience you have just given, that would seem to raise significant questions as to the fundamental importance of the interest rate in expanding business.

Now, is that not a rather serious blow at all the theory of monetary controls and their effects, at least from your story, which I think you, knowing you, I am sure you are prepared to document with suitable statistics—does not your story indicate that the interest rate is not the all-powerful thing we are accustomed to think it?

Senator SPARKMAN. I do not know that you could draw a conclusion such as that. I think there are many factors that must be considered in connection with this.

I think the putting out of the bond issue that was discussed here this morning, produced a shock that resulted in many things that probably were not regular taking place, and I think that probably was true in connection with the home-mortgage market.

I am not saying that under normal conditions the increase in the interest rate would not have poured more money into the home-mortgage market, but I think, first of all, at that particular time, the psychology of the situation was that many people who ordinarily would have made money available, waited expecting a still higher rate, and I think others who might have poured it in were afraid of what was going to happen, they were waiting to see.

Senator FLANDERS. Mr. Fulton?

Mr. FULTON. In the investment of funds by banks, there is one factor that all banks look to, which is liquidity.

At that time, when the mortgage market became very tight, banks, by and large, had rather full portfolios of mortgage loans. The banks had rather large demand deposits which could not be invested in mortgage loans. Such deposits go largely into short-term securities and business loons. Mortgages had been in supply and had been absorbed in large quantities. Regardless of interest rates, mortgages will not be absorbed by the banking system when it feels that it is impairing its liquidity by taking on more. That, I think, was part of the situation at that time. It was not wholly an interest-rate problem but also a matter of liquidity, so far as the banks were concerned.

Subsequently, funds became available as time deposits grew and business loans fell off. Also banks improved their liquidity by achieving a better distribution of long-term and short-term obligations. But primarily it was the availability of funds from the standpoint of maintenance of liquidity and the ability of banks to meet their obligations that influenced that market at that time.

Senator FLANDERS. Any other comments on this?

Senator GOLDWATER. Mr. Chairman, I would like to comment on this because I recall, with Senator Sparkman, having sat through these hearings. There seems to be, from the figures in the Economic Indicators of November of this year, on page 17, very little change in construction during the particular period we have been talking about.

If we look at the 1953 monthly average we find 2.9, 2.8 billions of dollars; that is 2.9 billions monthly average, and if you go through the year of 1953 by months from September, you find that that change is very, very little, and if you bring it up at the present time, the change is very little; I think that substantiates the remarks of these gentlemen that the law of supply and demand probably influences the building a lot more than interest rates.

Senator FLANDERS. Have you any other questions you would like to ask?

Senator GOLDWATER. I have none; they may come.

Senator FLANDERS. All right.

Senator SPARKMAN. Mr. Chairman, it has just been pointed out to me that in the Economic Indicators on page 18, showing the housing starts, it shows that they continued to go down, and were going down rather steeply right up until December of 1953, so there was no early response to the increase in interest rates.

Senator FLANDERS. Yes.

Representative PATMAN. It was May 3 when it was announced.

Senator SPARKMAN. Yes; I believe that is true.

Well, back in May or June 1, and you can see that the curve is going down rather sharply right on through the end of the year.

Senator GOLDWATER. I am talking about dollars, you are talking about building——

Senator SPARKMAN. I am talking about housing starts which represented, of course, mortgages that went into effect.

Senator GOLDWATER. I disagree. Mortgages are reflected by money, I do not think by starts, but there again I feel that the facts that were brought out during our hearings were that the market had become rather saturated, had a greater effect on starts than the fact that

the interest was 4 or 4½ or any rate we might have put it at or agreed to put it at.

Senator SPARKMAN. Well, I don't agree that the market—that we had enough houses, if that is what you mean by the market having become saturated. They very fact that during the present year we are building 1,300,000 houses, that many, indicates there was no saturation, and still is none.

Senator GOLDWATER. There was a saturation at that point or they would have been sold. There has been an adjustment period as there has been in automobiles, as there has been in everything.

The point I wanted to bring out was in dollars to our economy there hasn't been any appreciable fall-off or increase anytime during the period we are talking about.

Senator SPARKMAN. I don't follow you, in view of the number of starts. That is what counts in the housing market.

Senator GOLDWATER. We are talking about mortgages, and that relates to the dollar market.

Senator SPARKMAN. The two certainly go together.

Senator FLANDERS. Senator Douglas, have you any questions?

Senator DOUGLAS. Yes, sir; I would like to have the gentlemen discuss what seems to have been a change in Federal Reserve policy beginning in December of 1952 and January 1953 from that which had prevailed during the period of the so-called accord.

I not only approved of that accord, but possibly had something to do with its conclusion, and I think it was a very great step forward.

I would like now to point out what I have been trying to point out at previous meetings, that in the ensuing 21 months, namely, March 1951–December 1952, we did not have what Mr. Martin has referred to as a "hard money" policy.

We moved instead from an easy money policy into, say, that we had a flexible money policy, because during that period of 21 months the index of fiscal production rose by 6 percent on an unadjusted basis to 9 percent on a seasonal or adjusted basis, somewhere between 6 and 9 percent.

During that period, too, member bank reserves in the system rose by 5 percent, approximately, that is. The Reserve was buying Government securities at approximately the same rate as the index of fiscal production advanced.

It is true that loanable funds by banks were increased somewhat more than that, but the net result was a stable price level and maintenance of full employment.

I congratulate the Federal Reserve System and the Open Market Committee for the work which they did during these 21 months.

The question I raise is whether it was wise to change this policy, as I think it was changed in December of 1952 or January 1953.

Now I would like to point out that during the ensuing months according to the Reserve's own statement in its tabular form here, that the Open Market Committee sold or redeemed $800 million net of United States Government securities or certain other adjustments so that member bank reserves at least did not increase. Loans by banks and demand deposits declined.

I think that the open market operations had some effect on this. Loans by member banks decreased by about 6 percent, but the index of fiscal production during this time, from December to April, actually

rose, rose on an unadjusted basis by 4 percent, on a seasonal basis by approximately 3 percent.

This is the question I would like to raise: Whether the Reserve did not take fright at something which was nonexistent, namely, inflation, in fact there was no inflation, that the price level had been stabilized. But the Reserve adopted a restrictive policy at a time when a restrictive policy was not needed, and failed, at the very least to increase the money supply at a time when it should have been increased, and possibly actually diminished the money supply, with the result that it had some adverse effect upon the level of business activity, and contributed to the decline of business which set in during the summer of 1953.

Now this is a question I should like to have answered.

Mr. MARTIN. I will accept your amendment of the word "hard" to "flexible," if you would like, Senator, to start off the discussion. I will accept your amendment of the word "flexible" for "hard."

Senator DOUGLAS. I did not think you adopted a hard money policy in March 1951, and I may say I am oposed to both a hard and an easy money policy as evils in themselves.

What I want is a supply of money which, taking into account velocity, moves with the volume of trade and production, to maintain two purposes: namely, substantially full employment and substantial stability in the price level, and I want to suggest that for 21 months both of those conditions were satisfied.

Mr. MARTIN. I wouldn't agree that they were completely satisfied. I hope that all the members here will discuss this.

In the early months of 1953 there was forming what my colleague, Mr. Sproul, has called a bubble on top of a boom. We were endeavoring to stem it, and perhaps were slow. There was in the economy at that time, as I see it, a great deal of what I have described before as waste, extravagance, incompetence, inefficiency, and imprudence. All that was a part of the hysteria that went on in the post-Korea days. We finally reached a point where we permitted the credit mechanism to function once again as one of the governors in the economy.

Senator DOUGLAS. What were you afraid of? Production increasing, prices were stabilized, and there was substantially full employment?

Mr. MARTIN. Look at what was happening to inventories, for example. Do you think you can just build up inventories more and more and let production go up higher and higher, and that there will never be any adjustment, particularly when shortly thereafter there was going to be an end to the constant increase in defense expenditures?

Now, all of those were factors that had to be taken into account in our policies. As we approached the spring of 1953 we had the expectations of the market revolving around all of these developments. Some of them were misconstrued by the market. It seems to me that you can't eliminate the fact that inventories were rising rapidly at the same time that production was continuing very high.

Senator DOUGLAS. Well, high production is not evil.

Mr. MARTIN. I didn't say it was evil. I am just talking about it in relationship to inventories and the fact that we were heading towards a precipice.

Perhaps we jammed on the brakes at one point a little bit too tight. I have admitted this. We are certainly not infallible in our judg-

ments. Within a few areas we are bound to make some misjudgments. But by and large it seems to me that the situation was kept well in hand. I believe we would have had much more unemployment and further distress if we had not pursued those policies.

Senator DOUGLAS. I think you make a mistake, myself. There is a further inconsistency which I find.

You say that you wanted to reduce latent inflationary tendencies back doors which did not manifest themselves in the price index, but at approximately the same time, namely February of 1953, you diminished the margin requirements for the purchase of securities from 75 percent to 50 percent.

Now, that is, of course, a directly inflationary move so far as the prices of stocks are concerned, namely, that it permits a much greater purchase of stock with a small amount of individual cash, and I fail to see why you should be wanting to deflate one section of the market and inflate another at the same time. I think this shows gross inconsistency. I would be interested in your answer to that.

Mr. MARTIN. I can take a long time, not on that question, but on the inconsistencies that were bound to develop after the Korean hysteria. Before the "accord," we invoked almost every possible control short of the one control which would have been effective, that is, general control, to try to restrain the inflation that followed the Korean outburst. Now, in the early stages of that——

Senator DOUGLAS. Well, my objection is that when Korea started you did not do that; that instead, you became the handmaiden—I don't think you were on the Board then, but that the Reserve became the handmaiden—of the Treasury and permitted a greater increase in prices than was needed.

My criticism of the Reserve was that during that period they contributed to inflationary forces, so I think the record of the Reserve up to 1951, March 1951, was a bad record, largely because the Treasury turned on the heat and the Reserve didn't have the courage to restrain itself. But I think from March 1951, to December of 1952 it was a good record.

Now you moved in the other direction. Having given in one period excessive doses of castor oil and then getting the organism on a healthy basis for 21 month, you proceeded to dose the organism up with excessive does of bismuth.

Isn't there a happy medium which can be maintained? Having reached virtue for 21 months, isn't it possible for the Federal Reserve to maintain it for a further period?

Mr. MARTIN. Senator, we are struggling for the happy medium all the time.

Senator DOUGLAS. I don't think you have succeeded.

Mr. SZYMCZAK. Mr. Chairman, I think the Senator recalls certain facts, because the Senator was very closely identified with some of them at the time. If we made a mistake in pegging the Government security market, it was made at a time when the war began with Pearl Harbor. We pegged the Government security market at that time to help the Treasury through the financing of the war, and that was all to the good. Nobody could complain about winning the war. We needed money to win the war. That pegging was done on our own initiative.

Now, the difficulties that arose were subsequent to the end of the war. We did try to unpeg, and we did unpeg the short-term Government security market. The short-term rates were up as a result.

We continued to move in that direction together with the Treasury, and, of course, it was very difficult to unpeg once we had pegged and continued the pegs too long after the war, as you know. Many people who had securities and valued them at the pegged price, banks, individuals, insurance companies, and many others, in addition to the Treasury, did not want to see a drop in the price of the securities they held. That would make the refunding by the Treasury more difficult.

And, therefore, when we finally did get to Korea, we announced in August—Korea was in June 1950—we announced a higher discount rate, and also not only announced the higher discount rate but announced a tight money policy throughout.

It was from that point on until March that we had the discussions with the Treasury, and while we kept on pegging the long-term securities, you will recall, we kept dropping that long-term support price to par. Our attempt was to unpeg the long-term market.

We finally did unpeg in March 1951, and by the end of that year we completely unpegged the Government security market. You, Senator, will recall that because you were very helpful, particularly at that time.

Now, as we got into the latter part of 1952 and early 1953 we did have a capital situation, we did have abnormal inventory increases, and the demand for credit kept increasing—it was partly psychological—for in a cyclical, dynamic, competitive economy such as ours the greater the rise in demand for credit to build up inventories the greater the urge for more credit. True, the price level was not rising and production and employment were at high levels.

But what we were trying to do was not to take away credit for growth, but not to supply the amount of credit that was being asked for by the market to build up inventories to unsound and unstable heights. We stood on the side line, not giving the reserves that building up of inventories required in order to expand credit further and thus expand the inventory and allied elements further.

Subsequent events proved that course to be right, because it was the inventory condition of industry and others throughout the country, plus the reduction in defense expenditures that came in the second half of 1953, that brought on the downturn. It would have been much worse had we allowed the inventories to increase to even greater heights through an additional supply of credit.

Senator DOUGLAS. But in your tabular statement, exhibit A, you say from January to April you sold or redeemed $800 million net.

Mr. SZYMCZAK. We were buying as well as selling, but that was net; yes.

Senator DOUGLAS. You thus diminished member bank reserves, and therefore diminished their lending capacity.

Mr. SZYMCZAK. The essence of that situation was that business was seeking much more credit because of the great demand to build up inventories—which demand was feeding on itself in a competitive economy.

They were just building up inventories hand over fist, and the demand was so great that to the extent we didn't satisfy the demand by adding the reserves required, of course the rate went up because

of the demand and supply relations—and not because we pushed up the rate.

Senator DOUGLAS. Well, are you happy—may I ask you this—at having made such a large increase in funds available for the purchase of stocks?

Mr. SZYMCZAK. Well, that is a different question because the total amount of credit involved there was not large. It was about 1 to 2 billion, so we wished to make an equitable adjustment in February 1953, and therefore we placed margin requirements on a basis where we could increase or decrease margin requirements as required rather than move by 25 percent once in a while and thus dramatize our action beyond its actual worth.

It was merely an adjustment that gave us a better base from which to operate. It wasn't at all related to the credit or economic situation because the amount of credit in that sector of our economy was relatively small.

And, of course, it doesn't necessarily relate itself to price. It does relate itself to volume.

Senator DOUGLAS. The more you stimulate purchases, the greater is the effect on the general level of stock prices. The low margin requirements in the twenties certainly contributed in part to the stock market boom in the late twenties.

Mr. SZYMCZAK. Of course, as you know, when the SEC and margin requirements were considered by Congress there was a question whether margin requirements shouldn't because of other considerations be placed in the SEC, and somebody suggested that since it was credit no matter what the other considerations that it should be placed in the Federal Reserve, and that is how Congress placed it in the Federal Reserve. But, so far as the actual amount of credit is concerned, it is and was relatively small—especially as related to other credit sectors of the economy.

Senator FLANDERS. Mr. Talle, have you any questions you would like to ask?

Representative TALLE. No, thank you, Mr. Chairman.

Senator FLANDERS. I might say that at times we get confused with some of these complicated subjects.

I have a very simple one which I would like to present. I would like to have a poll of the members of the Federal Reserve Board and then have the presidents of the Federal Reserve banks polled on a simple question, but I will first ask you if you are willing to be polled. We tried it on the economists yesterday, and they were all willing.

This is the question taken from the report, the Patman report, of the 2d session of the 82d Congress:

> We believe that to restore the free domestic convertibility of money into gold coin or gold bullion would militate against rather than promote the purposes of the Employment Act, and we recommend against such restoration.

First, I would like to ask the members of the Board whether they are willing to be polled on that subject, convertibility of gold.

All appear to be willing to be polled, so will those who favor the free domestic convertibility of money into gold coin or gold bullion raise their hands?

Mr. VARDAMAN. Mr. Chairman, may I ask if you refer only to the immediate foreseeable future?

Senator FLANDERS. Yes; foreseeable future; let's call it that.

All in favor of convertibility in the light of the foreseeable future, raise your hand.

(There was no showing of hands.)

Senator FLANDERS. All against.

(There was a showing of hands by a majority of the group.)

Mr. SZYMCZAK. I don't think you can answer it "yes" or "no." I think the question is whether we wish to return to the institutional method once adopted, or whether we think we can use the powers we have without going back to gold convertibility.

Senator FLANDERS. You think we can do what we want to, without going back to convertibility?

Mr. SZYMCZAK. I don't think we need it. We can get along without it, but I have no very strong objection to it.

Senator FLANDERS. We have, I think, a clouded but not too direct a poll on that. Perhaps I will put it for the presidents in this form:

I will again read the paragraph and ask if you agree with it. Are you willing to be polled?

Mr. SPROUL. I would prefer not to be polled on such a question, under such conditions, although my views are very well known.

Senator FLANDERS. You are excused.

Mr. SPROUL. Thank you.

Senator DOUGLAS. I think the record should be very clear on this point, that Mr. Sproul is not pleading the fifth amendment.

Mr. ERICKSON. Mr. Chairman, is there a time limit there?

Senator FLANDERS. No, there is no time limit in this statement.

Are you ready, however, to express approval or disapproval with the statement? All who approve, raise the right hand.

Representative PATMAN. Why don't you read it off, Mr. Chairman. We have had so much discussion, I think it has been lost sight of.

Senator FLANDERS. This is the proposition:

> We believe that to restore the free domestic convertibility of money into gold coin or bullion would militate against rather than promote the purposes of the Employment Act, and we recommend against such restoration.

All who feel they can accept that statement raise their hand.

(There was a showing of 10 hands.)

Senator FLANDERS. All opposed?

All who wish to amend the statement by inserting the words "in the foreseeable future," raise their hands.

(There was a showing of hands.)

Mr. BRYAN. Mr. Chairman, I would have liked to have voted for it because it would have made central banking so easy.

Senator FLANDERS. You might just explain yourself on that.

Mr. BRYAN. Well, last year it would have been very simple when the Atlanta district was losing reserves, I would have raised the rediscount rate to attract them back, and so forth and so on. I would have had no qualms, no problems of intellect or conscience.

Senator FLANDERS. Do you want it that way?

Mr. BRYAN. No.

Senator FLANDERS. I think we got a vote on that. I hope there will be no recount.

I just received word that I must leave a little bit earlier than I had intended to.

Is there anyone who wishes to proceed with further questioning? We have quite a record already.

Senator DOUGLAS. Mr. Chairman, I don't wish to proceed with any further questioning, but I am told that there is a report of an ad hoc subcommittee of the Open Market Committee dealing with some of the questions discussed this afternoon, and I request that it be made part of the hearings.

Senator FLANDERS. I am not quite sure what documents wou are referring to, Senator Douglas.

Senator DOUGLAS. I believe it refers to a point which you raised earlier, at the very beginning of your questioning this afternoon.

The documents, since they are documents either of the Open Market Committee or of the Executive Committee, are naturally not known to Members of Congress. I naturally am not certain of the exact content, but I think they will be known to the Open Market Committee and to the subcommittee itself.

Senator FLANDERS. You are not suggesting the minutes?

Senator DOUGLAS. No, no; the report.

Senator FLANDERS. The report of the Open Market Committee?

Senator DOUGLAS. The report of an ad hoc subcommittee.

Representative PATMAN. You mean, it made a report today?

Senator DOUGLAS. No; it was made earlier.

Senator FLANDERS. Mr. Martin, I would like to have you comment on that. I am not just clear what the document is.

Mr. MARTIN. I think the reference is to an ad hoc subcommittee report which was made on the subject, referred to at the start of this hearing, on which Mr. Sproul and I are in disagreement.

Senator FLANDERS. It would seem to me that the disagreement was quite clearly expressed. I wonder what more there is in the ad hoc report? Does it censure either of you?

Mr. MARTIN. It doesn't censure either of us. It contains analytical and descriptive material, as well as recommendations.

Representative PATMAN. Does it condemn you?

Senator FLANDERS. Yes, or commend you?

You feel that it was descriptive material; did you say?

Mr. MARTIN. Well, as far as I am concerned, I am perfectly willing to make it available to the committee for publication, if they wish it.

Senator FLANDERS. It would seem to me offhand, Senator Douglas, that we had a fairly clear expression of the difference of opinion between the two men.

Senator DOUGLAS. Mr. Chairman, I was the one who 2 years ago moved that the very spicy exchange of correspondence between the Treasury and the Federal Reserve Board in 1950 and 1951 be made part of the official records.

Mr. Martin at that time was very reluctant to have those documents brought forward, but they were published, and I think they contributed greatly to an understanding of the monetary history during the period 1950–51. Now, since those documents were published, I think they did, in general, help everybody.

I think the publication of this document would be of some assistance. In short, I believe that the Federal Reserve, the Open Market Committee, should not conduct their operations with the secrecy which has previously attended them, that the more we have an airing of differences on these matters, the better educated Congress and the

public will be, that sunlight is not to be feared, that honest differences are not to be feared, and that there is nothing quite like facts and knowledge.

Senator FLANDERS. We will ask the Open Market Committee, then, to make that available for inclusion in the record.

Mr. SPROUL. I would like to say something on that, Mr. Chairman.

I have been, and continue to be, of the view that this was a working paper, prepared by an ad hoc committee of three members of the Federal Open Market Committee for the consideration of the full committee, not as a public document.

I believe it would be a bad precedent if we began publishing working papers of the committee, inhibiting and corroding free discussion within the committee.

In this case, to complete the record would require the publication of all letters and documents commenting on the ad hoc report prepared by the majority and minority members of the Open Market Committee. The ad hoc committee report did not have unanimous acceptance.

There would inevitably be a lot of deadwood in this material. There were 14 items of action culled out of the ad hoc committee report, but only 3 of these were of significance so far as present policy is concerned, and only 2 of these 3 recommendations—confining open market operations to short-term securities and support of Treasury financing operations—have been the subject of continuing debate.

If there is a real public interest in these two matters, the way to feed that interest is by public discussion of these issues, such as we have today, uncluttered with a lot of extraneous material such as is included in the ad hoc committee report. The answer of the Chairman of the Board of Governors to question No. 3 of this subcommittee's questionnaire is an example of the kind of discussion of these issues which I would say is constructive. I have tried to present my opposing views.

I regret to say that the public interest in these matters does not seem to be great nor intense. The minor clamor for publication of the ad hoc committee report, with few exceptions—and this does not include Senator Douglas—has come mostly from the curious, or those who think they see a chance of stirring up trouble within the System, or between the System and the Congress. I would not pander to that curiosity, or to the decisive urge.

This does not mean that there is anything that needs to be hidden or covered up in the ad hoc committee report or that we want to shut out the sunlight. There isn't anything to be hidden in the report. It merely means that publication of this internal working document is not necessary if we want to discuss soberly and constructively the issues of current policy, which, I believe, would benefit by more informed discussion, both within and outside the System.

Mr. VARDAMAN. Mr. Chairman, may I, as one member of the Board, gladly follow the lead in this instance of Chairman Martin, who states that he sees no objection to the publication of the ad hoc report.

I regard the ad hoc report as far more than a working paper. If, when publication of the ad hoc report takes place, it becomes advisable to reveal documentary evidence filed with the Board in the form of letters and other forms connected with it, then we should give those papers, if you please, to this committee for editing before publication,

but I would like very much to see the ad hoc report published for the information of this committee.

Mr. BRYAN. Mr. Chairman, I would like to say that I also support the publication of that report.

I had the honor to be a member, and I think the committee would be in error if it believes that it was a mere working paper. We have had here a most fundamental attack upon the policy of the System. I believe that this committee deserves the whole history out of which that policy was evolved.

Senator FLANDERS. I would suggest to the committee that this material be placed in its hands, and that then the committee itself, the subcommittee itself, determine on the use of the material, if that is satisfactory. (See statement by Chairman Flanders on action taken on ad hoc subcommittee report, p. 257 and following.)

Mr. WILLIAMS. Mr. Chairman, may I suggest also that the subcommittee may wish to call someone into consultation to get the implications of full disclosure here.

Senator FLANDERS. I will be glad to have comments from all those concerned as to significances which don't appear in the material.

Representative PATMAN. Mr. Chairman, I ask unanimous consent that when it is received that it be left up to the chairman and Senator Douglas as to whether or not it goes in.

Senator DOUGLAS. Oh, no; I am not a member of the subcommittee, so I should not serve on it. I think you should serve, Congressman Patman.

Senator FLANDERS. I regret that I must go.

Representative PATMAN. I want to bring up one question. These people are so cooperative, I want to ask them what is going to happen in the next few months.

Senator FLANDERS. We will have a lot of hearings in January and February when the full committee will consider these matters.

Representative PATMAN. I bow to your judgment, Mr. Chairman.

Senator FLANDERS. Additional statements to clarify the presentation can be offered for insertion in the record.

(By direction of the chairman, the following is made a part of the record:)

(The following comments on the Treasury and Federal Reserve statements of December 6, 1954, to the Joint Committee on the Economic Report have been submitted by Edward C. Simmons, professor of economics, Duke University, Durham, N. C., in response to an invitation by the subcommittee to present material for inclusion in the record:)

The statements of the Treasury and the Federal Reserve reveal that monetary and debt-management policy is formulated on only vague and indefinite criteria. Such things as stability and growth of the economy are frequently mentioned as having a bearing on policy matters, but these concepts are not reduced to objective criteria. One cannot tell whether or not the desired goals have been reached. Both agencies express satisfaction with their achievements, yet both seem to reveal uncertainty as to events preceding and following the downturn in the spring of 1953. In view of the admitted inability to forecast the faith expressed in ability to apply discretionary judgment is quite remarkable.

The Treasury's expressed view is that floating debt can be excessive and also that long-term financing may not be undertaken when long-term funds are needed to finance private investment outlays. This may explain why the Treasury does not bother to argue the case for funding. Much is made in the Treasury statement of the quite modest achievements in the direction of lengthening maturities.

The Federal Reserve statement is very long and very technical. It provides an abundance of information on recent central bank operations, particularly as to sales and purchases of Government securities, although the attempt to expound

what is meant by "preventing disorderly conditions" is hardly successful. On monetary policy proper, the outcome is only slightly better. Year-to-year changes in bank reserves are commented upon, but one cannot be sure that what happened was the result of design or of conjecture. Similar changes in the economy's stock of demand deposits are discussed, but one never learns what should happen to this most important economic quantum, nor can one tell whether the Federal Reserve has been successful in bringing about the result it desired. The discussion of monetary policy is conducted along with the discussion of a great many other matters, and one cannot always tell whether these matters are means or are ends of the same order of importance as monetary policy.

At various places in the Federal Reserve statement one encounters language such as policy is "* * * to influence the level of bank reserves and the money supply in accordance with seasonal requirements, the capacity of the economy to produce goods and services, and suitable growth in the economy." Obviously, a target so poorly defined can never be said to have been missed.

Question No. 4 is allocated only 1½ pages of text, although other answers extend over much more space. Reference is made to a Federal Reserve statement to the Patman subcommittee and to an appended 16-page reprint from the Federal Reserve Bulletin. Both of these, as the reply indicates, are concerned with describing the complexities of the monetary mechanism and only incidentally if at all with answering the question, "How much money does an economy need?" Some may doubt if question No. 4 is answered by saying that monetary policy is a complex matter upon which the Federal Reserve brings to bear its best judgment Specifically the lengthy statement cast little light on the causes of the marked seasonal and other short-run fluctuations in member bank reserves and the stock of money, although these would seem to be subjects for comment in a discussion of monetary policy.

Neither the Federal Reserve nor the Treasury may be said to have failed to answer the questions. Much of the difficulty lies in the questions themselves. They do not call for incisive replies.

(The following memorandum was submitted December 8, 1954, in response to the invitation by the subcommittee to present material for inclusion in the record:)

MEMORANDUM TO SENATOR FLANDERS, CHAIRMAN, SUBCOMMITTEE ON ECONOMIC STABILIZATION, JOINT COMMITTEE ON THE ECONOMIC REPORT

(By Arthur R. Upgren, Dean, the Amos Tuck School of Business Administration, Dartmouth College, Hanover, N. H.)

I—LIQUIDITY

The two ideas I would like to forward as being the major responsibilities of our banking system are assistance in avoiding deep economic declines and acceptance of the responsibility to maintain liquidity. I think the void in liquidity all through the latter 1920's and up to 1933 is simply the negative of too much credit inflation which we so commonly think of as coming with wars. When we have such credit inflation we have rising prices. Similarly wthen the banking system in short of liquidity, we have our busts and sharp falling prices. Each is rather inexcusable but of the two, the existence of illiquidity is by far the most needless and most damaging.

This can be illustrated by the record of the banking system. Up to the end of the 1920's our banks in the Midwest were very illiquid. Country banks probably had about 10 or 12 cents on each dollar of deposit in liquid assets. Out in that section of the country when the break came, something of the order of 15 to 22 percent of all deposits were withdrawn. The net result was that in the United States 15,000 banks failed from 1921 forward. Some readjustment immediately following the First World War was inescapable but the loss of the banks, the absence of liquidity, and the colossal damage inflicted on the American people following the year 1930 was mostly needless and could probably have been avoided if we had discovered some way to create the needed liquidity.

Today all the banks are extraordinarily liquid and the western banks are more liquid than the banks of Wall Street. In Denver this summer bank statements released at that time revealed a liquidity ratio ranging from 60 to 75 percent. Comptroller of the Currency, Ray Gidney, recently reported that all the member banks were 62 percent liquid.

Thus we have solved the problem of liquidity and in fact, we probably have an oversurplus of liquidity in the banks at this time.

But this liquidity is surely "going to run out" sooner or later.

One recent estimate suggested that total commercial bank credit outstanding in 2000 will be at least $2,000 billion. If it is, that will be about the slowest rate of increase we have ever known for such a period.

If we should have bank obligations of that size, we would need a banking system which would be at least 20 percent liquid, or better, 25 percent. This will call for a liquidity in absolute amount of about 400 to 500 billion dollars. You will readily appreciate that is far short of the liquidity which is likely to be had by the banking system on a basis of scanning of all the liquid assets which might come to the banks. I think our national debt is not going to be appreciably increased; I think Europe is going to retain most of the world's newly mined gold; and I am not inclined to think that short-dated liquid paper of the business system will be developed in any large amount.

Thus we could say that we might, by 1973, be lulled into such a state of complacency by the liquidity we then shall have enjoyed for 28 years, that we could have a repetition of 1873. The banking system already is using a fair share of its liquid assets and certainly will be expanding its deposits as soon as we have further economic growth and expansion which is probably proceeding at the very present time. This is indeed a long-run problem. It will be a problem for the next 15 to 25 years. But its delineation and the experience we have had with it in the past, reveals how completely we have ignored it.

If memory is correct in this matter, in 1857 and in 1893 the British Parliament indemnified the Bank of England for any damage or loss that might be caused by its overissue of bank notes. That overissue of bank notes broke the extreme tightness in the money markets on both of those occasions. Yet in 1933, 40 years after one experience and 85 years after the other, we got into the same kind of a jam and it was the central bank which did not perform the function. It accepted failure. Banks were needlessly sacrificed because the central bank and the Treasury did not provide liquidity.

If a crop is to be grown in the arid West, water must be sprinkled upon the fields. Out in Minnesota and Wisconsin farmers are now instructed by the State universities in the techniques to be followed to grow more than 100 bushels of corn per acre. To do so fertilizer must be spread upon the fields in very large amount.

This analogy may be used for an economy. If it is to survive the shocks and moderate recessions, then that economy must be sprinkled generously with liquidity. I think the struggles of the American people for 12 years reveal this very fact. In 1837 we so lacked liquidity that the State of Wisconsin passed a law making banking illegal for approximately the same length of time that prohibition made liquor illegal about 80 years later. The people were disgusted with a banking system that could break so completely. We only need remind ourselves of later dates of other illiquidity. These were, as I remember, the outstanding ones when financial crashes made the most noise, 1857, 1873, 1884, 1893, 1907, 1921, and 1933.

Today we have the Employment Act of 1946 which has been considered the economic capstone of all economic and financial policies of the Federal Government. I am sure that to promote that high level productive employment for the people, we shall find ways and means to increase debts, "the promises men live by" as Harry Scherman once defined debt.

II—FUTURE DESIRABLE FISCAL AND MONETARY POLICY

I now turn very briefly to the side of monetary policy for the future. It seems to me that this can be simply stated. The American people are very literate, fiscally speaking, as has been evidenced by their willingness to bear taxes. In the First World War we produced about one-third of Government expenditures by taxation and prices fell only a little short of reciprocally short of tripling. The wholesale price index went to 247. In World War II we taxed for 46 percent of total expenditures—and there was no improvement in this ratio when there could have been the most improvement in this ratio, namely in 1944. In consequence, prices almost doubled, the index rising to 190. After Korea, at least except for one larger deficit in fiscal June 30, 1953, we taxed for 95 percent of total Federal expenditures. The net result has been that the inflation in wholesale prices has been only 10 percent and in consumer prices only about 15 percent. In addition, we have had remarkable stability of the price level for 3½ years. The rise in that period, which has been slight in the con-

sumer price index, has been wholly an adjustment to the needs of the earlier, 1950–51, sharp rise in wages. It has not been the result of any recent inflationary pressure.

Moreover, as a result of this high rate of taxation we have the happy consequence of now being able to reduce taxes as rapidly as defense expenditures are being reduced. That has been very stimulating to the economy in the past year. In 1946, and the years following, defense expenditures had to come down by $54 billion, or from $100 billion of spending to $46 billion of spending before we could have any tax reduction on the basis of the $46 billion tax revenues we then had. Happily defense expenditures declined by almost $68 billion so that we did have tax reductions which I have estimated were worth the difference of about $14 billion. But those tax reductions were only $1 for each $5 of expenditure reduction.

In the last year we have been able to have almost $1 of tax reduction for $1 of defense expenditure reduction and still retain a balanced budget. This tax reduction has been sufficient to sustain personal disposable income without any diminution at all despite a decline in personal incomes (before taxes) which decline has been caused by somewhat shorter hours and somewhat increased unemployment, slightly offset by some increases in hourly wage rates. In addition, this tax reduction has been able to convert the declining earnings of corporations due to an approximate 7 percent decline in sales, into an absolute increase in profits for most companies. The importance of this increase in profits is that a good record of profits is the most important single requirement for a good record of continued high capital investment by industry. That continued high investment is expected now for 1955, now seems likely, according to recent reports.

What is needed is education to the fact that monetary policy should be flexible and liberal at any time when there is unemployment above, say a 3-percent figure, or about 2 million unemployed. Moreover, that liberality and easiness in monetary policy should continue until the reduction in unemployment comes at a very much slower rate and there is a tendency toward wage rates and toward price levels to rise. That is the only guide I would give for monetary policy. It is the guide that when we have unemployment, policy should be liberal and generous and there should be tax reductions. As unemployment subsides and does not seem to be able to drop any more, nor employment rise, and as prices tend to rise somewhat and especially wage rates rise, then monetary policy should be restrictive.

This leads to the fact that the simulation of an economy must, however, come primarily out of fiscal policy. Then when restraint is needed, since taxes are said not to be something the American people will vote quickly, monetary policy can be used to restrain that growth of credit at "too fast" a rate. "Too fast" means, of course, that the rise of prices is beginning and the rise in wage rates at an increasing rate becomes apparent and total employment is not appreciably lifting—barring, of course, a rise in the labor force.

Such a policy even if somewhat slowly applied at times, here I refer to the restraining monetary policy, will provide the liquidity which the country needs.

I would like to think that we would be imaginative enough, and abstract enough in our thinking as was Gustave Cassell, to create liquidity in a very abstract way. But we know we do not wish to create liquidity by emissions of excessive amounts of currency. Thus we must fall back on the orthodox and accepted form of creating liquidity which is an enlargement of the Federal debt. If there are other ways and they can be widely accepted, they certainly should be offered and adopted.

In summary, I see our economic history as showing that our society has for about 200 years in this country struggled to provide needed liquidity. The struggle became so tense and arduous at times that we placed great premium upon gold and silver mining and we could not meet demand so that we had complete collapses. The struggle was also attended with extremely high interest rates such as the 9 percent call money rate of 1929 and the 8 percent borrowing rate of some good industrial companies in 1921. We have eased on that but that only means there will be debt expansion of the banking system, the central banks, and therefore we need to face up to the creation of liquidity so that we may retain for ourselves the fruits of these new modern, more orderly scheduling of debt repayment which contributes so very greatly to the high prosperity of the American people and which provide places in which they can so satisfactorily lodge their savings.

This is the time for a discussion of these issues because the issues are not "hot" at the present time. Thus, we should be able to place it in perspective

so that we would be certain to take action to provide needed liquidity when that time comes. In my own view that time will not come immediately ahead but could come by perhaps the year 1965 or the fateful 100th anniversary of 1873, in 1973.

It seems to me, therefore, that the maintenance and creation of liquidity is one function of the banking system. The second function is the sharp restraint by monetary policy in the event of any inflation and excessive boom. The monetary authorities can act. June 1953 showed us that their action need not endanger the banking system as so many had falsely predicted in connection with their arguments for 100 percent support prices for all Government securities.

Fiscal policy then can be via tax reduction, the powerful lever to move an economy upward in the event an adequate full level of employment is not maintained and in the event output of the economy is not expanding as we know it can at rates of at least 3 percent per year.

STATEMENT BY CHAIRMAN FLANDERS ON ACTION ON AD HOC SUBCOMMITTEE REPORT, DECEMBER 9, 1954

The subcommittee has decided to release and make part of this record the report of the ad hoc Subcommittee on the Government Security Market of the Open Market Committee dated November 12, 1952. At the hearing on December 7 the Subcommittee received arguments both pro and con, with respect to publication of the document from officials of the Federal Reserve System. Our decision to publish the document is based upon the following statement by Chairman William McChesney Martin, contained in the record above: "Well, as far as I am concerned, I am perfectly willing to make it available to the committee for publication, if they wish it."

The subcommittee believes that proper procedure has been followed in this matter since the head of the agency involved has assented to its publication. This view is concurred in by Senator Barry Goldwater and Congressman Wright Patman, members of the subcommittee. Senator J. W. Fulbright and Congressman Richard Simpson were unavailable for the hearings and did not participate in this decision.

We have advised both Mr. Martin and President Allan Sproul that the document will be published, and have invited them to append any additional papers that they believe should be published simultaneously with the ad hoc report. They are appended.

FEDERAL OPEN MARKET COMMITTEE REPORT OF AD HOC SUBCOMMITTEE ON THE GOVERNMENT SECURITIES MARKET, NOVEMBER 12, 1952

PREFACE

Securities of the Federal Government have come to play a unique role in the flexibility and sensitiveness of the American money market. Our financial institutions now hold the bulk of their secondary or operating reserves invested in these issues, particularly in the shorter term securities. This is true especially of commercial banks but also of insurance companies and savings banks, as well as savings and loan associations. It is also increasingly true of many of our larger industrial corporations. As a result, any change in the demand for funds or their supply is felt promptly in the open market for Government securities. When our financial institutions gain funds, they usually invest immediately in Government securities, and, conversely, when they have net payments to make, they liquidate Government securities. When their customers borrow or opportunities for profitable investment arise, financial institutions switch out of Government securities, and when loans are paid or investments are sold the proceeds are usually invested, at least temporarily, in Government securities. The resulting daily turnover of securities in the market is enormous. It reflects the transactions by which thousands of individual financial institutions and business organizations keep their funds fully employed at interest, without sacrifice of their ability to meet the changing financial requirements of their more basic business operations.

Arbitrage transactions add to this daily turnover in the market. There is no credit risk in a portfolio of Government securities, i. e., no possibility that the holder will not be able to obtain cash at par at maturity. The relative

prices at which different issues trade, therefore, reflect predominantly changes in the demand for and the supply of loanable funds in the money market as a whole and also as between the various short-term, intermediate, and long-term sectors of the market. Since trading is done at commissions or spreads as small as one sixty-fourth ($156.25 per million) and even smaller in very short issues, there are constant opportunities for arbitrage of small differentials in prices when the impact of buying or selling is especially heavy in some particular sector of the market. The secondary reserve portfolios of practically all the large financial institutions are managed by skilled professionals to take advantage of such opportunities.

The Federal Open Market Committee is a major factor in this market. At present its portfolio consists wholly of United States Government securities. It is the largest existing portfolio under one control. When the Federal Open Market Committee adopts a policy directive, it is executed in the market for Government securities. It takes the form of a series of specific transactions in Government securities. Total transactions for the account—purchases and sales—mount up to billions of dollars in the course of a year.

The impact of these operations is not measured by the volume of transactions alone. It is much greater, for example, than the impact of a similar volume of purchases and sales by a private investor. The Federal Open Market Committee releases or absorbs reserve funds when it operates in the Government securities market. When the Committee buys, it augments not only its own holdings of Government securities but also the ability of other investors to enter the market on the bid side Conversely, when the Committee sells Government securities, it does much more than add to the market supply of such securities. The reserves that it absorbs subtract also from the capacity of the banking system to carry Government securities.

It is necessary to keep these basic features of the money market in mind in considering the subcommittee's report. They help to explain why relatively small operations, sometimes even rumors of operations, by the Federal Open Market Committee may give rise to such quick and pervasive response not only throughout the money market and the investment markets generally but also in business psychology. Any purchase or sale of Government securities by the Committee adds to or subtracts from the reserves of the member banks and is promptly reflected in the tone of the money market. A relatively small injection of funds through the purchase of bills will ordinarily find a response in the market for long-term securities. Large purchases of bills could scarcely fail to elicit such a response.

These transactions condition the tone of the money market and the general availability of credit because they immediately affect the value of securities in the operating portfolios of leading financial and business institutions. They cause changes in the prices of the specific issues bought or sold, and affect opportunities for arbitrage as between various issues and sectors of the market. As a result, a new pattern of yields emerges as between all different issues and sectors of the market. When the readjustments have worked themselves out, both the prices of Government securities and the pattern of their yields will have been affected. Both the absolute and the relative market values of the securities that constitute the liquid operating reserves of all our major financial institutions will have changed. In other words, there will have occurred a shift in the financial liquidity of the money market and of the economy.

Experience has demonstrated that the climate or tone of the money markets tends to respond directly to the volume of member bank borrowing at the Federal Reserve banks. Changes in the volume of borrowing represent the first response of member banks to losses or accessions of reserve funds from any source, including open-market operations of the Federal Open Market Committee. It constitutes, in fact, an essential link in the mechanism by which these operations exert a magnified effect on the money markets. When such borrowing is low, the tone of the money market is easy, that is, funds tend to be easily available at going interest rates for all borrowers who are acceptable as credit risks. When member banks themselves are heavily in debt to the Federal Reserve banks, the tone of the money market is tight, that is, marginal loans are deferred and even better credit risks may have to shop around for accommodation.

These responses seem to be independent, to some extent, of the level of interest rates, or of the discount rate. For example, the tone of the money market might be easy even though the discount rate were 4 percent. This would happen mainly in a situation where the volume of member-bank borrowing was low. Conversely, the tone of the money market might be on the tight side when the

discount rate was 1¾ percent. This would occur when member banks were heavily in debt.

The fact that the tone of the money market is responsive to the level of member bank borrowing at the Reserve banks gives a unique character to the role of open-market operations in the effectuation of credit and monetary policy. They can be used flexibly to offset the net impact on bank reserves of other sources of demand and supply of reserve funds in such a way as to result in an increase or decrease of member-bank borrowing, or, if desired, to maintain a level of such borrowing that is fairly constant from week to week, or month to month. This means that when the Federal Open Market Committee decides that a tone of tightness, or ease, or moderation, in the money markets would promote financial equilibrium and economic stability, it has the means at hand to make the decision effective.

Changes in the discount rate cannot be used in this way. They can exert powerful effects upon the general level of interest rates, but cannot be counted on to insure that the relative availability or unavailability of credit at those rates will be appropriate to the requirements of financial equilibrium and economic stability.

Neither can changes in reserve requirements be used with this precision. There are many administrative and technical problems which militate against the continuous or frequent use of this instrument of policy. Even if these did not exist, however, the instrument is much too blunt to be used to maintain member-bank borrowing from week to week or month to month at an appropriate level.

In short, open-market operations are not simply another instrument of Federal Reserve policy, equivalent or alternative to changes in discount rates or in reserve requirements. They provide a continuously available and flexible instrument of monetary policy for which there is no substitute, an instrument which affects the liquidity of the whole economy. They permit the Federal Reserve System to maintain continuously a tone of restraint in the market when financial and economic conditions call for restraint, or a tone of ease when that is appropriate. They constitute the only effective means by which the elasticity that was built into our monetary and credit structure by the Federal Reserve Act can be made to serve constructively the needs of the economy. Without them, that elasticity would often operate capriciously and even perversely to the detriment of the economy.

They require an efficiently functioning Government securities market characterized by depth, breadth, and resiliency. It is with these characteristics of the market that this report is mainly concerned. The subcommittee was authorized shortly after the Federal Open Market Committee decided that the continued maintenance of a relatively fixed pattern of prices and yields in the market for Government securities was inconsistent with its primary monetary and credit responsibilities. The Federal Open Market Committee felt that a freer market for Government securities would lessen inflationary pressures and better promote the proper accommodation of commerce, industry, and agriculture. It came to the conclusion, in fact, that a securities market, in which market forces of supply and demand and of savings and investment were permitted to express themselves in market prices and market yields, was indispensable to the effective execution of monetary policies directed toward financial equilibrium and economic stability at a high level of activity without detriment to the long-run purchasing power of the dollar.

Accordingly, the subcommittee was authorized to examine and report on the relevance and adequacy of the Federal Open Market Committee's own procedures and operations in the new context. Transactions for the Committee's account exert a powerful impact on that market. It is important that they be so executed as to avoid disruptive technical repercussions. In particular, it is important that technical operating procedures and practices, conceived in the atmosphere of war finance and developed to maintain a fixed pattern of prices and yields in the Government securities market, be reviewed to ascertain whether or not they tend to inhibit or paralyze the development of real depth, breadth, and resiliency in today's market that operates without continuous support.

This is the problem with which the subcommittee has been most concerned. The absorption and release of reserve funds which results from Federal Open Market Committee transactions should constitute a constructive factor in the Government securities market, as well as in the economy generally. Without open market operations, appropriately conceived and executed when there is need to absorb or release reserve funds, it would sometimes be impossible for the market to evaluate correctly fundamental trends in the economy as they affect the supply of money relative to its demand.

It is evident, therefore, for the well-being of the Government securities market itself, that the possibility be minimized of disruptive technical market repercussions from Committee transactions. It is also evident that the Federal Open Market Committee should be in a position to operate promptly and in appropriate volume at all times, without fear of such adverse technical market repercussions, when the need for operations exists. This requires a Government securities market characterized by great depth, breadth, and resiliency. Without a market possessing these characteristics, the Committee might, on occasion, find itself unable to discharge its responsibilities.

INTRODUCTION

(1) The Federal Open Market Committee, at its meeting on May 17, 1951, authorized an ad hoc subcommittee to study and report on the operations and functioning of the Open Market Committee in relation to the Government securities market. The subcommittee was organized in April and May 1952, as follows: Wm. McC. Martin, Jr., chairman; Abbot L. Mills, Jr., Malcolm Bryan. Robert H. Craft, vice president and treasurer of the Guaranty Trust Co., of New York, was appointed technical consultant to the subcommittee, and was given leave of absence by the Guaranty Trust Co. to devote his full time to its work.

(2) Efforts have been made to keep the executive committee of the Federal Open Market Committee, all the Governors of the Board, and all of the presidents of the Federal Reserve banks informed of the activities of the subcommittee. The interval, amounting to nearly a year, between the authorization of the subcommittee and its actual establishment reflected the desirability of deferring the study until the conclusion of the hearings of the Patman subcommittee of the Joint Committee on the Economic Report, as well as the desirability of permitting some experience to accumulate on operations of the Committee under the more flexible conditions that followed the Treasury-Federal Reserve accord of March 5, 1951.

Procedures of the subcommittee

(3) As its first step, the subcommittee, with the help of suggestions from the executive committee, prepared an outline of study which was sent to a list of the individuals and institutions active in the market for Government securities, either for information or response. So that there would be no misconceptions, the outline and letters were made available to the press.

(4) Beginning June 9, 1952, the subcommittee held 10 sessions with recognized dealers, 11 meetings with unrecognized dealers, and 8 meetings with nondealers intimately familiar with the operations of the Government securities market, discussing the material covered in the outline of study. The subcommittee also received letters from other individuals to whom the outline was sent. Stenographic notes of the discussions were taken for the convenience of the subcommittee but are not part of the record, since they were not subsequently cleared with the discussants.

(5) The outline of study, together with the list of individuals and institutions to which it was sent, and the covering letters by Chairman Martin, are attached to this report as appendix A. Mr. Craft has prepared a technical analysis of the correspondence and discussions focused on the outline of study which is attached as appendix B. Mr. Craft has also prepared a memorandum, entitled "Ground Rules," with respect to certain problems before the subcommittee which is attached as appendix C. A memorandum from the staff, discussing the possibilities of reopening an open market call money post to finance dealers' portfolios, is attached as appendix D.

THE GOVERNMENT SECURITIES MARKET

Size, participation, and composition

(6) Of the total gross Federal debt of $265 billion, about $145 billion are outstanding in marketable form. Ownership of the marketable debt is about as follows: Commercial banks have about $60 billion; corporations about $15 billion; mutual savings banks, life insurance companies, and State and local governments about $7 billion each; casualty insurance companies about $5 billion; Federal agencies and trust funds about $3 billion; and savings and loan associations and foreign governments about $2 billion each. All other investors, including individuals, trust funds, private pension funds, endowments, etc., own around $13 billion in the aggregate. The Federal Reserve banks, which have nearly $24 billion, or about one-sixth of the marketable securities, have by far

the largest single holding in the market, about 10 times larger than the next largest portfolio under one control.

(7) The marketable debt is comprised of $20 billion of Treasury bills, $17 billion of certificates, $30 billion of notes, $36 billion of bonds due or callable in 5 years, $17 billion of longer term bonds not restricted as to bank ownership, and $27 billion of restricted bonds. Commercial banks hold about one-third of the bills and certificates, half of the notes, and two-thirds of the bank-eligible bonds. It is roughly estimated that business corporations hold about half of the bills, one-fourth of the certificates, and much lesser proportions of the notes and bonds. Savings institutions, including life insurance companies, pension funds, etc., own the bulk of the long-term bonds. Federal Reserve holdings are heavily concentrated at the present time in certificates, notes, and short-term bonds.

Market structure and activity

(8) The Government securities market provides the mechanism through which marketable Government securities have their secondary distribution. It is an over-the-counter market; it is really a group of markets made by the various dealers and knit together into a unit by an extensive communications system. About 20 dealers, including some banks with trading departments, comprise the basic structure of this market. The focus of the market is in New York, and most dealers have a network involving branch offices, representatives, correspondents, local investment houses, or the like through which they maintain contact with major Government security holders throughout the country. There are a number of secondary dealers who also trade in Government securities, frequently as a part of the broader over-the-counter business.

(9) The volume of transactions in marketable Government securities runs to a very large figure—on an average several hundred million dollars a day. These transactions are typically made by dealers without commission on a very narrow spread between the price at which they will buy and the price at which they will sell. So-called inside markets are typically made on spreads ranging from $\frac{1}{32}$ ($312.50 per million dollars) for long-term bonds down to an 0.01 in yield ($25 per million dollars) on 90-day bills. As a usual thing, transactions of good size—as much as $1 million or more for long-term bonds and up to $5 million or more for short-term issues—are executed on-the-wire with customers. Trading is thus on a split-second basis, in large amounts in relation to dealer capital, and on close margins. Alert arbitraging is also constantly going on among the various issues of securities, both by dealers and by other active elements in the market. Success or failure in professional trading in such a market turns importantly on ability to appraise changing market factors quickly and accurately.

(10) The Federal Reserve stands in a key position with respect to the entire money and capital market in this country and particularly with respect to the Government securities market. System contacts with the market for United States Government securities take four main forms—transactions in Government securities made for the account of the system, extension of credit by a Federal Reserve bank to the nonbank recognized dealers through purchases of short-term securities under repurchase agreement, transactions made as agent for Treasury and foreign accounts or for member banks, and the gathering and dissemination of information on developments in the Government securities market. Aside from some transactions executed by the other Reserve banks for the account of member banks, these points of system contact with the market are focused at the trading desk at the Federal Reserve Bank of New York.

Trading desk facilities and activities

(11) The trading room at the Federal Reserve Bank of New York is equipped with some 10 or 12 key-type telephone stations with direct lines to each of 8 dealers in New York City, plus several trunklines for outside calls. These phones are manned continuously by 4 or 5 people regularly assigned to direct contact work with the dealers. Instantaneous contact can be made either by the personnel at the trading desk or by any 1 of the 8 dealers simply by pushing the proper key. At least one officer of the Bank is always on call at the desk during trading hours.

(12) Other personnel assigned to the trading desk handle special tasks of various kinds such as transactions for Treasury agencies, foreign accounts, or for member banks in the New York district. Clerks maintain current price quotations on all Government securities on a large quote board, which can easily be seen by any of the personnel on the trading desk. The quotation board itself lists quotations on all Government securities as received hourly from

several dealers. From these quotations a composite or average quotation for each issue is computed. Routine reports on developments in the stock market and corporate and municipal bond markets are received and transmitted to the operating personnel on the trading desk.

Transactions

(13) Purchases and sales of securities for the System open market account are supervised by the manager of the account and are made in accordance with instructions issued by the Federal Open Market Committee. Such transactions, both on a repurchase and on an outright basis, (as well as all transactions in Government securities made by the New York bank for foreign accounts, member banks, or the Treasury) are now confined to 10 recognized dealers. This strict limitation of the dealer group with which the account now trades was formalized by the committee in 1944. Previously, the Federal Reserve Bank of New York had followed a less formal arrangement with a larger group of dealers.

(14) The policy of confining open market account business to a small group was adopted by the Federal Open Market Committee in 1944 in an attempt to deal only with that portion of the market where the final effort at matching private purchases and sales takes place. This approach was based on the hope that by operating closely with a small group of key dealers responsive to its discipline, the Federal Open Market Committee could peg a pattern of low interest yields in a period of heavy war financing with minimum monetization of the debt.

(15) In accordance with the instructions of the Federal Open Market Committee, open market transactions are practically always made on an agency basis, that is, not with dealers as principals but with other holders, using dealers as brokers. This has meant that dealers could not ordinarily sell to the account from position. The Commitee has specified that the commission allowed shall not exceed $156.25 per million dollars on notes and bonds, and $100 per million dollars on certificates and bills. In practice it generally has been smaller on maturities of less than one year. Repurchase agreements are by their nature made with the nonbank recognized dealers as principals.

(16) Transactions executed by the trading desk are never made for cash, i. e., for delivery the same day, but rather for regular delivery the following day (occasionally for delayed delivery). For short-term issues, however, a large part of transactions made by others in the market is on a cash basis. The account will not knowingly buy securities handled by dealers on a cash basis.

(17) In addition to transactions for the System's open market account, a large volume of purchases and sales is made by the New York bank for domestic and foreign accounts. Acting as fiscal agent for the Treasury, the New York bank transacts business for various Government agencies and trust funds. These transactions may be of a routine nature or may involve special operations designed to support the market. Foreign central banks and other foreign agencies also employ the New York Federal Reserve Bank as agent and channel purchase or sale orders on Treasury issues through it. Member banks in the New York Federal Reserve District—usually smaller banks in outlying areas—also use the New York bank for what are typically odd-lot transactions. All of these transactions by the bank as agent are handled through the trading desk.

(18) Transactions for the open market account are normally handled by any 1 of 4 or 5 persons who maintain constant direct contact between dealers and the account. Transactions for the Treasury, foreign agencies, or member banks are usually handled by an individual on the trading desk who is not one of the persons regularly contacting dealers for information or normally trading for open market account. Thus, the dealers can generally distinguish between agency transactions and those for the open market account on the basis of the origin of the call from the trading desk. There are also other clues in the trading operation which dealers can use in appraising the source of a transaction. At times, however, the regular procedures of the desk may be changed in order to conceal the operations of the open market account. Orders for the account may be channeled through the individual who ordinarily handles foreign agency and member bank business, or those who usually trade for the open market account may take over business to be done for agency or foreign accounts. Pending the weekly report of condition of the Federal Reserve banks, the actual operations of the account may thus be screened from the market or the market may be led to believe that the Federal Open Market Committee was active at a time when it was not.

(19) The volume of transactions in Government securities carried out by the New York bank's trading desk for foreign, Treasury, and member bank accounts

is very substantial. In the 12 months ending June 30, 1952, such business amounted to about $2.4 billion, of which $1.5 billion was in bills, $600 million in certificates and notes, and $300 million in bonds. These transactions amounted to about one-third the volume of total trades for open market account; they were almost as large as open market transactions other than in periods of Treasury refunding.

(20) Federal Reserve banks outside New York also transact business in Government securities as a service for some of their member banks. In the 12 months ending June 30, 1952, $1.9 billion of such business was handled. While some Reserve banks confine such dealings to those dealers qualified to transact business with the open market account, others do business with a wide group of investment houses.

Information arrangements

(21) The 4 or 5 individuals assigned to contacting dealers at the New York trading desk are constantly receiving oral reports from dealers, maintaining current records of reported transactions in the market, and checking and relating the information thus received with various written reports also submitted by the dealers. In addition, 1 or 2 of these contact men report to various interested officials in and out of the System on current trends in the market.

(22) Before the market opens each day, several meetings are held with representatives of recognized dealers. These meetings, which are limited to approximately 10 minutes each, are scheduled on a rotating basis, with 2 or 3 dealer organizations participating each day. At the meetings, the dealer representatives report on the major transactions handled in the market during the previous trading session. They also pass on other information about the Government securities market or other aspects of the money and capital market. The meetings are largely devoted to reporting by dealers rather than to an exchange of information, as the comments of the Committee's representatives in attendance are very guarded.

(23) During trading hours in the market, contact is maintained regularly between the trading desk and each recognized dealer in New York City. Any transactions involving a million dollars or more are currently reported to the trading desk. A worksheet is maintained on the transactions for the day, divided into various categories of securities, with a general description of the type of customer involved in each trade. This transaction sheet provides a quick general picture of the demand or supply of various types of securities in the market. Important discrepancies between the information on this transaction sheet and the written reports submitted by dealers on their volume and positions or the oral reports made during the morning session are usually clarified by checking further with the dealer.

(24) On days when auctions for Treasury bill issues are being held, one of the contact persons on the trading desk makes several special calls to all dealers to get their appraisals of developments in the auction. At about 11:30 a. m., each one of the dealers gives his estimate of the level at which customer bids (i. e., bids of nonbank investors who usually submit them as customers of banks) will be submitted and also as to the lowest price level at which awards will be made. Again, at about 1 p. m., dealers will be contacted to see if there has been any change in sentiment. Based on the information received, bids are submitted for the amount of maturing bills held in the portfolio. The manager of the foreign department is also informed as to the market estimate of the bill auction and he then determines at what price bids for foreign agencies will be submitted.

(25) Supplementing the information received verbally by the trading desk, various written reports of a statistical nature are also made by dealers. Daily reports are received from each of the recognized dealers, as well as many of the nonrecognized dealers, on their current positions broken down into various categories. Reports are also made on the total transactions handled each day in each of those categories. Thus, shortly after the opening of the market on any day, the trading desk personnel has available to it data on the current long and short positions of each dealer, the aggregate positions of nearly all dealers in the market, and the volume of transactions in various classes of securities made by each dealer and the aggregate of such transactions.

(26) The trading desk also received from other departments of the New York bank a daily report on the reserve position of each of the central reserve city banks in New York City and reports on the money market factors affecting the

New York market, including a prediction of the effect of these factors for the ensuing day. The most recent figures on factors affecting reserves of all member banks are also supplied to the desk, as well as frequent projections of major factors affecting bank reserve positions over the next 2 weeks. Estimates supplied on Treasury receipts and expenditures are compared each Monday and Thursday with the operating personnel at the Treasury in a discussion of the amount of calls on tax and loan accounts to be made and the timing of such calls; this contact is handled at the trading desk by an officer of the securities department.

(27) At regular intervals during the day, information on market prices is given by the trading desk personnel to representatives of the Treasury and of the Federal Reserve Board. In addition to the routine price reports, a summary of market developments during the day is given shortly after the market closes to the Treasury and the Board. Flash reports are sent to each Federal Reserve bank president twice daily—at about 11 a. m. and after the close.

(28) Two regular reports on developments in all securities markets are issued by the New York bank, and trading desk personnel contribute a summary of developments in the Government securities market to each of these reports. One of these is a daily report to the Board of Governors which is distributed to various System representatives and to the Treasury. A somewhat more complete report is made weekly to the Federal Open Market Committee, and circulation of this report is limited to a list approved by that Committee.

FINDINGS AND RECOMMENDATIONS

Structure of the market

(29) It is the conviction of the subcommittee, based on its intimate discussions with a very large segment of key participants in the United States Government securities market, that that market at the present time possesses, with one exception noted below, the organizational elements essential to successful performance of its functions. It is competently staffed, and its operations cover the relevant sections of the community.

(30) The only serious qualification that the subcommittee makes to these generalizations relates to certain deficiencies in the credit facilities available to dealers. During recent months, the rates paid by dealers to carry their portfolios of United States Government securities have averaged above the yield on these portfolios. This amounts to a negative "carry" and obviously affects seriously the ability of the dealer organization to maintain broad markets. This problem has become more serious since the discussions with the dealers. At the time of those discussions, the dealers dealt at length with the problem of negative carry but they were referring, for the most part, to periods of stringency of very limited duration, not to the kind of continuing stringency that prevailed in most of the third quarter of 1952. The subcommittee advances suggestions to correct this deficiency later in the report.

(31) It is likewise the conviction of the subcommittee that the market for United States Government securities is already sufficiently broad, experienced, competitive, and arbitrage minded as to minimize the success of attempts of private operators to "rig" the market.

(32) The market has developed a considerable degree of resiliency and ability to handle itself since the accord. After years of pegging, it took a few months for the establishment of market equilibrium, but this was achieved without the development of disorderly conditions and with none of the drastic changes in prices and yields that had been feared by so many. In the long-term area, this equilibrium has now been maintained for more than 1 year without material Federal Reserve intervention. Subsequent to mid-year 1951, total dealings of the open-market account in securities of longer than 14 months' maturity have amounted to $32 million, excluding securities acquired in exchange for maturing issues. Most of these transactions occurred in late November and late December of last year.

(33) The actual record of transactions by the Federal Open Market Committee since mid-1951 is shown in the following table:

Open market account transactions in U. S. Government securities [1]*—July 1, 1951–Sept. 30, 1952*

[In millions of dollars]

Class of security	Total		During periods of refunding [2]		Other than periods of refunding	
	Purchases	Sales	Purchases	Sales	Purchases	Sales
Maturing issues (rights)	3,059		3,059			
Other securities maturing:						
Within 91 days	1,568	2,206	541	372	1,027	1,834
91 days to 14 months	594	2,277	341	1,154	253	1,123
14 months to 5 years	1				1	
5 years to 10 years	3				3	
Over 10 years	23	5	6	3	17	2
Total	5,248	4,488	3,947	1,529	1,301	2,959

[1] Excludes repurchase agreements with dealers and brokers and purchases and sales of special certificates from and to Treasury.

[2] Commitments from date of announcement to closing of books, plus all transactions in new securities on a when-issued basis.

(34) The table indicates that the Federal Open Market Committee has concentrated its transactions very heavily in short maturities since mid-1951. Purchases of issues of over 14 months were negligible, despite the fact that this record covers a period during which the price of Victory's moved between $95½ and $99⅛, and that both the market and the Committee were feeling their way out from the conditions that prevailed under the pegs. The $32 million of transactions in the intermediate and long-term sector are the only ones that could properly be described as undertaken by the Committee to "maintain an orderly market."

(35) It would be inaccurate, however, to describe the present market for United States Government securities as possessing depth, breadth, and resiliency to the full degree that would be desirable for the efficient conduct of effective and responsive open-market operations. It is important that there be no misunderstanding of the intent of the subcommittee in making this qualification. The subcommittee is not referring to the degree of fluctuation that has characterized prices in the market for Government securities since the accord. Considering the pressure on the economy and on the supply of savings, the range of price fluctuation in the market for Government securities has been moderate. The subcommittee refers rather to the psychology that still pervades the market, to the confusion among professional operators in the market with respect to the elements they should take into consideration in the evaluation of future market trends, and to their apprehension over the attitude toward prices in the market on the part of the Federal Open Market Committee and of its representatives on the trading desk. This psychology would not characterize a market that possessed real depth, breadth, and resiliency.

(36) In strictly market terms, the inside market, i. e., the market that is reflected on the order books of specialists and dealers, possesses depth when there are orders, either actual orders or orders that can be readily uncovered, both above and below the market. The market has breadth when these orders are in volume and come from widely divergent investor groups. It is resilient when new orders pour promptly into the market to take advantage of sharp and unexpected fluctuations in prices.

(37) These conditions do not now prevail completely in any sector of the market. They are most nearly characteristic of the market for Treasury bills, but even in that market reactions have been sluggish on more than one occasion since the accord. They are least characteristic of the market for restricted

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(35) It would be inaccurate, however, to describe the present market for United States Government securities as possessing depth, breadth, and resiliency to the full degree that would be desirable for the efficient conduct of effective and responsive open-market operations. It is important that there be no misunderstanding of the intent of the subcommittee in making this qualification. The subcommittee is not referring to the degree of fluctuation that has characterized prices in the market for Government securities since the accord. Considering the pressure on the economy and on the supply of savings, the range of price fluctuation in the market for Government securities has been moderate. The subcommittee refers rather to the psychology that still pervades the market, to the confusion among professional operators in the market with respect to the elements they should take into consideration in the evaluation of future market trends, and to their apprehension over the attitude toward prices in the market on the part of the Federal Open Market Committee and of its representatives on the trading desk. This psychology would not characterize a market that possessed real depth, breadth, and resiliency.

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(37) These conditions do not now prevail completely in any sector of the market. They are most nearly characteristic of the market for Treasury bills, but even in that market reactions have been sluggish on more than one occasion since the accord. They are least characteristic of the market for restricted

bonds. In these issues, there has prevailed persistently since the accord a wide gap between the prices at which the least firm holders are willing to sell and potential buyers are willing to purchase. Within this gap, quotations have fluctuated widely, either in response to relatively small buy or sell orders, or, more frequently, as a result of professional efforts to stimulate interest by marking quotations up or down.

(38) In the view of the subcommittee, the persistence of this condition operates to weaken the effectiveness of open-market operations and emphasizes the importance of steps to improve the depth, breadth, and resiliency of the market. Since the Committee's transactions are among the most important factors that condition the market, the Federal Open Market Committee has an obligation to scrutinize its own organization and its own operations to see in what respects, if any, they can safely be modified, if the effect of such modification would contribute to the depth, breadth, and resiliency of the market.

Role of the System in the market

(39) It is the unanimous view of the subcommittee that the Federal Open Market Committee should keep its intervention in the market to such an absolute minimum as may be consistent with its credit policy. This position rests not only on the fact that the System's primary role has to do with credit policy in the broad sense, but also because of important technical considerations related to the highly desirable development of strength in the private market for United States Government obligations. The normal functioning of the market is inevitably weakened by the constant threat of intervention by the Committee. In any market, the development of special institutions and arrangements that serve to provide the market with natural strength and resilience and to give it breadth and depth tend to be greatly inhibited by official "mothering." Private market institutions of this kind are repressed particularly by the constant possibility of official actions which, by the market's standards, will frequently seem—and be—capricious. Such actions constitute a risk that cannot reasonably be evaluated in advance and anticipated in the formulation of individual, private judgments of market prospects.

(40) The subcommittee has come to the conclusion—fully supported by the testimony before it—that the Federal Open Market Committee bears a real measure of responsibilyity for part of the lack of depth, breadth, and resiliency in the Government securities market. There is not only the history of many years of closely controlled markets, but also the fact that the Committee has not yet been specific with respect to what it means by a free market for United States Government securities. In replies to the Patman questionnaire, in official publications, and in public speeches by its personnel, the Committee has indicated that it contemplates operating in a free market from here on out, but at the same time the policy record of the Federal Open Market Committee, published in the 1951 annual report, shows that it is still committed to the "maintenance of orderly markets," which clearly implies intervention.

(41) This inconsistency has not added to dealer or customer confidence. To take positions in volume and make markets, dealers must be confident that a really free market exists in fact, i. e., that the Federal Open Market Committee wil permit prices to equal demand and supply without direct intervention other than such as would normally be made to release or absorb reserve funds. They have no such assurance. To the dealers, and to professional buyers and sellers of Government securities, the pronouncements of the Federal Open Market Committee mean (1) that it has dropped the pegs, (2) that it is willing to see fluctuations in the market, but (3) that it is watching these fluctuations closely and is prepared to intervene on occasion whenever it considers intervention necessary. From the dealer's point of view, this means that the Federal Open Market Committee desires a fluctuating market but will not necessarily permit one to develop that is free. Their conclusion is that they are operating in a fluctuating market subject to unpredictable, however reluctant, intervention by the Federal Open Market Committee.

(42) The distinction has a vital bearing on the ability of the market mechanism to function with depth, breadth, and resiliency. It is in the nature of a dealer's business that he is constantly exposed to market risk from both sides of the market. One test of his professional skill and, indeed, of his fitness to be in the market at all is the ability to judge the factors in a free market with sufficient foresight and prudence to preserve or even augment his relatively thin margin of capital, whichever way the market turns. He does this by reversing or covering his positions at times or by alert arbitrage of markets for particular issues that are out of line. Thus he is able to function continu-

ously and to make markets. He cannot do this, however, with anything like the same degree of skill in a market that is subject to unpredictable and overpowering intervention by the Federal Open Market Committee. The Committee, with practically unlimited resources to back up its intervention, is not guided in its operations by considerations of profit, and unlike other investors, is not forced to cover its operations to minimize loss. Such intervention can impose drastic risks on a dealer or other holders, particularly if the intervention is in intermediate or long securities where the dollar impact on the capital position of modest changes in yields is large.

(43) It is easy to understand why dealers, with their lack of confidence in the Committee's intentions to restore a free market, would be reluctant to go very far in taking positions. To do so would not only involve the risk of being wrong in their evaluation of economic and market trends, but also of being wrong in guessing at what point the Federal Open Market Committee might feel it necessary to intervene. A difference of a few thirty-seconds in the level of prices of such intervention would not necessarily be of great moment to the Federal Open Market Committee, but it might be of real importance to a dealer's operations.

(44) It is the judgment of the subcommittee that the lack of professional dealer confidence in the intentions of the Federal Open Market Committee is justified, and that it is not enough for the development of an adequate market that the Committee's intervention be held to a strict minimum. It is important that the dealers be assured, if it is at all possible to give such assurance, that the Committee is prepared to permit a really free market in United States Government securities to develop without direct intervention for the purpose of establishing particular prices, yields, or patterns of yields.

(45) When intervention by the Federal Open Market Committee is necessary to carry out the System's monetary policies, the market is least likely to be seriously disturbed if the intervention takes the form of purchases or sales of very short-term Government securities. The dealers now have no confidence that transactions will, in fact, be so limited. In the judgment of the subcommittee, an assurance to that effect, if it could be made, would be reflected in greater depth, breadth, and resiliency in all sectors of the market.

(46) Such assurance would not impede open market operations by the Committee designed either to put reserve funds into the market or to withdraw them to promote economic stability. It would simply guarantee that the first impact of such purchases and sales would fall on the prices of very short-term issues, where dollar prices react least in response to a change in yield, and where the asset value of a portfolio is least affected. A dealer organization, even though it operates on thin margins of capital, can live with impacts such as these and consider them a part of its normal market risks.

(47) Nor would such an assurance prevent the effects of open market operations, initiated in the short-term sector, from spreading to other sectors of the market in the form of changes in prices, yields, and the pattern of yields. These changes would come about as a result of market arbitrage, i. e., of the exercise of market skill by the professionals who make up the market, the dealers who specialize in matching bids and offers and the professional managers of portfolios who are constantly balancing their investments to take advantage of shifts in prices and yields between the different sectors of the market. A dealer can survive, even if the capital value of long-term issues reacts sharply, when these reactions are brought about as a result of market trading and arbitrage. His risk exposure, on positions in intermediate and long-term issues, is much greater when these changes are induced by direct intervention at arbitrary prices by the Federal Open Market Committee.

(48) The subcommittee realizes the difficulties involved for an operating body, such as the Federal Open Market Committee, in giving any assurance that would limit its own future freedom of action. An assurance, of course, that the Committee would limit its intervention to the very short-term market would fall within, not without, the boundaries of the best central banking traditions. It was long held axiomatic that central bank portfolios should properly be confined to very short-term bills of the highest liquidity and quality. In fact, most effective central banks have operated within this restriction, imposed either by tradition or by law. Traditional principles of central banking made no provision for operations in the intermediate or long maturities of any borrower.

(49) There are only two types of situation where the freedom of action of the Federal Open Market Committee would be seriously limited by such an assurance. In the one case, potential System intervention revolves in general around its commitments with respect to "orderly markets." In the other, it is

associated mainly with the purchases and exchanges in periods of Treasury financing.

(50) So far as the first type of intervention is concerned, the form and wording of the directive issued by the Federal Open Market Committee with respect to "orderly markets" assumes a particularly crucial importance. The subcommittee was much impressed with the wide differences in opinion among dealers and nondealers as to what constitutes an "orderly market." From the discussion, it is thoroughly apparent that the term "orderly markets" does not have a clearly defined meaning which is generally understood and accepted.

(51) In view of these differences in concept, and particularly in view of the narrow definition of this term held by some market elements, it seems to the subcommittee that the apprehensions of the dealers have substance. The present wording of the directive of the Federal Open Market Committee on "maintenance of orderly conditions" carries with it an unduly, and even dangerously strong, implication of continuing intervention in all sectors of the market. This prospect of intervention seriously impairs the ability of the market to stand on its own feet or to evaluate correctly the real forces of demand and supply in the economy. It is clearly evident that a directive to "maintain orderly markets" can mean all things to all men, and in effect constitutes a blanket delegation of discretionary authority which can be interpreted to cover almost any action by the Committee in the market.

(52) In the subcommittee's view, a directive which is subject to such an interpretation by either the market, the executive committee, or the management of the account is entirely inconsistent with the minimum role in the market which the Federal Open Market Committee must assume if the Committee and the market are each to perform their respective functions most effectively.

(53) The subcommittee recommends, consequently, that the wording of the directive of the Federal Open Market Committee to the Executive Committee be changed to provide for the "correction of disorderly conditions" rather than the "maintenance of orderly conditions" in the market for Government securities. The directive by the Executive Committee to the management of the account in this regard should involve an instruction to notify the Executive Committee whenever conditions become sufficiently disorderly to warrant the consideration of corrective action by the Federal Open Market Committee.

(54) In making this recommendation, the subcommittee takes the position that fluctuations resulting from temporary or technical developments are self-correcting in a really free money market without the necessity for intervention of any kind. This is particularly true of a functioning market characterized by depth, breadth, and resiliency. Of the movements that are not self-correcting, most reflect basic changes in the credit outlook and should not be the occasion for intervention. Of the remainder that do not fall in either of these two categories, the great preponderance, throughout all sectors of the market, will respond readily to arbitrage induced by positive intervention on the part of the Committee in the very short sector of the market. In other words, it is only rarely that selling creates a sufficiently disorderly situation to require intervention in other than the very short market. A disorderly condition created by buying is very unlikely to occur if the Committee is in a position to absorb reserves by selling in the short-term market.

(55) The subcommittee considers a declining market really disorderly in the sense that it requires intervention to meet it when selling feeds on itself so rapidly and so menacingly that it discourages both short covering and the placement of offsetting new orders by investors who ordinarily would seek to profit from purchases made in weak markets. There are occasions when such really disorderly reactions occur in the market. They may lead, if left unchecked, to the development of panic conditions. These must be corrected. In the judgment of the subcommittee, it is in these circumstances, and these circumstances only, that the Federal Open Market Committee would be impelled, by its basic responsibilities for the maintenance of sound monetary conditions, to intervene, and intervene decisively, in other than the very short-term sector of the Government securities market.

(56) The reserve funds put into the market in such operations would complicate the smooth execution of monetary policy, but the occasions for intervention would be infrequent. Once properly explained, consequently, this specific exception to a general public assurance that the Committee henceforth would confine its operations to the very short maturities, preferably bills, should not impede the development of a market with greater depth, breadth, and resiliency.

The problem of Treasury financing

(57) The Federal Open Market Committee now follows the practice of intervening in the market to support rights values on maturing Treasury securities. So long as this practice continues, it will be impossible to give the type of assurance discussed above. These interventions are recurrent. When sales to the Federal Reserve are appreciable, they result in the injection of reserve funds into the market in amounts that are embarrassingly large. They impose a pattern of yields on the market, and, consequently, are disturbing to its depth, breadth, and resiliency.

(58) The practice of supporting Treasury financings developed during the period of war finance, when the Treasury and the Federal Open Market Committee undertook jointly to see that lack of funds would not impede effective prosecution of the war. In the judgment of the subcommittee, it would be appropriate to sit down with the Treasury and review the practice in the light of current experience. If any change is to be made, there would be need for extensive consultation with the Treasury, since the Treasury's present debt management policies and its current practices in managing its cash balance would be directly affected.

(59) The subcommittee's views on this point have been considerably influenced by the judgment of its technical consultant, Mr. Craft, and it urges that the Federal Open Market Committee give most serious consideration to the views expressed in the memorandum, entitled "Ground Rules," attached as appendix C. The conclusion presented in this document is that for the open market operation to be successful there must be new ground rules, i. e., new methods of operation by the Committee, known in advance, that will permit the Committee to pursue vigorous credit and monetary policies without incurring the danger of disruption in the market for Government securities. The principal recommendations with respect to the most appropriate ground rules are three: (1) that the Committee (except in the case when it is dealing with a disorderly market) confine its operations to bills, (2) that, in the rare case of the emergence of a disorderly market, corrective actions be deferred until the need for them is clearly indicated and then be taken only after a poll of the executive committee rather than at the discretion of the management of the account, and (3) that the practice of supporting directly either new or refunding issues of Treasury securities be abandoned. The memorandum outlines in detail the considerations that have led to these conclusions, and the specific technical operations that would best carry them into effect.

(60) The memorandum outlines the serious operating problems that the Federal Open Market Committee will face, necessarily, if it continues to acquire Treasury issues of new or refunding securities. The subcommittee is particularly impressed by the conclusion that the portfolio of the open market account may become, in fact if not in theoretical composition, frozen or semifrozen. As is pointed out, the securities which the open market account has acquired as rights in underwriting a refunding have subsequently been exchanged for the new issue and the Federal Open Market Committee has been hesitant to dispose of these new issues under normal conditions in the market—a justifiable hesitation because sale of the securities in the market before they have been held quite near to their maturity might be disruptive.

(61) It is also pointed out that when these securities or, in fact any securities other than bills, however acquired, were sold into the market as they approached maturity, they have been purchased largely by corporations or other investors who had a specific need for cash at the maturity date. They have tended, consequently, to increase the natural and inevitable attrition connected with any maturing Treasury issue. Consequently, the securities have tended to be reacquired by the Committee in supporting the refunding.

(62) The persistent growth in the open market account of securities acquired directly or indirectly in support of Treasury refundings is disquieting.

(63) The present semifrozen position of the portfolio brings out in new form the desirability of a larger proportion of bills in the System's portfolio, and underscores the cogency of the recommendation that henceforth the Committee operate exclusively in bills except when it is intervening in the market to correct conditions of very serious disorder. Bills, in addition to their ready market ability and other qualities that make them preferred components of the portfolio, have the unique advantage, from the point of view of the Committee's operations, that they are marketed at auction for cash and are redeemed in cash at maturity. Neither at issue, nor at redemption, do they raise problems of support for the Committee, nor of attrition for the Treasury.

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(64) It is clear that the Federal Open Market Committee cannot consider the type of assurance that would contribute most to the development of depth, breadth, and resiliency in the market until it has come to a decision on the question of whether or not the Committee should continue to buy rights or any other securities other than bills during periods of Treasury financing. There are two opposing viewpoints on this basic and difficult problem.

(65) If it is believed that the System's responsibilities are strictly limited to the formulation and execution of credit and monetary policy, logic would preclude the Federal Open Market Committee from purchasing rights or other issues to support Treasury financing. Under this view, the Treasury, being responsible for debt management, would be responsible also for naming such terms and coupons on new securities that a natural-rights value in the market would be established automatically. There would be no occasion, therefore, for intervention or support by the Federal Open Market Committee. The Committee might, of course, engage simultaneously in open-market operations to relieve an unexpected stringency in the money market, but it would not be expected to do so, and if it did it would operate only because of its responsibility for the general credit situation.

(66) This view rests on the doctrine that the governmental structure must provide that responsibility for public decision be clearly fixed and that public officials be held strictly accountable for their decisions. It, therefore, leaves little scope for purchases to support a new issue by the Federal Open Market Committee during the period of subscription. In this view, the Federal Open Market Committee would buy no rights on a maturing issue, with the result that all attrition would fall on the Treasury if the issue were not attractively priced.

(67) This would be expected under the logic of the doctrine of responsibility. Since decisions with regard to debt management are unquestionably a prerogative of the Treasury, the Treasury, under that doctrine, would expect to accept the consequences of an erroneous decision. If attrition were large, the Treasury would be expected to replenish its cash balance with a second offering on terms more in tune with the market.

(68) In contrast to this view is the position which holds that debt-management and reserve-banking decisions cannot be separated. While the Treasury is primarily responsible for debt-management decisions, that responsibility under this second view is shared in part by the Federal Reserve System, and while the Federal Reserve is primarily responsible for credit and monetary policy, that responsibility must also be shared by the Treasury. According to this position, the problems of debt management and monetary management are inextricably intermingled, partly in concept but inescapably so in execution. The two responsible agencies are thus considered to be like Siamese twins, each completely independent in arriving at its decisions, and each independent to a considerable degree in its actions, yet each at some point subject to a veto by the other if its actions depart too far from a goal that must be sought as a team. This view was perhaps unconsciously expressed by the two agencies in their announcement of the accord in March 1951. In that announcement they agreed mutually to try to cooperate in seeing that Treasury requirements were met and that monetization of debt was held to a minimum.

(69) In the view of the subcommittee, it would be wise to avoid pushing either of these positions to the full logical extreme. Neither position exactly fits the immediate situation facing the money market, the Treasury, or the Federal Open Market Committee.

(70) The Federal Open Market Committee has only recently abandoned its previous policy of continuous control of prices and yields throughout the list of Government securities. During periods of refunding, it is still purchasing rights, and on occasion interfering with market arbitrage by supporting issues whose maturity approximates the maturity of new Treasury issues. The object of these transactions is to shield the cash balance of the Treasury from the attrition that might otherwise occur when maturing issues are not presented for exchange.

(71) The Treasury, faced with enormous financing problems both for new money and refundings, has modified to a considerable degree the debt-management techniques developed during the war. Maturing certificates, however, are usually rolled over into a similar issue and when projections are made of needs for new money it is assumed that only moderate attrition will fall on the Treasury in connection with these refunding operations.

(72) The market, too, is in a period of transition. It is confused with respect to the occasions when it should expect intervention from the Federal Open Market Committee, and it is uncertain with respect to the sectors in which this intervention might occur. It is hesitant, therefore, and lacks the depth, breadth,

and resiliency that would be desirable. It is in the interest of the Treasury as well as of the Federal Open Market Committee that every effort be made to improve these characteristics of the market.

(73) It is in the context of this situation that the subcommittee is formulating its recommendations. It has found (1) that the Federal Open Market Committee can promote the well-being of the market for Government securities by an assurance that henceforth it will avoid unnecessary intervention in the market, and will confine that intervention as much as possible to the very short maturities, preferably bills, (2) that the ability of the Federal Open Market Committee to give such an assurance is blocked by the present practice of purchasing rights and certain issues during periods of Treasury financing, and (3) that, in addition the portfolio of the open market account is becoming unduly weighted with the securities that have been acquired in these support operations.

(74) The subcommittee recommends, therefore (1) that the Federal Open Market Committee ask the Treasury to work out promptly new procedures for financing, and (2) that, as soon as practicable, the Federal Open Market Committee abstain, during periods of Treasury financing, from purchasing (*a*) any maturing issues for which an exchange is being offered, (*b*) any when-issued securities, and (*c*) any outstanding issues of comparable maturity being offered for exchange.

(75) Should the Federal Open Market Committee adopt the recommendations of the subcommittee with respect (*a*) to the type of situation justifying intervention to correct disorderly market conditions, and (*b*) to the kinds of transactions appropriate during a period of Treasury financing, it would be in a position to give a public assurance to the market that henceforth, with two exceptions, the Committee will intervene in the market only to absorb or release reserve funds to effectuate its monetary policies, and that it will confine its intervention to the shortest sectors of the market, preferably bills.

(76) The two exceptions should be carefully explained to the market. They would occur (1) in a situation where genuine disorderly conditions had developed to a point where the executive committee felt selling was feeding on itself and might produce panic, and (2) during periods of Treasury financing. In the first case, the Federal Open Market Committee would be expected to enter more decisively in the long-term or intermediate sectors of the market. In the second case, intervention, if any, would be confined to the very short maturities, principally bills. The subcommittee recommends most strongly that the Federal Open Market Committee adopt the necessary measures and give this assurance.

Judgments of System market techniques

(77) The whole Federal Reserve System can take pride in the prestige enjoyed by the Federal Reserve Bank of New York, and by the management of the open market account in their relations with the Government-securities market. The subcommittee in its discussion made every effort to provide an atmosphere where the market participants would feel encouraged to talk freely with the understanding that their comments would be considered impersonally and objectively. In most cases, the participants in the discussions responded to this atmosphere and discussed their problems objectively, including problems that have arisen in dealing with the Federal Open Market Committee. Without, in any sense, diminishing the importance of these problems and the urgent necessity of taking actions recommended below to eliminate their recurrence, the subcommittee found that by and large the market personnel which participated in the discussions had confidence in the integrity of the personnel of the Federal Reserve Bank of New York, and respect for the competence of its management.

(78) At the same time, the subcommittee was surprised to find extensive criticism of many of the technical operations of the Committee, especially in its relations with the dealer organization. As was anticipated, it found that the drawing of a rigid line between "recognized" and "nonrecognized" dealers was resented by the latter. In addition to this, however, there were evidences, even among the recognized dealers, of irritation with the dealer-Federal Open Market Committee relationship, and some doubt and confusion as to exactly what function the relationship now serves under conditions of unpegged markets.

(79) It is the view of the subcommittee that these two sources of dissatisfaction and irritation cannot be brushed off lightly or viewed complacently as inevitable accompaniments of the difficult and broad operations that are performed by the Committee in the market for the huge outstanding Government debt. The complaints are specific and relate to specific techniques of operation. Unless corrected, they will continue to fester and rankle.

(80) In all too many cases, the criticisms are interrelated; that is, the technical operations of the Federal Open Market Committee most broadly criticized in the market are the very types of operations which require for their effectuation a sharp differentiation between dealers who are recognized and others who are not. If these technical operations of the Committee were abandoned in accordance with the suggestions of the bulk of the participants in the discussions, there would seem to be less need or justification for the present rigid system of dealer recognition. The subcommittee proposes, therefore, (1) to examine the technical operations to which objection has been raised in its discussions, (2) to come to a judgment as to whether or not the objections are valid, (3) to recommend alternative procedures if they are considered valid, and (4) to consider what form of relationship between the Federal Open Market Committee and the dealers would be most appropriate to a situation of unpegged markets.

(81) *"Reluctant buying."*—The "reluctant buying" technique employed on frequent occasions by the Federal Open Market Committee during the period of pegging, and apparently still used in more limited extent and in modified form during certain refunding operations since March 1951, furnished the most prevalent and active target for criticism on the part of dealers, both recognized and unrecognized, as well as of nondealers. This criticism was practically unanimous on the part of all who referred to the subject in their discussion.

(82) Reluctant buying is the term used to refer to the practice followed by the Committee of limiting its purchases of securities to only a portion of the amounts offered while at the same time requiring that dealers not lower their quotations. This practice involves the exercise of judgment as to whose securities will be taken. The technique is premised on the theory that failure to secure prompt execution will discourage offerings and give time to the dealers to shop around and find market lodgment for securities pressed for sale. It requires a tight Committee control over the major trading elements in the market—maintained through the recognized dealer mechanism—in order to enable the Committee to prevent changes from being made in quoted dealer prices without having to use reserve funds to clear the market of securities being offered for sale at those prices.

(83) Criticisms of the technique (and these were more or less tied together with all the arrangements under which the System took control of the market under the pegs) relate in part to the effects it has on market institutions. It precludes proper functioning of the dealer mechanism, both recognized and unrecognized. It makes brokers of recognized dealers and prevents their taking positions and making markets. Unwillingness to deal with unrecognized dealers, or even to permit recognized dealers to split commissions, makes unrecognized dealers refuse business and turn their customers away since they cannot cover costs. When first applied, it automatically eliminated the auction market for Government securities on the stock exchange, since the specialist, unlike the recognized dealers, could not cover his bids through the Federal Open Market Committee.

(84) However, the most striking criticism, in the opinion of the subcommittee, was that the technique failed in its basic purpose of pegging prices with a minimum of Federal Open Market Committee purchases. It was the general conclusion of most discussants that the theory underlying the entire "reluctant buying" technique rests on an incorrect judgment of market reactions. It was the consensus that the response of investors to this technique is perverse in that holders are induced to attempt to force a greater volume of securities on the market than they otherwise would. Failure to secure prompt execution of sales at quoted markets, instead of reducing sales, heightens uncertainty, encourages further offerings, and in the case of the restricted bonds seems to have stimulated attempts to dispose of bonds to the Federal Open Market Committee through resorting to various types of "blinds." For example, the Committee was believed to have been less reluctant to buy restricted bonds from recognized dealer banks (because of the $500,000 limit on their portfolios) than from nonbank dealers.

(85) It was the almost universal recommendation that, should an occasion ever arise again that justified support operations, a policy of aggressive rather than reluctant buying on the part of the Committee would reduce uncertainty among investors as to their ability to sell and to that extent diminish the volume of offerings. The subcommittee finds this technical judgment persuasive. Certainly the technique of "reluctant buying" should be avoided. In the execution of an aggressive technique, moreover, purchases should not be confined to recognized dealers. If the objective is to engender confidence and remove uncertainty from the market by a show of bids, the desired effect will be achieved

more readily and with less monetization of debt by spreading the bids among all dealers with whom the public is accustomed to trade rather than by raising questions in the minds of investors as to whether or not they can secure execution through accustomed channels.

(86) The "reluctant buying" technique is perhaps merely the ultimate development in a series of arrangements for controlling the market that had their genesis during the war period. These were further strengthened in the postwar period. The principles and theory underlying these arrangements were that control over the market could be achieved with a minimum outlay in reserve funds if the final effort at matching off private transactions were narrowed to a small group of dealers, provided that the Committee could control these dealers by various devices and could confine its buying to the residual transactions. It is the view of the subcommittee that with the passing of the pegging operation the need for such arrangements, if it ever existed, has also passed. Fortunately the circumstances which give rise to most of the serious criticisms directed against the operations of the Committee revolve about the arrangements made to control the market under pegs. By dispensing with these arrangements, no longer needed, these sources of criticism can be corrected.

(87) *Trading on an agency basis.*—Dissatisfaction was general throughout the group of recognized dealers with respect to agency transactions on behalf of the Federal Open Market Committee. This dissatisfaction was expressed most openly and acutely with respect to the commissions allowed by the Committee. These were claimed to be too small in many cases to cover costs. It was also alleged by some, but not all, that the commissions allowed by the Committee have been a factor in the narrowing of spreads in the market to the point where it has weakened the dealer organization.

(88) Dissatisfaction was expressed with the rule that prohibits a recognized dealer from selling from his position when engaged in an agency transaction for the Federal Open Market Committee. Whenever the Committee is the major buyer of a particular issue, the rule has the effect of freezing the recognized dealer's position in that issue, precluding him from making a market in that issue, and turning him, in effect, into a broker for the Federal Open Market Committee. It constitutes a strong inducement not to make markets and thus acquire positions if the dealer thinks the account may enter the market; it raises the specter of losses on positions previously acquired; and in some circumstances it creates a situation where the Committee is subsequently under moral compulsion to absorb dealer positions to protect them against loss.

(89) Nonrecognized dealers resent the fact that they have to absorb all handling costs themselves or refuse customer business when the Committee is the sole buyer in the market, since recognized dealers are not allowed to split commissions on agency transactions. The unrecognized dealers also suspect or are aware that recognized dealers have been "bailed out" on occasion.

(90) These are problems that arose most acutely during the pegging operations, but they did not end with the accord. They still arise during periods of Treasury refundings and, in fact, whenever the Federal Open Market Committee operates, as it customarily does, on an agency basis. One recognized dealer was troubled by the fact that in many instances he is put in a morally indefensible position of acting as agent for both buyer and seller, i. e., for the Committee as well as for his customer.

(91) In the judgment of the subcommittee, this bundle of problems and irritations all stem from a common source, i. e., the emphasis on agency transactions in operations of the Federal Open Market Committee, and would be corrected by willingness to transact business at the market with dealers as principals. This would eliminate the problem of inadequacy of commissions and allow competition in the market to establish spreads adequate to support an efficient and functioning dealer organization. It would remove the problem of frozen positions and permit dealers to make markets by building up and reducing positions in accordance with market considerations. It would end the problem of "bail outs."

(92) From the point of view of operations to effectuate Federal Reserve credit policy, reserve funds are put into or absorbed from the market just as effectively when securities are bought from dealers as principals as when dealers are used as agents. From the point of view of promoting a strong self-reliant Government securities market characterized by intelligent pricing, alert arbitrage, depth, breadth, and resiliency, the Committee's purposes are better served by techniques of operation which avoid the freezing of positions, always at the hazard of loss, on the part of those whose professional attitudes toward the mar-

ket are probably most influential in hour-to-hour and day-to-day shifts in market situations.

(93) It is the subcommittee's conclusion, therefore, that agency transactions should be abandoned and that the Federal Open Market Committee should enter into transactions with dealers as principals on a net basis. Such transactions should, of course, be made at the best market available. It is very doubtful whether they should be confined as a matter of procedure to the presently recognized dealers. A case may perhaps be constructed for rigid rules of dealer qualification where agency relationships with the Federal Open Market Committee are involved, but there is little basis in public policy for such discrimination among dealers in transactions where dealers are principals.

(94) *Use of the repurchase facility.*—The role occupied by repurchase agreements and the terms of settlement in the technical operations of the Federal Open Market Committee is a subject of considerable controversy within the dealer organization, and many conflicting points of view are present. Recognized nonbank dealers are quick to point out that their bank-dealer competitors have direct access to the Federal Reserve banks and therefore are in a position to borrow at the Reserve banks at the discount rate in order to carry portfolios when money is tight. Nonbank dealers, on the other hand, borrow at the money market banks at rates that frequently rise above the bill rate. A negative "carry" thus develops which makes it expensive and at times prohibitively costly to maintain adequate portfolios. This problem is particularly acute when money is tight over a period of weeks or months, and also when a holiday falls on Friday or Monday, necessitating a 4-day carry. In these circumstances the nonbank dealers are at a serious competitive disadvantage in their ability to make markets. In the endeavor to mitigate this situation, they try to borrow from out-of-town banks and also use credit accommodation from corporations on repurchase agreements.

(95) Bank dealers, in part because of their access to Federal Reserve credit, are readily able to service customers on a cash, rather than the usual regular delivery basis. There has been an increasing use of cash transactions which has constituted an increasingly serious competitive disadvantage to nonbank dealers. Except when the repurchase facility at the Federal Reserve bank is available, the only way they can meet the competition is by buying Federal funds, which is costly when money is tight.

(96) All of the recognized nonbank dealers felt strongly that the Federal Open Market Committee should alleviate these difficulties by a more liberal policy with respect to the extension of Federal Reserve credit on repurchase agreements. Their proposals ranged from the suggestion that each nonbank dealer be given what would be in effect a line of credit for repurchase contracts by the Federal Open Market Committee to be used at his own discretion, to the more modest suggestion that repurchase facilities be extended freely over weekends, particularly over weekends lengthened by a holiday. They complained that frequently they are not informed until the last moment whether or not repurchase facilities would be available. They also desired a change in the policy of the Committee under which it now refuses to buy bills, either outright or on a repurchase basis, which dealers have bought for cash delivery. Some even suggested a change in policy by which the Committee would be willing to buy bills outright with payment in immediate funds.

(97) Most bank representatives, but not all, opposed the availability of repurchase agreements to nonbank recognized dealers. They maintained that the advantage enjoyed by a member bank of direct access to Federal funds at the rediscount rate was an inherent advantage of membership. The equivalent extension of facilities to dealers on repurchase contracts would constitute, in effect, the opening up of membership privileges to nonmembers. They also maintained that the competitive advantage they enjoyed over the nonbank dealer in their access to Federal funds merely offset the competitive advantages enjoyed by the nonbank dealer in being able (1) to take positions in excess of $500,000 in restricted bonds, and (2) in being permitted to enter large subscriptions for attractive Treasury issues, such as the 2⅜s of 1958. They further claimed that free extension of repurchase facilities to nonbank dealers would have the effect of pegging the bill rate.

(98) Nonbank unrecognized dealers complained that they worked under a double competitive disadvantage. They enjoyed neither the full access to Federal funds of the bank dealers nor the occasioned access to repurchase facilities of the recognized nonbank dealers. Nonbank dealers, both recognized and unrecognized, stated that they were forced to bid to miss in the weekly bill auction when the impact of these competitive cost disadvantages was too severe.

(99) The subcommittee feels that this testimony reveals unsatisfactory aspects of the bill market. In some degree these basic frictions are inevitable in a market structure that is shared by bank and nonbank dealers. No problem would exist, for example, if all dealers were also member banks. Then the dealer organization would price securities and develop competitive patterns in an environment in which access to immediate funds to carry portfolios and to buy for immediate cash were available at the discount rate to all dealers alike. There would be no call for repurchase contracts since the member bank discount window would meet the need.

(100) Similarly, there would be a less difficult problem if there were no bank dealers. Then all dealers alike would have to pay the market money rate to carry portfolios and likewise would have to buy Federal funds in the Federal funds market if they bought securities for cash delivery. In that case, the Federal Open Market Committee could confine its consideration of whether or not to make repurchase facilities available to the effect of such facilities on the rate structure and to the desirability of mitigating the sudden development of very tight conditions in the money market over periods of temporary strain.

(101) The problems created by the presence of both bank and nonbank dealers as indispensable components of the market structure must be recognized by the Federal Open Market Committee. Little comfort can be derived from the fact that the competitive disadvantage of nonbank dealers with respect to direct access to Federal funds is alleged to be compensated by a competitive disadvantage that prevents bank dealers from freely competing in the market for restricted securities. Both disadvantages react adversely on the structure of the Government securities market. Both impair the market's ability to perform efficiently under all conditions. Certainly a serious situation is revealed when the nonbank dealer component in the weekly auction for bills bids to miss at times of stringency, not because the bills acquired could not be marketed but because the necessary risks and costs of carrying the bills prior to resale is higher for nonbank dealers than for their bank competitors.

(102) The subcommittee feels that these fissures in the structure of the market can be alleviated somewhat by changes in the technical operations of the Federal Open Market Committee. They should not be accentuated by the Committee's operations. The subcommittee sees no purpose served by a procedure under which the Committee first divides the bills bought by a dealer into two categories, according to whether or not they were acquired for immediate cash, and then confines its purchases to those which have been acquired on a regular delivery basis. It may be that the original consideration back of this discrimination was to discourage deals for immediate cash and encourage market transactions on the basis of regular delivery in order to achieve a more effective control over the New York money market. If so, the maneuver has lost utility and should be dropped. Sales for cash are increasing and will probably continue to do so as long as banks use this medium for adjusting reserve positions and dealer banks with ready access to immediate cash are in a position to service them.

(103) The subcommittee likewise sees no consideration sufficiently relevant to justify overlong delay in letting dealers know whether or not repurchase agreement facilities will be extended. If the facilities are to be made available, the dealers should be informed in sufficient time to perform their market functions efficiently.

(104) The subcommittee doubts whether our experience with operations in a free market has yet developed to the point where it is possible to lay down definitively all the situations in which the availability of repurchase facilities would or would not be advisable. The testimony, however, has presented a clear case for the more ready availability of repurchase facilities to nonbank dealers over weekends as well as in periods of acute credit stringency. It recommends that they be made available regularly to nonbank dealers over weekends. Any tendency to abuse the privilege should be subject to control by variations in the rates on these facilities.

(105) These moves should go some distance toward alleviating structural impediments which have acted to prevent the nonbank dealers from carrying their full load in the bill market. They should make it more possible for all nonbank dealer participants in the weekly bill auction to gage their bids at each auction on their evaluation of the demand for bills rather than on their lack of access to credit facilities enjoyed by competitors.

(106) In addition, the subcommittee feels it would be worth while to see whether or not a call-money post could be reactivated where nonbank dealers could borrow for portfolio purposes. It is anomalous to find money-market banks

maintaining over a considerable period of time a portfolio of bills that yields them a lower return than the rates at which they are willing to lend on call an equivalent collateral. Normally one would expect the opposite relationship to prevail; provided the market were truly impersonal the loan with less risk exposure should carry the lower rate. It is disturbing to find a money market so unorganized that dealers, to counteract this situation, cultivate both out-of-town banks and corporations individually on a customer basis as sources from which to borrow money. Revival of an effective call-money post for dealer loans such as existed in the 1920's would go far to correct this condition. A more detailed discussion of this problem is given in appendix D of this report.

(107) The restrictions against bank ownership on most of the remaining restricted issues will expire by 1954 and this will go far to restore equal competitive relationships between bank and nonbank dealers in that sector of the market. These restrictions may be removed at any time by the Treasury.

(108) The subcommittee sees no public purpose served by limiting repurchase facilities to the present restricted list of recognized nonbank dealers. The market structure would be better served by equal extension of the privilege to all nonbank dealers of integrity who participate effectively in the bill market. It recommends that in the future when repurchase contracts are made available by the Federal Open Market Committee, they be offered fairly and impartially to all nonbank dealers who participate regularly in the weekly bill auction, and in amounts related to that participation, say, in some relationship to the average of the dealer's bill awards over the preceding 3 months.

(109) *Operations during Treasury financing.*—The techniques applied by the Federal Open Market Committee during Treasury refunding operations were subject to some criticism, but the more important conclusion that emerged from the discussion of this phase of the Committee's operations was the fact that neither the committee nor the dealer organization has yet come to well-defined and consistent positions on this difficult technical problem. Because the subject dealt with the placement of new Treasury issues, the discussion inevitably touched on problems that fall also in the area of debt management. For example, the view was unanimous that the dealers cannot function effectively as secondary underwriters unless the coupon and terms placed on new issues are sufficiently attractive to establish a natural rights value in the market. There were other suggestions that may minimize the problem of attrition, as, for example, that refundings be conducted through new issues for both cash and exchange rather than solely on the basis of exchange. The subcommittee has not considered problems of debt management and the following comments and recommendations deal solely with technical procedures which the Federal Open Market Committee has followed during periods of Treasury financing.

(110) All of the criticisms of the dealers that relate to the technical practices of the Federal Open Market Committee during periods of refunding stemmed basically from the agency relationship of the Committee with the recognized dealers. Nonrecognized dealers complained that they were forced out of the market during periods of refunding. They had no outlet that would cover costs for issues they might take from their customers since the Federal Reserve refused either to deal with them directly or to permit recognized dealers to split commissions with them.

(111) Recognized dealers for their part complained that the commissions allowed by the Federal Open Market Committee on agency transactions barely covered clearing, telephone, and other current costs and made little or no contribution to carrying overhead costs. They also complained that because of the agency relationship their own holdings of the maturing issues were frozen so long as the books were open or the Committee was operating since under this relationship dealers are not allowed to sell to the Federal Reserve from their own position. The practical result is that in the case of any offering that requires Committee support dealers are frozen into any maturing securities they had in position at the time the Committee started supporting operations. In their capacity as dealers they feel obligated to tender such securities in exchange. Under these circumstances they avoid making markets in order not to add to their positions. They become, temporarily, merely brokers for the Federal Open Market Committee. They resent losses they sustain when the rights value established by the Committee is high in relationship to the market, and they feel that the Committee should feel morally obligated to bail them out.

(112) Recognized dealers also complained (1) that the Committee has been slow on occasions in deciding what rights value to pay when the books are opened on refinancings, and (2) that at times it has operated for short periods

with different rights values to different dealers, thus giving the dealers' customer the idea that some dealers can secure better execution than others.

(113) Most of these problems will disappear if the Federal Open Market Committee decides to abandon agency transactions as recommended by the subcommittee. All, of course, would disappear if the Committee should decide to refrain from purchases of rights. Presumably the emphasis on the agency relationship stems from the period of general pegs when it was feared that dealers, if permitted to operate as principals, would canvass investors to stimulate market activity and persuade them to sell rather than exchange maturing issues. This apprehension may have been justified when the Committee was operating with more or less continuous pegs, but has no substance in a free competitive market. In a free market, any dealer who solicited customer business merely to create activity would soon find himself with fewer customers.

(114) It is the subcommittee's recommendation, therefore, that if the Federal Open Market Committee decides to purchase rights during a period of Treasury refinancing, it purchase them from dealers as principals without regard to whether or not the securities come from a dealer's own position. This will eliminate the problems of frozen positions, of the bailing-out of losses on those positions, and too narrow commissions. It will also free the dealers to perform their function of making markets at all times.

(115) The subcommittee also recommends that these transactions be conducted without regard to whether or not a dealer is on the recognized list. It is hard to see how a refunding operation, accompanied as it must be by a very general turnover of securities in the market, is aided by a technique that either eliminates some dealers from the market or forces them to trade exclusively off other dealers' markets.

The problem of dealer recognition

(116) There is no room for complacency on the part of the Federal Open Market Committee over the problem of dealer recognition. That fact emerged more and more vividly as each of the unrecognized dealers discussed his problems before the subcommittee. The unrecognized dealers showed up well as individuals both in terms of personality and integrity, and in terms of professional grasp of the business and ability to evaluate the impact of credit and monetary problems on the money markets. It would be hard for anyone sitting through all the hearings to reach the conclusion that this group of unrecognized dealers differed significantly, on the average, from those who represented the recognized dealers with respect to training, integrity, professional capacity, or ability to analyze problems. The fact is that they made a very good impression as a group.

(117) These were the dealers who fell outside the line when the Federal Open Market Committee, at the same time that it was pegging the prices of Treasury securities and was frequently the only source of demand, established formal criteria to distinguish the dealers with whom it would deal from those with whom it would not. That line seriously impaired the ability of unrecognized dealers to function and survive in the Government securities business. Of that fact there can be little question. The impairment came, not only through loss of prestige, which was bitterly resented, but also through loss of customer contacts because of inability to function in rough markets, i. e., when the Committee was operating in the market. This impairment is not so serious now that the Committee has stopped pegging but it still persists to some degree. Curiously, it has not seemed to impair the credit standing of the unrecognized dealers at the banks. All stated they had no difficulty in securing the financing necessary for their business.

(118) There was practically unanimous agreement on the part of dealers, recognized and unrecognized alike, that character, integrity, and professional grasp of the business are the essential prerequisites to effective operation as a Government securities dealer. All seemed to feel that capital, though important, is secondary. Even some of the recognized dealers who defended the practice of formally designating the dealers with whom the Federal Open Market Committee would do business, indicated that capital is not the first essential for successful dealer operation. Since additional capital can apparently be attracted when justified by the scope and profitability of the business, a determining factor in success and growth of a securities dealer is the ability to gain customers, to hold them, and to service them at a profit.

(119) The lines drawn by the Federal Open Market Committee, therefore, struck the unrecognized dealers in a most vulnerable spot, namely, in their ability to service their customers. It cut down the range of their customer potentialities

and thus reduced their ability to attract or earn capital to meet the minimum capital requirements of the Federal Open Market Committee. It acted in the same way to impair the ability of a nonrecognized dealer to earn recognition by developing customer relations that were nationwide in scope and that extended to all sectors of the list. In short, once the lines were drawn and recognition was accorded to some dealers and not others, a hurdle of some magnitude was imposed on the unrecognized dealers which impaired their ability to develop their business to the point where it would be able to meet the standards imposed by the committee.

(120) The subcommittee probed both recognized and nonrecognized dealers alike to ascertain whether there were not also special responsibilities imposed upon the recognized dealers that might be considered to offset in some degree the privilege of direct contact with the Federal Open Market Committee, but this line of inquiry enlisted only feeble response. The unrecognized dealers professed a willingness to submit reports to the Federal Open Market Committee. In fact, many do report now even though they are unrecognized. In general, the dealers, both recognized and unrecognized, did not seem to feel that the responsibilities to the Federal Open Market Committee imposed on the recognized group operated seriously to their disadvantage in competition with the nonrecognized group. It is clear that the unrecognized dealers would be only too willing to accept such burdens in return for recognition.

(121) The Federal Open Market Committee cannot afford to be complacent about this situation. It has explosive potentialities. Privilege as such is repugnant to the spirit of American institutions. The privilege of dealer recognition, if it is to be continued, must be justified on grounds of high public policy as essential and necessary to the effective conduct of open market operations. It is not sufficient to aver that dealer recognition was once useful or that it should be maintained because it is already in existence, in the absence of a positive reason for change. The fact that privilege exists by virtue of actions of the Federal Open Market Committee is in itself a positive reason for its eradication unless there are necessary and compelling considerations to require its perpetuation.

(122) The present system of official dealer recognition instituted by the Federal Open Market Committee in 1944 was an element in a technique of open market operations designed to peg the yield curve on Government securities and at the same time minimize the monetization of public debt. This technique was based on the hope that the yields on Government securities could be pegged with only a few securities monetized by the Federal Open Market Committee if all offers to the committee had to pass first through a very limited number of dealers with whom the committee would maintain intimate and confidential relations, and who would be required by the committee to make strenuous efforts to find other buyers for securities in the market place before they looked to the committee for residual relief.

(123) The inexorable march of events on which that hope foundered is now a matter of history. The facts are that debt was monetized in volume and that the country suffered a serious inflation until the Federal Open Market Committee abandoned the pegs. The basic reason, therefore, that seemed to justify a small privileged dealer group no longer exists. The technique of which it was an integral part did not work out according to expectations and failed of its purpose.

(124) The subcommittee has already recommended that the Federal Open Market Committee discontinue the technique of reluctant buying and abandon agency relations in its transactions with dealers. It has recommended that the Committee enter into transactions with dealers outside the recognized list if it is operating to support markets, e. g., to peg rights during periods of Treasury refunding. It has also recommended that in its dealings in the bill market both on an outright and on a repurchase basis, it enter into transactions with all dealers who perform a responsible and continuous role in the weekly bill auction. If these recommendations are adopted by the Federal Open Market Committee the competitive importance of recognition in the market place would diminish greatly. It would become a matter of less importance, therefore, whether the fiction of a recognized list of dealers was maintained or dropped. For its own part, the subcommittee feels it advisable to drop the relationship completely and so recommends.

(125) If the Federal Open Market Committee decides to maintain the recognized dealer relationship, on the other hand, the subcommittee recommends most earnestly that it proceed promptly to revise the present list of dealers who enjoy

the privilege of recognition. It is difficult to justify exclusions that have been made from the select group when comparison is made with some that are within. There are bank dealers within the recognized group that do not take positions or make markets, that do not attempt a nationwide coverage, that do not operate in volume in all segments of the list, and that are clearly motivated in their conduct of operations by a desire to attract and hold correspondent banks for their institutions rather than by a desire to earn a competitive return on the capital at their disposal as dealers. If the relationship is continued, it is urgent that the Federal Open Market Committee draw the lines for recognition on bases that can be justified as impartial and objective.

Reports and information

(126) The Federal Open Market Committee faces no problem of lack of access to market information available to dealers. The Committee has been too powerful a market factor for its requests for information to be easily challenged. It has frequently been the determining factor in hour-to-hour and day-to-day trading in the market for Government securities, i. e., the market in which dealers risk their capital on a relatively thin margin of equity in continuous, almost split-second, trading operations. Despite the dropping of the pegs and smaller intervention in the current market, the potential power of the Federal Open Market Committee, backed by the power to create bank reserves, remains. Under these circumstances, dealers will continue to cultivate contacts with the Committee since no single quality is more important to their ability to survive than their ability to forecast correctly (1) the probabilities of intervention in the market by the Federal Open Market Committee, (2) the direction of that intervention, either on the bid or the offered side, if it occurs, and (3) the sectors in the market to which it may be directed.

(127) Under these circumstances, also, dealers tend to seek orders from the Committee, not because of the profit potentialities of business involved but because they may indicate the direction of the Federal Open Market Committee's thinking. Receipt of an order from the trading desk, in fact, acquires a significance out of all proportion to the actual commission involved. In addition, the dealer endeavors to cultivate access to the Committee and to its staff representatives. He readily accepts the obligation to give information on his activities and to make reports. He welcomes hour-to-hour contact with the trading desk, both to submit quotations and to tender market reports. The responses, however guarded, may provide clues to the state of the market. Even when the Committee is pursuing a neutral policy and is out of the market, the trading desk has business to do, orders to execute for agency and foreign accounts. As noted earlier, this amounted to $2.4 billion in the year ending June 1952. The dealer does not necessarily know whether or not these represent market intervention on the part of the Federal Open Market Committee, but he is likely to feel that continuous and close contact with the trading desk helps him to come to a judgment on whether they do or not. Under the present arrangements the trading desk has probably more knowledge of the sources of demand and supply in the market as well as the money position than any other element.

(128) This situation places a heavy responsibility upon the Federal Open Market Committee. It cannot, in this instance, rely on the customary reluctance of respondents to furnish information to act as a check on its own curiosity. It must decide for itself not only what information should properly be supplied to the market so that it can function effectively but also the limits of what the Committee can, with propriety, ask from the dealers in the way of informaion.

(129) The fundamental rule is that no general information should be furnished a dealer that is not equally available to others. It is unavoidable that dealers executing orders for the Federal Open Market Committee gain special knowledge with respect to that particular transaction, but every effort should be made, as in fact the subcommittee believes it is, to be close-mouthed with respect to these transactions. It goes without saying, of course, that no member or representative of the Federal Open Market Committee should indicate an attitude toward the prices which dealers quote and at which they do business in the market.

(130) So far as additional information to be supplied to the market in the weekly condition statement is concerned, the subcommittee recommends (1) that securities held under repurchase agreement by the Federal Open Market Committee be segregated from the balance of the System portfolios; (2) that the amount of special certificates of indebtedness outstanding be regularly indicated, either in the text or on the stub of the statement; (3) that weekly averages of member bank borrowing be shown in addition to the actual volume of member

bank borrowing at the close of business on statement days, as is now done for excess reserves.

(131) The extent of the limitations which the Committee should impose on itself and its representatives in seeking information from the dealers poses a more serious problem. In the discussions with the dealers, expressions of irritation, dissatisfaction, and resentment were confined to three quite specific points: One, they did not like the tone or content of the morning meeting when different dealers report individually to the manager of the open market account before market opening. They stated they got little out of the contact and some suggested that it would be better to drop the meeting and substitute a more general type of meeting from time to time between the manager of the account and all the principal dealers together as a group. They felt that they might be given a chance to ask questions at such a meeting and to receive helpful enlightenment on the attitude of the Federal Open Market Committee toward the market. Two, the dealers did not like it when they were questioned so closely by the trading desk on the geographical source of current customer orders as to reveal indirectly the identity of their customer. While the great bulk of the dealers did not object to disclosing the general source of their customer orders, they did feel that it was morally wrong to be asked a series of indirect questions so pointed as to permit identification of the source of their business. Some felt that incorrect use of this information may have been made by the Committee, either by direct approach to sellers, thus revealing that the dealer had not maintained secrecy on a confidential relationship, or by discrimination between offerings, buying some securities pressed for sale by a particular customer but not all. Three, they were apprehensive lest the disclosure of their individual positions to the personnel of the trading desk might tend to affect the decisions of that personnel in subsequent dealings with them.

(132) With respect to these three specific points, the subcommittee recommends: (1) That the individual morning dealer conference be abandoned. It recognizes that there may be merit in the more general type of conference suggested by some of the dealers as a substitute for these meetings but feels that any information furnished by the Federal Open Market Committee at such a meeting should be such as might properly be given to any other segment of the public, (2) that disclosure of the source of customer orders be so limited that there will be no possibility of identification, direct or by inference, of the individual source of customers to the trading desk, and (3) that the Federal Open Market Committee discontinue its present practice of collecting statistics on dealer positions and activity, and substitute for this practice the regular collection of dealer position and activity reports by an officer of the System not connected with the Federal Open Market Committee. This officer would furnish aggregate summaries to the trading desk that did not reveal the position or activity of any individual dealer.

(133) The subcommittee feels that the furthest its representatives can go with propriety in soliciting or accepting information from individual dealers with respect to the source of their orders, is to receive only information as to the general type of customer, the volume of the business, and the sector of the market involved. It questions seriously the propriety of the present practice in which its representatives on the trading desk are free to press dealers for quite specific information on customer transactions and on the basis of this information proceed to compute transaction sheets currently during the trading day, such sheets being subject to later verification against the dealers' statistical reports. It recommends that this practice be dropped.

Housekeeping

(134) In many respects, the Federal Open Market Committee is unique both in the form and the substance of its organization. In form, it is a completely independent organization, specifically set up by statute, with exclusive power of decision with respect to the matters delegated to it. Its composition is designed to insure, to the full extent that legislation can insure, that its members will not only be fully competent, but will also be immune to outside pressure. It is neither an appendage of the Federal Reserve Board nor a creature of the Federal Reserve banks, but a completely independent body, each member of which, as an individual, whether he be a Governor from the Board or a president from a Federal Reserve bank, reports to no one. His actions are a matter of public record but each member sits as an individual, bound only by his oath to execute the law. The responsibilities delegated to the Committee are of almost incomparable import.

(135) The statutory individuality of the Federal Open Market Committee and its separation both from the Federal Reserve Board and the Federal Reserve banks is expressed in its chart of organization. It has its own staff, and when it gathers it meets as a separately organized and staffed body. Its sessions are not joint sessions of the Federal Reserve Board and the Federal Reserve banks, but statutory meetings of the Federal Open Market Committee.

(136) In a very general sense, the Federal Open Market Committee stands in the relation of a fiduciary to the Federal Reserve banks. It, and it alone, has the decision with respect to the amount, as well as the issues, of their open market portfolios. They hold, at the moment, nearly $24 billion of securities, the greatest investment portfolio by far in the history of the world. It is wholly in the discretion of the Federal Open Market Committee to direct the investment of large additional amounts.

(137) In an even more general sense, the Federal Open Market Committee stands in a fiduciary relationship to the whole American economy. It could be called special trustee for the integrity of the dollar, for the preservation of its purchasing power, so far as that integrity can be preserved by its operations. It is especially charged, also, to use its powers to provide an elastic currency for the accommodation of agriculture, commerce, and business, i. e., to promote financial equilibrium and economic stability at high levels of activity.

(138) This unique structure of the Federal Open Market Committee was hammered out after long experience and intense political debate. Like other components of the Federal Reserve System, it exemplifies the unceasing search of the American democracy for forms of organization that combine centralized direction with decentralized control, that provide ample opportunity for hearing to the private interest but that function in the public interest, that are government and yet are screened from certain governmental and political pressures since even these may be against the long-run public interest.

(139) When the substance, rather than the form, of the Federal Open Market Committee is analyzed against this background, certain possible anomalies arise. It has no individual budget, nor does the act provide for one. There is no single person on its operating staff who is responsible to the Committee alone. Each of its officials is paid either by the Federal Reserve Board or by a Federal Reserve bank. Each would automatically cease to have any relationship with the Federal Open Market Committee the moment that connection was severed. No member of the Committee, nor of its staff, is charged to give exclusive attention to its concerns. Everyone connected with it wears also another hat. Even the manager of the open market account, who comes nearest to devoting his full time to its functions, has heavy independent responsibilities in connection with the fiscal agency and other operations of the Federal Reserve Bank of New York.

(140) The Federal open market account is not managed by the Federal Open Market Committee. This function has been delegated to the Federal Reserve Bank of New York, subject to policy directives that provide discretionary leeway within which the management operates. The manager of the account is selected by the directors of the Federal Reserve Bank of New York and approved by the full Federal Open Market Committee each year. In his day-to-day operations, he is subject to the authority of the Federal Reserve Bank of New York, and not to that of the Federal Open Market Committee.

(141) The subcommittee urges that the Committee take the initiative in reexamining and reviewing this structure of organization. There has been much experience since the arrangements were first established. In the light of that experience, is the structure well designed to carry out the Committee's important functions? For example, should the Federal Open Market Committee operate under a budget of its own? This might require legislation, but if a separate budget would improve its operations, the Committee is morally obligated to suggest such legislation to the Congress.

(142) Should all or part of the staff of the Federal Open Market Committee be separate and distinct from the staffs of the Federal Reserve Board and the Federal Reserve banks? However paid, should they wear one hat, and one hat only, devoting all their time exclusively to the operations of the Federal Open Market Committee? There are both advantages and dangers in this suggestion which must be weighed. The Federal Reserve System is a family, and the Federal Open Market Committee urgently needs the knowledge, the judgment, and the skill of all the members of that family. It would be extremely difficult to build up a new and independent staff as qualified as the personnel which it now enlists to work on its problems. It would be equally unfortunate to

lose the contributions of that staff to System problems that fall outside the limited area of responsibility of the Federal Open Market Committee. Yet there are equal dangers in a situation where the time of no one person on the whole staff of the Committee is wholly devoted to its responsibilities, where everyone wears two hats, and where each must fulfill duties separate and distinct from those imposed by the Federal Open Market Committee.

(143) Should the present situation, which delegates the management of the open-market account to the Federal Reserve Bank of New York, be retained, or should the manager of the open-market account be made directly responsible to the Federal Open Market Committee? The present arrangement has the advantage that the mechanical operations of the account, the keeping of its books and records and the handling of its funds, are under the immediate supervision of the Federal Reserve Bank of New York with its superb facilities. More important, it has the advantage that the president of the Federal Reserve Bank of New York, situated as he is in the center of the Nation's money market, with his personal insight into problems of monetary policy and his immediate access to financial information not so readily available to anyone else, can supervise on the spot the execution of the general policy directives of the Federal Open Market Committee and the executive committee and thus determine that that policy is made effective in operations.

(144) It has the disadvantage that the president of the Federal Reserve Bank of New York sits at meetings of the Federal Open Market Committee and of the executive committee necessarily in a somewhat different role from that of his colleagues. He comes not only as a contributor to the discussion on policy formation, but, also necessarily, as a protagonist for the actual day-to-day operations of the account. These operations are his responsibility. He cannot criticize them without criticizing his own staff. The committee, therefore, in some part loses contact with the critical insight of its best informed member. It has the disadvantage also that other members of the Federal Open Market Committee, reluctant to seem critical of a colleague, may hesitate to scrutinize adequately the technical operations of the account. This is a serious deficiency because the other bank president members of the Committee are usually scattered and out of intimate touch with one another as well as with the market. They must depend on give and take discussion at Committee meetings and at the meetings of the executive committee to sharpen their appreciation of the Committee's operating problems.

(145) The present arrangement makes one major contribution of paramount concern to effective operations. There must be confidence throughout the market and throughout the financial community generally that open-market operations are immune from political pressures. This confidence is undeniably strengthened by the fact that the Federal Reserve Bank of New York actually conducts open market operations for the Committee. Under the present management arrangement, the actual contacts of the market are contacts with personnel of the Federal Reserve Bank of New York, subject to the discipline of its directors.

(146) There is, of course, the equal necessity of maintaining the confidence of the public generally that the Committee's operations are immune from banker domination. This consideration is reflected in the general structure of the Federal Reserve System with the Board of Governors and the regionally decentralized Federal Reserve banks. It is also reflected in the actual statutory composition of the Federal Open Market Committee. From this point of view, the present arrangement by which the management of the open-market account is delegated to the Federal Reserve Bank of New York requires that the individual members of the Federal Open Market Committee maintain close contact with all important aspects of its operations.

(147) Throughout its consideration of the recommendations it is making in this report, the subcommittee has had this problem in mind. These recommendations do not stop with the evaluation of technical practices of the Committee, originated during the period of the pegs, that now handicap the development of a free market. The subcommittee has been aware also of the urgent necessity of simplifying as much as possible the operating procedures of the committee and the points of impact which its operations have on the market mechanism. The problem has been to work out procedures (1) that will provide more effectively for the execution of the Committee's monetary policies in the open market, (2) that will do this in a way that will minimize confusion in the market with respect to the committee's purposes, and (3) that will enable individual members of the Federal Open Market Committee to maintain more intimate contact with its technical operations. The subcommittee feels that operations under its recommendations will not only make for greater depth,

breadth, and resiliency in the market, with less misunderstanding, but will also enable each member of the Federal Open Market Committee to carry out more effectively his individual statutory responsibility as a committee member.

(148) The subcommittee desires to raise one aspect of the problem for special consideration. It urges that the full Federal Open Market Committee take a definite position with respect to the suggestion advanced above that the manager of the open-market account be employed by the Federal Open Market Committee as a whole, rather than by the Federal Reserve Bank of New York.

(149) The subcommittee is not proposing this shift. It is recommending, however, that the change be most seriously considered. The operations of the account would continue to be located in the Federal Reserve Bank of New York, as at present, and the Federal Open Market Committee would continue to avail itself of the personnel, wisdom, and experience of the whole Federal Reserve System, as at present. The only change would be that the manager of the open-market account would be employed by the Federal Open Market Committee as a whole, that he would be solely responsible to the Federal Open Market Committee, and that he would have no responsibilities other than those imposed on him by the Federal Open Market Committee.

(150) Should the Committee decide to make such a move, certain details of organization would have to be solved. They are not of concern at this point. The immediate concern is whether such a move would be in the public interest, whether it would improve the functioning of the Federal Open Market Committee. Certain features of the proposed arrangement stand out as crucial. Since the manager of the open-market account would be directly responsible to the whole Federal Open Market Committee, the individual members of the Committee might feel less reluctant to make direct contact with him and thereby familiarize themselves with details of the Committee's operations. The manager of the account also would no longer occupy the dual role of manager of the account and also of vice president of the Federal Reserve Bank of New York. He would be relieved of responsibility to its directors with respect to any of his activities. Finally, he would no longer participate in transactions originating in the fiscal agency or foreign correspondent relationships of the Federal Reserve Bank of New York.

(151) Some duplication of facilities would result from this change but there would be offsetting advantages. For example, the money market might be less confused with respect to the significance of orders transmitted through the trading desk. The execution of an order for the Treasury, or for a foreign correspondent, could not then give rise to rumors that the Federal Open Market Committee had entered the market.

(152) The chief change, of course, and the one which requires the most serious consideration would be the change in the relationship of the president of the Federal Reserve Bank of New York to the account. As Vice Chairman of the Federal Open Market Committee, he would have, as he now has, full access to all the operations of the account and continuing responsibility for maintaining a vigilant scrutiny over them. He would continue to be in the same building with the manager of the open-market account, and would be as continuously available for consultation as at present. The line of responsibility between the whole Committee and the manager of its account, however, would be direct and undivided. It would not impose upon the president of the Federal Reserve Bank of New York the added individual responsibility which he now bears for operational and discretionary decisions within the directives laid down by the whole Committee or its executive committee.

Relations with the Treasury

(153) There is one final recommendation the subcommittee would like to make. It falls in the difficult and delicate area that deals with problems of debt management and Treasury relationships. Specifically, the subcommittee recommends that the Federal Open Market Committee inform the Treasury that in the future it will keep the Secretary continuously informed as to its credit and monetary policies but that it will refrain as an official body from regularly initiating specific proposals with respect to details of individual Treasury offerings. That is, it will no longer on its own initiative regularly write formal letters or seek official interviews to lay before the Secretary of the Treasury its suggestions as to issues, coupons, etc., that in its judgment would be appropriate for particular debt management operations. The Federal Open Market Committee would, on the other hand, be prepared to respond to a request of the Secretary for the committee's judgment as to whether the terms he had in mind for a new issue were appropriate in the light of market conditions, i. e., whether the

committee would expect them to develop a sufficient rights value, and also whether they would create complications for monetary management or would conflict with or run into difficulties because of credit operations in contemplation by the Federal Open Market Committee.

(154) The subcommittee urges this change in procedure in order to establish formal official communications with the Treasury on a more correct basis than prevails at present. The Secretary of the Treasury is primarily responsible for decisions in the area of debt management. In coming to those decisions, he should feel free to consult and talk over his problems with anyone he wishes, commercial bankers, investment bankers, security dealers, etc., and also with anyone he chooses within the Federal Reserve System, either in or out of the Federal Open Market Committee. So far as system personnel is concerned, however, it should be wholly understood that he consulted them as individuals. The decision he arrives at should be a decision for which he, as the responsible official, takes full responsibility. Neither the Federal Open Market Committee nor the executive committee should take responsibility, as it now does, for initiating a recommendation as to coupon and terms in the area of debt management.

(155) In the judgment of the subcommittee, the present practice under which the Federal Open Market Committee convenes itself and, after consideration and vote, writes a letter outlining its official recommendation with respect to debt management policies is improper and unwise, in view of the clear location of responsibility for debt-management decisions in the Treasury. It is just as unwise and improper as the converse would be, namely, that the Secretary of the Treasury should regularly and officially, as a member of the President's Cabinet, write the Board of Governors and the Federal Open Market Committee his considered views with respect to future credit policies and open-market operations.

(156) Such formalized action by either, however well intended, trespasses upon the statutory responsibility of the other. It tends to complicate rather than to facilitate that adjustment of views and of official decisions which is essential to the achievement of their common objectives in the public interest.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS [1]

A. Relations with the market

The subcommittee finds that a disconcerting degree of uncertainty exists among professional dealers and investors in Government securities with respect both to the occasions which the Federal Open Market Committee might consider appropriate for intervention and to the sector of the market in which such intervention might occur, an uncertainty that is detrimental to the development of depth, breadth, and resiliency of the market. (35–43) In the judgment of the subcommittee, this uncertainty can be eliminated by an assurance from the Federal Open Market Committee that henceforth it will intervene in the market, not to impose on the market any particular pattern of prices and yields but solely to effectuate the objectives of monetary and credit policy, and that it will confine such intervention to transactions in very short-term securities, preferably bills. (44–48) The subcommittee feels most strongly that it would be wise to give such an assurance.

The subcommittee finds two outstanding commitments that may require intervention by the Federal Open Market Committee in other than the very short-term sectors of the market, and that may add to or subtract from reserve funds available to the market for purposes other than the pursuit of monetary policies directed toward financial equilibrium and economic stability. (49) These commitments are, first, the directive to the management of the open-market account to "maintain orderly conditions" in the market for United States Government securities, and, second, those arising from the practice of purchasing rights on maturing issues during periods of Treasury financing, and also on some of these occasions of purchasing when-issued securities and outstanding securities of comparable maturity to those being offered for cash or refunding.

With respect to the first of these commitments, the subcommittee recommends that the Federal Open Market Committee amend its present directive to the executive committee by eliminating the phrase "to maintain orderly conditions

[1] For the convenience of readers, the numbers of the paragraphs in the report specifically dealing with each recommendation have been inserted opposite to the same recommendation as it appears in this summary.

in the Government securities market" and by substituting therefor an authorization to intervene when necessary "to correct a disorderly situation in the Government securities market." It has indicated in its report the conditions it would consider sufficiently disorderly to require correction. (50–56) The subcommittee recommends also that such intervention be initiated by the executive committee only on an affirmative vote after notification by the manager of account of the existence of a situation requiring correction.

With respect to the second, the subcommittee recommends that the Federal Open Market Committee ask the Treasury to work out new procedures for financing, and that as soon as practicable the Committee refrain, during a period of Treasury financing, from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange. (57–74)

The subcommittee feels that such qualifications as are implicit in these two recommendations would not seriously impair the constructive effect of a general assurance from the Committee that its intervention henceforth will be limited to the effectuation of monetary policies and will be executed in the very short sector of the market. It recommends most strongly that such assurance be given as soon as its existing commitments have been appropriately modified. (75–76)

B. Relations with dealers

The subcommittee finds no present or prospective justification for continuing the present system of rigid qualification for dealers with whom the account will transact business, and recommends that the system be dropped. (116–124)

In the event the Federal Open Market Committee, contrary to the subcommittee's basic recommendation, decides to maintain the system of recognized dealers the subcommittee recommends:

(*a*) that the present list of recognized dealers be revised, both by eliminations from and additions to the list. (125)

(*b*) that repurchase agreements be extended impartially to all dealers who participate regularly in the weekly bill auction, irrespective of whether or not they are on the recognized list. (108)

(*c*) that if rights are acquired in support of Treasury refundings they be purchased as freely from nonrecognized as from recognized dealers. (115)

(*d*) that transactions to correct disorderly conditions in the Government securities market be made with unrecognized as well as recognized dealers. (85)

C. Operating techniques

The subcommittee finds that many of the present operating techniques of the account are upsetting to the smooth functioning of the market. In general, these techniques were prescribed by the Federal Open Market Committee at a time when it was attempting to peg market prices and yields of United States Government securities. With respect to market techniques, the subcommittee recommends specifically:

(*a*) that "reluctant buying" be completely abandoned, and that supporting operations in the market, if undertaken at all, be executed through a technique of aggressive rather than reluctant purchasing. (81–86)

(*b*) that agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis. (87–93, 110–113)

(*c*) that if rights are acquired during refundings they be purchased from dealers without regard to whether or not they come from the dealers' positions. (114)

(*d*) that refusal to buy bills acquired by dealers on a cash basis be discontinued. (102)

(*e*) that nonbank dealers be informed adequately in advance when repurchase facilities will be made available. (103)

(*f*) that repurchase facilities at an appropriate rate and with appropriate limitation as to volume be made regularly available to nonbank dealers over weekends. (94–104)

The subcommittee finds that relations between the open market account and the dealers are not as impersonal as is desirable now that the Committee is no longer trying to peg prices and yields on Government securities by maintaining a tight rein on the activities of dealers. It recommends:

(*a*) that the Open Market Committee make known to the dealers the "ground rules" which henceforth will govern the occasions for its transactions with dealers. (59, 75–76)

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(*b*) that the individual morning dealer conference be abandoned. (131–132)

(*c*) that the information obtained by the trading desk from dealers be so restricted as to eliminate the possibility of identification, directly or by inference, of individual customers. (131–132)

(*d*) that reports on individual dealer positions and activity be collected by an officer of the System other than the manager of the account, that the individual reports be kept confidential, and that only aggregates compiled from the individual dealer reports be disclosed to the manager of the account. (131–132)

(*e*) that the present practice of asking dealers to report transactions currently during the trading day in sufficient detail to permit the computation of current individual dealer transactions sheets be discontinued. (131, 133)

The subcommittee finds that there is a serious gap in the structure of the money market as it affects the functioning of the market for Government securities. Continuously in recent months, funds available to dealers to carry portfolios have been inadequate in volume and available only at rates higher than the yield of their portfolios. This deficiency could not exist so continuously in a central money market equipped (1) to attract temporarily idle funds from over the country to New York, and (2) to make these funds available on call to dealers in the money market. The subcommittee recommends that the feasibility of reestablishing a central call-money post for dealers be explored. (106)

D. Federal Reserve reports

The subcommittee finds that the Federal Reserve System can improve the data which it makes available to inform the market on its operations. It recommends that the following information be shown henceforth on the weekly condition statement of the Federal Reserve banks:

(a) securities held on repurchase agreement;

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E. Organization of the Open Market Committee

The subcommittee finds many anomalies in the structure and organization of the Federal Open Market Committee, particularly (*a*) the absence of a separate budget covering its operations, (*b*) the absence of a separate staff responsible only to the Committee, and (*c*) the delegation of the management function to an individual Federal Reserve bank. It recommends that the Committee reexamine and review its present organization, and in particular that it consider the advantages and disadvantages that would ensue, were the manager of the open market account made directly responsible to the Federal Open Market Committee as a whole, and not, as at present, responsible through the Federal Reserve Bank of New York. (139–152)

F. Relations with the Treasury

The subcommittee finds that the Federal Open Market Committee is frequently placed in an inconsistent position by its present practice of initiating advice to the Secretary of the Treasury with respect to decisions in the area of debt management. It recommends that the Committee inform the Secretary of the Treasury that henceforth it will refrain, as an official body, from initiating regularly proposals with respect to details of specific Treasury offerings, and will confine itself officially to providing information currently on its monetary policies and to counseling on the credit and monetary implications of debt-management suggestions advanced for its consideration by the Treasury. (153–156)

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2. If you feel that direct operations of the account are needed in addition to member bank borrowing, should these be provided mainly through outright purchases and sales of securities or should more use be made of repurchase and resale agreements?

3. If outright purchases and sales are used, should they be made in that sector of the market best able at the moment to absorb such operations in the judgment of the management of the account, or should they be concentrated, as a matter of routine, in the very short maturities?

4. Are the present repurchase facilities adequate to enable dealers to take positions and make markets? Do you have any suggestions for the improvement of the present type of repurchase contract?

5. Would it be worth while to explore the use of 1-day resale agreements to absorb reserves when they are temporarily redundant? For example, the open market account might make bills or certificates available to the market on a 1-day resale agreement for sale to banks with redundant excess reserves.

6. To what extent does the increasing use of Federal funds transactions between banks in different Federal Reserve districts affect the short-term market for Government securities?

B. Operations affecting dealers as underwriters of the weekly bill offering. In view of the importance of bills as a medium for Treasury financing, it is desirable that dealers be in a position to enter bids sufficient to assure adequate coverage of each auction.

1. Are the dealers now in a position to perform this function effectively or is greater assurance needed that, in the event of an unexpected stringency, Federal funds will be available on repurchase agreement?

2. Assuming repurchase facilities are provided, what limitation should be placed on their use?

3. When the Open Market Committee purchases bills to relieve congestion in the money market, should such purchases be made at a penalty rate, as in London, and should these operations be confined to short-dated bills?

C. Operations during periods of Treasury refundings.

1. Should the open market account maintain a rights value on maturing issues during refunding?

2. Have you any criticism of the technical operations of the account during refundings; or any suggestions for improvement in the technique?

D. Operations to maintain orderly markets in Treasury securities.

1. What, in your judgment, constitutes an "orderly" market?

2. What criteria should the open market account apply to determine whether intervention is necessary for the maintenance of order in the market?

3. Except for extreme emergencies, do you foresee the frequent occasion for System intervention to maintain "orderly" conditions?

E. Operations to carry out basic changes in credit policies of the Reserve authorities for the mitigation of economic instability, i. e., major changes in the open-market portfolios of considerable duration designed to reduce the availability of credit during periods of boom or to make credit much more freely available during periods of recession.

1. Have you any recommendation as to the types of securities to be sold or purchased in operations of this type?

2. Should the operation normally be in the long-term or the short-term sector of the market? Why?

3. What would be the effect of large-scale operations in the long-term sector on the market mechanism and on the ability and willingness of dealers to hold adequate portfolios?

IV. ADEQUACY OF DEALER ORGANIZATION

A. What has been the effect of greater market flexibility since the accord on willingness of dealers to take positions, participate in the bill auction and make markets, both in long-term and short-term Treasury issues?

B. Are more dealers needed and is more dealer capital desirable? If so, how could it best be attracted?

C. Has the lack of personnel trained to operate under flexible market conditions hampered operations and smooth market functioning since the discontinuance of the pegs?

D. Have you any suggestions or comments concerning the basic organization of the market for Treasury obligations? Does the present over-the-counter market adequately fill the need or would a continuous auction market enlarge participation and give greater depth and breadth to the market? If so, should an existing securities exchange be used? How would this be effected?

V. APPROPRIATENESS OF PRESENT ORGANIZATION OF OPEN MARKET ACCOUNT

A. Would the employment of a special broker to execute Federal Reserve System transactions (in substitution for the operations of the present trading desk) be adequate for the performance of System operations? Would it be preferable? Have you any other suggestions as to an appropriate organization for System operations in Treasury obligations? Please discuss this problem with specific reference to System operations under each of the five major headings in question III above.

B. Assuming the continuance of operations as presently organized, i. e., over-the-counter markets with a trading desk in the Federal Reserve Bank of New York, have you any suggestions as to the basis of distinction for the qualification of dealers? Please discuss this problem as it would be affected under each of the five major headings in question III above.

1. Are formally qualified dealers needed?

2. If so, what should be the essential requirements for qualification?

3. Should qualified dealers be required to report positions to the open market manager? If so, in what form do you suggest that reports be made?

4. Can distinctions be drawn between the role of bank and nonbank qualified dealers? In what respects should they be differentiated?

C. Would it be desirable to make additional data regarding System operations available through the regularly published weekly figures of the Federal Reserve banks? For example, should repurchase figures be segregated from total System holdings of United States Government securities? Should daily average member bank borrowings be included in the published figures? Do you have any other suggestions?

VI. MARKET COVERAGE

Have you any suggestions for broadening and deepening the customer market for Treasury obligations?

A. Institutional.

Is there adequate coverage of institutional investors, such as small insurance companies, commercial and savings banks, etc.?

B. Noninstitutional.

What suggestions have you to encourage greater participation by corporations, particularly smaller corporations and businessmen, and by individual investors?

C. Is there any manner in which Federal Reserve banks and branches outside New York City could be more helpful in aiding smaller investors in the purchase and sale of Government securities? Is it an economical operation for the dealer organization to attempt this type of coverage?

VII. TECHNIQUES OF OPEN-MARKET OPERATION

A. Assuming for policy reasons the Open Market Committee desires to effect changes in total holdings or in the composition of the portfolio, what methods aside from letting maturing securities run off should be employed to effectuate these changes with a minimum of disturbance to prices? Would it be desirable to employ the mechanism of secondary offerings by inviting bids or offerings up to a certain time limit on specific blocks of Government securities?

B. Should the open-market management buy and sell on dealers' quotations and should dealers be required to make firm markets up to some minimum amount? If so, what minimum would you suggest?

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM,
Washington, May 28, 1952.

Enclosed is an outline of a technical study, together with explanatory letter, which is being sent to dealers and other specialists in the United States Government securities market. We are sending you copies herewith for your information.

Sincerely yours,

WM. MCC. MARTIN, JR.,
Chairman, Federal Open Market Committee.

INDIVIDUALS AND ORGANIZATIONS WHICH RECEIVED A NOTE ENCLOSING COPIES OF THE LETTER AND OUTLINE OF STUDY FOR THEIR INFORMATION

S. Sloan Colt, president, Bankers Trust Co., 16 Wall Street, New York 15, N. Y.
J. Luther Cleveland, chairman of the board, Guaranty Trust Co. of New York, 140 Broadway, New York 15, N. Y.
Harold H. Helm, president, Chemical Bank & Trust Co., 165 Broadway, New York, N. Y.
Homer J. Livingston, president, First National Bank of Chicago, Dearborn, Monroe, and Clark Streets, Chicago 90, Ill.
Walter J. Cummings, chairman of the board, Continental Illinois National Bank & Trust Co., 231 South La Salle Street, Chicago 90, Ill.
Winthrop P. Aldrich, chairman of the board, the Chase National Bank, 18 Pine Street, New York, N. Y.
George Whitney, J. P. Morgan & Co., Inc., 23 Wall Street, New York, N. Y.
August Ihlefeld, president, Savings Banks Trust Co., 14 Wall Street, New York, N. Y.
Dr. G. Keith Funston, president, New York Stock Exchange, 11 Wall Street, New York, N. Y.
Edward T. McCormick, president, New York Curb Exchange, 86 Trinity Place, New York 6, N. Y.
James E. Day, president, Midwest Stock Exchange, 120 South La Salle Street, Chicago 3, Ill.
C. Francis Cocke, president, American Bankers Association, care of First National Exchange Bank, Roanoke, Va.
Harold Stonier, executive manager, American Bankers Association, 12 East 36th Street, New York 16, N. Y.
Richard W. Trefz, chairman, Country Bank Operations Commission, American Bankers Association, care of Arkansas Valley Bank, Pueblo, Colo.
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James S. Peters, president, the Independent Bankers Association, care of Bank of Manchester, Manchester, Ga.
Ben DuBois, secretary, the Independent Bankers Association, Sauk Centre, Minn.
Joseph M. Dodge, president, Association of Reserve City Bankers, care of the Detroit Bank, Detroit, Mich.
Joseph J. Schroeder, secretary, Association of Reserve City Bankers, 105 West Adams Street, Chicago, Ill.
Joseph T. Johnson, president, Investment Bankers Association of America, care of the Milwaukee Co., Milwaukee, Wis.
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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, May 28, 1952.

The Federal Open Market Committee is undertaking a study of the technical and operational phases of the market for United States Government securities. As has been previously announced, the committee has appointed Mr. Robert H. Craft as technical consultant.

The study is occasioned by the fact that in effectuating general credit policy the main reliance is now placed upon discounts and open market operations. The study is in the nature of a fact-finding inquiry as to the breadth and most efficient functioning of the market and is not concerned with questions of national credit, monetary, or debt management policy.

The Federal Open Market Committee would like to have the benefit of the views of those most closely associated with this general subject. Enclosed is an outline of the scope of the study, which is designed primarily for your guidance. It is directed specifically to dealers in Government securities. We appreciate that there may be many phases of the study in which all of the recipients are not directly interested. At the same time it is realized that some of the recipients may wish to cover additional points, and it is not intended that the study necessarily be limited by the outline, which seeks merely to take account of various questions which have been raised from time to time but do not reflect any preconceived views of the committee.

For the purpose of obtaining background material, consideration is being given to scheduling a series of informal discussions in Washington with those most actively interested in this subject. In view of the confidential nature of some of the material or opinions sought in the study, the discussions would, of course, be treated in that light. Since time would not permit discussions with all who are interested in varying degrees in this study we would welcome written responses from anyone on phases of particular interest to them.

After you have had an opportunity to examine the outline, we would appreciate it if you will advise us of the extent of your interest in this study.

Sincerely yours,

WM. MCC. MARTIN, JR.,
Chairman, Federal Open Market Committee.

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APPENDIX B

ANALYSIS OF DISCUSSIONS ON SCOPE AND ADEQUACY OF THE GOVERNMENT SECURITIES MARKET

This analysis endeavors to evaluate the testimony and to reach some tentative conclusions as to the consensus of views presented by the various individuals interviewed on some of the more important aspects of the study. For this purpose, the analysis has been divided into four major categories: (1) The adequacy of the dealer organization to provide an efficiently functioning machinery and a broad market place for Government securities, (2) the relationship of the open market account to the market and to the dealer organization, (3) techniques

governing open market account operations, and (4) organization of the open market account.

Adequacy of the dealer organization

The majority of the respondents advanced the view that the framework of the existing market mechanism is adequate to service the needs of investors efficiently and to provide a broad market in Government securities under normal conditions. The amount of capital committed to the business was considered sufficent and it was indicated that any material increase in the number of dealers would tend to be cumbersome. This opinion also was substantiated by the nondealer bankers, who indicated that consideration from time to time of the formation of dealer departments by the institutions they represented invariably had resulted in rejection of the proposal on the grounds, first, that the market was being serviced adequately and, second, that the volume of business and profit potentials were not sufficient to justify augmenting the existing machinery. It was further indicated that capital available to some of the larger dealer organizations is not being utilized fully at present. The impression was gained that, if the volume of trading were to expand and if the business were to become sufficiently attractive profitwise, more dealers and more capital automatically would be attracted.

The difficulty of obtaining competent personnel was deemed to be a condition common to the financial community, because of the current preferences of college graduates for careers in nonfinancial fields. This, however, was not adjudged by the dealers to be a serious problem.

Distinction was made between primary dealers, who generally make markets on a wholesale basis and maintain retail contacts with the larger investors, and secondary dealers, who perform more of a brokerage function and rely to a great extent on the primary dealers for execution of their orders. For the most part, respondents indicated that both types of dealers serve useful purposes in the market place. Local dealers are considered particularly helpful in providing coverage to some parts of the country which cannot be serviced economically by the primary dealers.

Many of the smaller institutional investors are serviced by the larger correspondent banks, which in turn funnel this business through the primary dealer organization. Although there was some indication that expansion of this activity might be desirable, there was no evidence that smaller investors do not enjoy adequate facilities for transacting business in marketable Government securities.

The Federal Reserve banks and branches probably could supplement the existing system in servicing the smaller banks, but question was raised about the propriety of engaging in this activity and some expressed the opinion that absorption of the cost of handling such transactions would constitute a subsidy which could not be justified.

Considerable discussion by representatives of the New York Stock Exchange and by one stock exchange member firm was directed to the possibility of attracting odd-lot business to that auction market. Figures submitted by exchange officials indicated that even during the most active years of bond dealings the volume on the exchange represented a very minor percentage of the total. Since the beginning of the period of pegged markets, however, Government bond business on the exchange has been virtually extinguished. This was directly attributed to the practice of the Open Market Committee of confining its business to over-the-counter qualified firms and apparent unwillingness of the account to transact business on the exchange. The existing exchange facilities appear to be well suited to the handling of odd-lot transactions, but stock exchange firms have been unable to compete effectively for this business, because of the fact that the over-the-counter firms generally are willing to absorb the costs of small-lot transactions as a side line to their regular business. In view of the unprofitability of the odd-lot business to the over-the-counter dealer firms, however, it is reasonable to assume that these firms would be anxious to cooperate in the development of a plan that would shift odd-lot business to the exchange. This is a problem susceptible to further study, but its satisfactory solution would appear to depend in part upon the resourcefulness and ingenuity of exchange officials and interested member firms and in part upon the adoption by the open-market account of a different attitude should it become necessary in the future to engage in open-market operations in other than short securities. Some possibility of attracting additional business to the exchange lies in the establishment of a specialist system, which was a suggestion advanced by one

dealer. That dealer also felt that there is a place for an auction market alongside the over-the-counter market.

No apprehension exists about assuring adequate coverage for the weekly bill auctions. It was pointed out, however, that long holiday weekends during a tight-money period restrict nonbank dealers' willingness to bid for bills which may have difficulty in distributing immediately and are thus forced to carry at a costly interest penalty. In such cases, dealers indicated that it would be helpful for them to know in advance if repurchase facilities would be made available. This subject will be discussed more fully under a separate heading.

Diverse opinions were expressed about the desirability of establishing a functioning trade organization to formulate and effectuate a plan for uniform dealer practices. There now exists a dormant organization which could be revitalized if the need should arise, but in order to avoid any implication of Open Market Committee regulation, it was felt that the impetus for such a move should come from within the dealer organization rather than from the open-market management. In opposition to formalization of a dealer organization, possible legal entanglements were cited.

Although the letter accompanying that outline of study specifically excluded any discussion of debt-management policies, this subject is so inextricably interwoven with central banking functions that responses inevitably referred to it. For example, a number of dealers indicated that any inadequacies in the present market stem not only from some of the actions of the open-market account but result also from debt-management policies pursued over the past several years. Emphasis was placed on the concentration of debt in short-term securities and the use of nonmarketable obligations as factors that tend to narrow the market. Others felt that the publicized rifts between the Treasury and the Federal Reserve before the "accord" contributed to the impairment of confidence in the freedom of the market place and that this has not been fully repaired by the events since the "accord." There was general opinion, however, that the lessened degree of interference since the "accord" has tended to strengthen and broaden the market for Government securities and that, as investors generally come to recognize that the Open Market Committee does not intend to intervene, the market will become increasingly broader.

Relationship of the open-market account to the market and to the dealer organization

With minor exceptions, the view was expressed that the objective of the Open Market Committee should be to reduce intervention in the market to an absolute minimum and that a free market without interference best serves a free economy.

Both qualified and nonqualified dealers expressed a definite antipathy to any extension of policing or regulation of dealer activities by the open-market management. In fact, there was almost unanimous opinion that the degree of control that had been exercised over the dealers in the past had exceeded the need.

In specific reference to the standards for qualification, the view was expressed that too precise rules encourage circumvention and the adoption of devious tactics on the part of the dealers to the detriment of the entire market. More particularly, it was indicated that the imposition of restrictions on the operations of dealers tacitly implies the assumption of an unwarranted degree of responsibility on the part of the open-market account to protect qualified dealers against loss and, in fact, to relieve them as a special group from all of the extraordinary risks inherent in the business.

One of the disadvantages attaching to qualification cited by most of the dealers is the serious handicap under which they are forced to operate during periods of refunding operations when rights values are being supported and at other times when quotations are being maintained at artificial levels by the open-market management. Qualified dealers strongly objected to the fact that in these circumstances they were not only excluded from the privilege of disposing of the supported securities held in their own positions to the only buyer—the open-market account—but were prevented from selling these securities at any price to others, because of their tacit agreement not to trade below official quotations. In many cases their inability to deal during the period of support operations forced the dealers subsequently to accept sizable losses.

Serious complaints were lodged by nonqualified dealers in connection with the effects of open-market operations during the period of supported markets. During that period they contended that inability to conduct business with the only purchaser—the open-market account—represented severe discrimination and forced the nonqualified dealers virtually to suspend operations or conduct their business consistently at a loss. In addition, these dealers pointed to the fact

that they suffered loss of customer contacts which had been developed only over a period of many years of effort and service. The discrimination during that period was described by some as an operation in restraint of trade. Nonqualified dealers also considered it discriminatory for the open-market account to relieve only qualified dealers of their positions during periods of stress and to force nonqualified dealers to accept the losses that resulted from the sharply lower level quotations subsequently posted by the Open Market Committee. As mentioned previously, one stock exchange member indicated that the practice of confining open-market-account business solely to the over-the-counter qualified firms also had the effect of completely eliminating the exchange as a market place for Government securities.

With further reference to the distinction between qualified and nonqualified dealers, respondents in all categories stated that some of the presently qualified firms do not appear to possess as many of the attributes for qualification as some of the nonqualified dealers. This emphasized the difficulty of formulating a set of standards that properly can be applied to permit sufficient flexibility in open-market operations and at the same time avoid recurring criticisms of the nature that have been lodged in the past.

Many supported the view that the distinction between qualified and nonqualified firms might have been necessary as a wartime expedient but that the need for this arrangement had long since expired. Some indicated that the present formalized distinction should be abandoned entirely.

Although close supervision and regulation of dealer practices were considered to be antithetical to the establishment of an efficiently functioning dealer organization and to the creation of a broader market, there was general recognition of the need for a continuing liaison between the open-market management and the dealer organization. Most of the dealers indicated, however, that the regularly scheduled morning meetings prior to the opening of the market are not the best means of accomplishing this objective and, in fact, many thought that these should be discontinued. As a substitute, some suggested that the press type of meeting that had been employed on occasions in the past, and at which dealers met in a group with some of the top officials of the New York bank, would provide a medium for a more satisfactory exchange of views. In the intervals between such meetings it was suggested that individual dealers should be encouraged and should feel free to call on the account manager for the purpose of discussing any matters of mutual interest.

There also was general support of the view that the open-market management should have access to whatever data is considered necessary and proper to aid in the efficient conduct of open-market operations. For example, disclosure to the open-market management of the general sources of buying and selling was deemed to be useful and proper information to assist the account manager in appraising market factors, particularly during periods of upset conditions. The dealers felt that disclosure of specific names was not justified in any circumstance, however, and indicated that such description always should fall short of establishing the identity of the buyer or seller.

Similarly, the need for apprising the open-market management of the size of dealer positions was recognized. It was suggested, however, that such information should be used purely for statistical purposes in evaluating money-market conditions. This objective could be achieved if figures on such positions were assembled by a source other than the management of the account and reported to the management of the account only in the aggregate. If handled in that way, the account management would not be open to the criticism that they were accepting responsibility for influencing individual dealer positions directly or indirectly. The general view was that the size of positions carried by any one dealer should be left to his independent judgment, limited only by access to private credit facilities.

There were a number of other more or less isolated complaints lodged by both classes of dealers. These will be detailed in the summary and for the most part were based also on the period of pegging operations; thus they are not as applicable under present conditions. In this connection, it should be emphasized that most of the criticisms were ascribable to the difficulties of operating under the compulsion to maintain a fixed pattern of prices and rates. Relatively few of the respondents were critical of the personnel of the open-market management, and most of these indicated that the inflexible system was largely responsible—that any personnel operating under such a system inevitably would be subjected to criticism.

It was clear also that most of the problems having to do with qualification arose from the past techniques employed by the open-market account, which are treated more fully in the following section. In further support of the view that distinction between qualified and nonqualified dealers should be eliminated, it was stated that the open-market management should be free to transact business with those dealers who in the judgment of the management were best equipped to handle transactions for the account in the most efficient and least costly manner. It was indicated that, if operations of the account were confined to more or less routine transactions in the short-term area, the need for requiring dealers to comply with a rigid set of rules obviously would be considerably diminished. For that matter, the same line of reasoning could be applied if intervention in other sectors of the market were at times considered necessary. In the event of a national emergency, rules governing dealers' conduct readily could be reinstituted if necessary. In the present situation, however, some felt that a more proper relationship between the open-market account and the dealer organization would be one that would conform as nearly as possible to that which exists between dealers and other customers.

Techniques governing open-market operations

Nonbank dealers presented a strong plea for the use of repurchase agreements to aid them in functioning efficiently in short-term securities. In substantiation of the need for repurchase facilities, these dealers pointed to the concentration of activity in the short-term market, the importance of that market in effectuating credit policy, and the frequent exorbitant cost to which dealers are subjected in carrying positions. With the abandonment of the call money post on the stock exchange dealers are forced to rely largely on the New York money market banks for credit facilities. Resort to out-of-town banks and to repurchase arrangements with corporations severely restricts flexibility, which is so necessary in dealing efficiently in short-term securities.

Some opinion that repurchases tend to reestablish a peg in the market was refuted on the ground that the same objection was applicable to the discount rate. Dealers contended further that, if this objection had any validity, it could be overcome by the adoption of a flexible repurchase mechanism. Some advanced the line of credit theory as a means of assuring dealers in advance of bill auctions that they would not be too severely penalized in borrowing costs during a tight money period. Others took the posiiton that repurchase facilities should only be granted at the option of the open-market management but that advance notice of intention to make repurchases available should be given. One point of view in connection with a flexible repurchase arrangement was that the open-market account should be prepared to terminate or reinstitute repurchases from day to day based on the open-market management's judgment of the needs of the market.

The privilege of substituting securities as a means of enabling dealers to perform their normal market functions more efficiently was considered a desirable refinement. Under the present arrangement, dealers frequently are unable to meet specific market demand because of their inability to deliver the bills that have been sold to the Federal under repurchase agreement. Some also recommended that repurchase facilities should be extended to those presently nonqualified dealers who participate regularly in the bill auctions and who are adjudged by the open-market management to be real factors in the short-term market. Most of the bank dealers and nondealer bank representatives opposed the use of repurchase agreements on the grounds that they represent a form of pegging and that private credit extension is a banking system rather than a central banking function.

Some of the dealers recognized the desirability of a device designed to avoid temporary excessively easy money conditions which occur during tax rate periods but felt that 1-day resale agreements were not feasible because such an investment would not permit of any profit margin to the distributor. The subject, however, deserves additional consideration, and some means of private participation in Treasury overdrafts should be explored.

Dealers, generally, stated that commissions on open market account transactions during the war and postwar years have been largely responsible for narrowing dealers' quotations. It was contended that the setting of low commissions on agency transactions for the open-market account encouraged unwillingness of investors to accept dealers' efforts to quote securities at more reasonable spreads. Recognized dealers, generally, felt that open-market account commissions were to small, especially in the case of short-term issues. It was suggested that commissions should be enlarged in order to permit dealers to transact

open-market account business profitably and also to encourage customers to trade on spreads that would provide reasonable profit margins to the dealers. There also was dissatisfaction expressed that open-market account commission rates had been adopted arbitrarily and without consultation with the dealers as to whether or not these rates represented reasonable compensation. The view was advanced that this inequity could be corrected by abandoning the practice of paying commissions on open-market transactions and by adopting the more general practice of trading with dealers on a net basis. That procedure also would eliminate the difficulties that the open-market account has experienced from time to time in operating on an agency basis.

As a matter of operating technique, it was suggested that the open-market management might find it desirable at times to employ the services of only one dealer in connection with a specific transaction. Nondealers indicated that they had obtained better executions by lodging sizable orders with one dealer who was fully informed of the immediate aim of the investor. It was suggested that this procedure might also be adaptable to open-market operations.

The question involving the adaptability of the secondary offering type of technique to open-market account operations was misinterpreted by most of the respondents. Those few who eventally came to understand that the question was directed primarily to operations in the short-term sector of the list conceded that the technique might have some merit. On the whole, however, there was little enthusiasm for this type of procedure.

In the matter of the approach to broader techniques, the discussions clearly established strong sentiment for adoption of a set of ground rules that would conform to the principle of achieving as free a market as practicable—a market which under normal conditions would reflect solely the forces of supply and demand.

In support of the free-market thesis, dealers pointed to the disadvantages and unfortunate consequences that had resulted from some of the techniques that had been employed in the past. Reference was made particularly to (1) the policy of distinguishing between selling sources, (2) unwillingness to purchase securities that had been acquired by dealers on a cash rather than a regular basis, (3) unannounced changes in technique, (4) methods employed during Treasury financing operations, and (5) "reluctant buying."

It was indicated that refusal to take securities from dealers' positions at times when the open market account was maintaining an artificial level of quotations either encouraged evasive actions on the part of dealers, which they considered to be inconsistent with their functions, or resulted in the acceptance of sizable losses at the termination of a specific supporting operation. It also was contended that the psychologic effect of distinguishing between selling sources among investor classes was to build up potential selling rather than to discourage selling.

Dealers stated that unwillingness of the open market account to purchase securities acquired by dealers on a cash basis restricts dealers' ability to function efficiently during a period in which they are increasingly becoming obliged to conduct cash transactions with customers. This objection did not extend to the suggestion that the Open Market Committee deal on a cash basis but rather that the Open Market Committee be prepared at such times as it is operating in a specific class of securities to purchase from dealers without distinction as to whether the securities originally had been acquired on a cash or regular basis. A few dealers suggested that the Federal also should be prepared to operate on a cash basis at all times but most recognized the mechanical obstacles involved.

The frequently changing technique was described as a condition in which certain buying levels had been established by the Open Market Committee early in the day, temporarily abandoned and reestablished, usually shortly prior to the close of the market. This created a great deal of confusion in the minds of dealers and investors. Dealers suggested that they could better serve the objectives of the account managers if they were apprised sufficiently in advance of a change in technique to permit them to comply with the objectives.

With respect to refunding operations, the majority felt that only under conditions in which the Treasury recognized the needs of the market in the pricing of new and refunding issues could the dealers be expected to take positions in such issues and do the essential work of secondary distribution. It was pointed out that, if the Treasury were consistent in pricing its offerings in a manner to generate natural premiums, the need for open market account intervention and underwriting would be obviated. In the event that the natural premium

originally placed by the market on a refunding issue was not maintained, because of some unexpected development between the period of the announcement of the terms and the closing of the books, some felt that the Federal would be justified in maintaining the rights value by direct purchase of the maturing issues at prices that originally had been set by the market. Others indicated that, if possible, it would be preferable to support such offerings indirectly by placing additional reserves temporarily at the disposal of the banking system through purchase of short-dated bills; in the case of short-term refundings it was stated that the Federal indirectly could influence the price of the issue being offered by purchasing bills "down in rate" to the point that the issue being offered would become sufficiently attractive comparatively to assure success of the financing. An operation of this nature would have the advantage of permitting the Open Market Committee to reestablish the former member bank reserve position with less permanent disturbance to the market. Many held the view that any attempt to establish artificially high rights value encouraged greater than normal selling and thereby added to investor attrition. From the dealers' standpoint there was dissatisfaction about the unwillingness of the Open Market Committee to buy from their positions during periods when the direct purchasing technique had been used.

The principal criticism revolved about the "reluctant buying" technique that had been employed during periods of Treasury refundings and disorderly markets. The principal determinant of an orderly market was considered to be ability to consummate transactions at a price rather than the degree of fluctuations in prices themselves. This opinion was supported on the thesis that it is often better to allow an abrupt price decline and to support aggressively at the lower level than to engage in a step-like process of support. It was stated that the latter technique ordinarily contributes to a greater eventual price decline. Lack of orderliness was characterized more as the urgency of selling pressure and the volume of offerings than the degree of change in prices. Some felt that the System should confine its thinking to the correction of disorderly conditions rather than to the maintenance of orderly markets, because the term "orderly" connotes a market in which there is frequent intervention. One dealer characterized the most disorderly market in recent years as that which existed when the open market management was insisting on the maintenance of an artificial price level and simultaneously refusing to do business at that level.

The "reluctant buying" approach during those periods was considered to be a self-defeating policy and one which should never be employed if the objective is to maintain a specific level of prices. Respondents emphasized that inability to trade on quotations within a reasonably short time invariably heightens the uncertainty in the mind of the investor and usually encourages him to attempt to sell a larger volume of securities than he normally would wish to sell if the transaction were completed without hesitancy. It was almost unanimously recommended that, on occasions when intervention is necessary to correct disorderly conditions in the market or to support Treasury refunding operations, the open market account should adopt an aggressive policy by placing bids on as widespread a basis as possible. This, in the judgment of the respondents, would remove question from the minds of investors as to their ability to sell and thereby tend to discourage them from selling. It further was suggested that, during periods of market upset, the open market account should assume more prompt leadership by communicating its intentions to the dealers before the opening of the market.

In general, respondents felt that the System would be called upon rarely, if ever, to intervene in securities with longer than 1-year maturity and that the only justification for System intervention would be to correct disorderly conditions in the market resulting from an emergency, such as an unexpected development in international relations.

With two exceptions, respondents unanimously supported the view that the Open Market Committee should not operate in any manner to offset day-to-day fluctuations in the market and that without official interference the scope of the entire market would be considerably broadened.

As justification for a free market, some respondents pointed to the surprisingly good behavior of the market in the period following the "accord." This was considered particularly significant when viewed in the light of the sudden and unexpected abandonment of the pegged policies to which the financial community had for so long become accustomed.

In appraising the factors governing the present market, some comparison was drawn between the type of markets that existed prewar and that which exists

today. Under present conditions, the large concentration of longer-term marketable securities in the hands of sophisticated investors effectively precludes the possibility of market raids, rigging of prices, or abnormal gyrations. The general investor consciousness of arbitrage possibilities tends to prevent other than temporary disequilibrium in prices between specific issues in one sector of the market. If left to the market mechanism, adjustment to a proper relationship should promptly occur. In general, the large concentration of holdings and increased investor astuteness are factors that naturally will tend to prevent inordinate price swings under normal conditions.

Most dealers clearly indicated their unwillingness to take even modest positions in a supported market in which there is any uncertainty as to the degree of support, pointing out that in such circumstances dealers function solely as agents for the open market account and not as dealers. On the other hand, if there were assurance that Federal operations would be confined to the short-term area except for aiding in Treasury financing and correcting disorderly markets, dealers, generally, stated they would be considerably more willing to carry positions and operate more actively in the long-term sector of the market. They invariably pointed to the difficulty of exercising independent judgments when forced to operate against the unknown of the Open Market Committee when a frequent intervention technique was employed. The majority view was that the private market mechanism would be greatly strengthened and that the interests of the investor, the dealer, and the Open Market Committee would be best served if open market operations were confined to (1) correcting disorderly markets, (2) aiding the Treasury in assuring successful refunding operations, and (3) effectuating credit policy and alleviating temporary money stringency through the medium of as short securities as possible.

Organization of the open market account

The majority feeling was that the present organization of the account is best suited to the needs of the Open Market Commitee from the standpoint of providing an information gathering post on market developments and of carrying out transactions for system account. This view appeared to be predicated, however, on the assumption that the account intended to continue to function much in the same manner as it has in the past, involving more or less frequent intervention in all sectors of the market for one reason or another. Those who responded to the question on the basis that future operations might be considerably more restricted indicated that there probably was no need for as large personnel as now exists, and some took the view that several people would be adequate to handle System account transactions and other general market information in the event that operations were confined solely to the short-term area.

One respondent subsequently submitted a long memorandum, in which he recommended that the open market account operation be transferred to Washington for the purpose of eliminating the lack of coordination between the Committee and the management of the account. Two other respondents suggested that, in order to establish more complete responsibility for open market operations where it is now vested by law—in the Open Market Committee—the account manager should be an employee of the Committee and made directly responsible to the Committee, rather than an employee of the New York bank.

Appendix C

Ground Rules

The Federal Open Market Committee can make a major contribution to the depth, breadth, and resiliency of the Government securities market by formulating a general set of ground rules to govern its transactions in the market. Dealers cannot be expected to take positions and make adequate markets at their own risk in the absence of reasonable assurance as to the circumstances under which the Committee might intervene in the market, the purpose of the intervention, and the sector of the market in which such intervention would occur.

One of the dominant facts which emerged from discussions with dealers and nondealers alike was the belief that real freedom does not yet exist in the Government securities market. Skepticism that the Federal Open Market Committee has abandoned the theory that the Government securities market

must continue to be controlled within limits has not been dispelled. The fact that a deeper, broader, and more resilient market could best be achieved by reducing open market account intervention to a minimum was a point repeatedly emphasized throughout the hearings.

In a fully controlled market such as prevailed in earlier postwar years dealers are obliged to operate under serious handicaps. Under a policy of intervention dealers become brokers, are unable to perform their normal functions of making markets, rendering independent advice to customers, and engaging in normal arbitrage transactions. A natural corollary to a controlled market is the impairment of the health of the dealer organization because of removal of incentive and restriction on profits. These same handicaps operate, though in lesser degree, in a fluctuating market subject to intervention by the open market account. The mere fact that there is uncertainty surrounding the Federal Open Market Committee's attitude causes unwillingness on the part of dealers to carry positions or to make markets. As dealers increasingly look to and depend upon System guidance, markets tend to become more limited and narrower.

By nature, a guided market must rely on a closely knit System dealer or broker organization, e. g., a group of so-called qualified dealers. This raises accusations of discrimination by those dealers who are not eligible to conduct business with the Federal open market account. Investors likewise become inhibited because knowledge of System objectives is inaccessible to them and they are unable to appraise the significance of various account operations.

There can be little question that dealers are capable of operating far more effectively if left to exercise independent judgments and to perform their normal functions, based on these judgments, without interference from the open market account. This was brought out time and again in the discussions. Dealers are much better prepared to accept the business risks inherent in a market that is governed solely by the interplay of demand and supply forces than in a market subject to the hazard of unpredictable Committee action. This hazard is greatest when intervention occurs in the intermediate and long sectors of the market. Certainly a strong, alert, and efficiently functioning dealer organization can best be promoted by abandonment of open market account intervention outside the very short category.

The surprisingly good behavior of the market in the period following the accord is significant. It substantiates faith in the ability of the dealer organization to operate efficiently in flexible markets. This is particularly significant when viewed in the light of the sudden and unexpected abandonment of the pegged policies to which the financial community had for so long become accustomed. Market experience since the accord does not, however, represent a fair test of the inherent breadth of a free market place. Even during this period dealer and investor activities have been continually inhibited by the fear that freedom had not been fully restored to the market. If assurance could be obtained that intervention would be held to a minimum and confined to the short-term area, better market behavior could be expected in a technical sense, but, more important, System action could better be appraised and the Treasury would be provided with a clearer view of basic money market trends.

There should not be too much concern over the success of attempts to raid the market in the absence of account operations. The large concentration of marketable securities in the hands of sophisticated investors militates against the possibility of market raids, rigging of prices, or abnormal gyrations. The general investor consciousness of arbitrage possibilities tends to prevent other than temporary disequilibrium in prices between specific issues. If left to the market mechanism, adjustment to a proper relationship ordinarily will occur with reasonable promptness.

There is danger that continuous intervention for the purpose of setting prices or yields may vest too great a responsibility in the hands of a few whose market judgments cannot usually be expected to be a satisfactory substitute for the composite judgments of the wide variety of market participants. As was pointed out, the Government marketable debt is held in considerable degree by an investing group of unusual sophistication. This group also possesses the desirable characteristics of a wide and diversified economic and institutional interest.

Obviously, somewhat more erratic movement of prices can be expected in a free market than in one that is subject to intervention, but the guidance of economic decisions by free markets is a characteristic that has effectively served the American economy and for which there is no satisfactory substitute. Moreover, the Government bond market cannot be isolated from other markets nor can its influence on the policies of all lending institutions be minimized. That has been amply demonstrated in the past. The fact is that rates for Government securities

are closely related to and affect interest rates on all classes of loans and investments. Indirectly the Government yield curve heavily influences policy decisions and choice of investments by all lending institutions and ultimately capital commitments by all borrowers.

Arbitrary System intervention in the intermediate and long-term areas can hardly fail to create a degree of artificiality in those markets. Establishment of any artificiality in the level of prices or yields on Government securities inhibits investment decisions and inevitably obstructs the ability of the System to influence financial institutions' lending policies. The results of a credit policy directed solely to controlling the volume and availability of credit can be much more accurately appraised. Only by permitting normal price and yield relationships to develop from an appropriate credit base can the value of an interest rate signal be realized.

The view that a modest amount of intervention is not harmful cannot be rationalized. The underlying situation is not corrected by such action. In fact, by preventing normal demand and supply forces from establishing proper relationships at a new price level such intervention tends to magnify the market imbalance.

A controlled market also encourages participation by speculative interests in the hope of profit but with a guaranty against loss and also encourages banks to finance such positions. Speculative holders are the first to react to any minor adverse development in the market. This in turn magnifies any subsequent problem of support, leading inevitably to greater intervention. Exposure to the risk of day-to-day fluctuations inherent in a free market tends to eliminate this speculative element from the market.

Perhaps an even more undesirable feature of System account intervention is the unsatisfactory position in which it places the Treasury. A System guided market seriously hampers debt management decisions. Only by permitting a market to develop from the free interplay of demand and supply forces can the Treasury accurately determine investor preferences. Beyond this, a policy of intervention inescapably results in the acceptance of continued System responsibility to underwrite Treasury offerings that do not conform to investor preferences.

It seems essential that every effort should be made to eliminate any basis for misunderstanding of Reserve banking functions and responsibilities. The Treasury should be fully apprised of what can be expected from the Federal Reserve System. Although progress in this direction has been made since the accord, there nevertheless exists a number of areas in which the working relationship leaves something to be desired. The present would seem to offer a propitious opportunity to clarify the position, based on the experience since the accord.

Decisions on which Federal Reserve credit policies are based must be subject to a variety of influences, such as the level and trend of commodity prices, the level of employment, the trend of credit demands, and uses to which bank and other credit are being put. Policy decisions to guide the timing and degree of credit actions cannot be governed by a rigid formula. From this it does not follow that, once policy decisions have been reached, effectuation of policy cannot best be achieved under a set of simple rules that are fully understood by all participants in the market.

Factors to be considered in formulating such ground rules fall into four general categories: (1) The most appropriate and efficient methods for effectuating general credit policies, (2) methods to relieve purely temporary and self-correcting disruptions in the money market, (3) operations of the account in connection with Treasury financings, and (4) methods of dealing with disorderly markets.

1. The most appropriate and efficient methods for effectuating general credit policies

The case for believing that open market operations in support of general credit policies can most effectively be carried out through the medium of very short securities—the nearest money equivalent—is persuasive. Account operations normally confined to Treasury bills would permit much greater flexibility in open market account operations, with a minimum of disturbance to prices and yields on longer maturities, permitting them (*a*) to reflect the natural forces of demand and supply, and (*b*) to furnish a signal of the effectiveness of credit policy aimed primarily at the volume and availability of bank reserves.

Treasury bills possess the unique attribute of near-term self-liquidating paper, in that they represent the one class of open market securities for which the

Treasury does not offer a refunding issue in exchange. Rather, these are paid off at maturity and the Treasury's needs in the short-term category are replenished by new cash offerings of whatever amount is necessary to cover the Treasury's short-term money requirements at the time. Thus there is no compulsion on the System to replace any maturing issues of bills that are held unless general credit policy at the time dictates replacement. Unlike other issues, Federal Reserve participation is unnecessary to assure the success of any new issue of Treasury bills. The market for this type of paper is so broad that coverage of the auction is assured by other investors at whatever rate the market considers the paper attractive for investment in the light of prevailing credit conditions.

The situation is quite different with respect to all other issues of marketable Treasury securities. So long as the Treasury is operating at an even balance or at a deficit, it usually is necessary to refund any other security by offering a new issue in exchange. In that circumstance and without regard to System policy existing at the time, the Federal Open Market Committee, practically speaking, is under compulsion to accept the refunding offer for any System holdings of the maturing issue, in order to avoid Treasury cash attrition. In effect, the System account thereby becomes a permanent holder as such securities are continuously refunded. In practice, therefore, acquisition by the System of any issues except Treasury bills results in a permanently frozen System portfolio and severely restricts flexibility in open-market operations to effectuate general credit policies. In the rare cases where a short-term security is refunded with an intermediate or longer term bond, the open-market account becomes an involuntary investor in a class of security that is not appropriate for inclusion in its portfolio and one in which freedom of action subsequently is even more severely restricted. The impact on the market of sales of intermediate and longer securities by the System tends to distort disproportionately an otherwise natural market level.

All things considered, it appears that normal credit control functions directed primarily at the availability and volume of bank reserves can best be effectuated through operations confined to Treasury bills. Adoption of such a guiding principle for normal open market operations would go far toward eliminating all of the criticisms and handicaps that attach to intervention. For example, the basis for criticism that dealers' normal market functions are hampered by a policy of intervention in other issues would be eliminated. Operations confined to bills would remove the need for continuing a closely knit dealer organization and would permit abandonment of the policy of distinguishing between firms that are and are not qualified to do business with the account. In such circumstance the System would be free to conduct its business with those firms best equipped to function in the short-term market; more particularly, the Federal Open Market Committee would be relieved of any responsibility for protecting the qualified dealer.

One of the most beneficial results would be that the Federal Open Market Committee would be relieved of the necessity of involving itself in a discussion of technical methods of effectuating policy and would be able to devote its attention primarily to policy decisions with respect to the need for credit actions, based upon an appraisal of economic factors. Use of bills for effectuating general credit policies would permit of much greater flexibility in moving in and out of the market than would longer securities. The timing of the purchases and sales of longer securities is much more difficult because of the inability of anyone to appraise accurately the market effect of System operations. All too frequently the effects are out of proportion to the volume, solely because of the importance attached by the professional elements in the market to System operations. For these reasons, operations in intermediate and longer term bonds might prove to be self-defeating from the standpoint of achieving the desired effect upon the volume and availability of bank reserves.

2. Methods to relieve purely temporary stringencies in the money market

Although sufficient experience has not yet been gained to warrant the adoption of a specific formula under which repurchase agreements would be made available to dealers, some such mechanism appears to be best adapted for use in moderating purely temporary and self-reversing tight money periods, such as occur around tax dates and during temporary periods of currency expansion and decreases in float. Repurchase agreements would be especially useful over long holiday weekends when dealers are severely penalized in the interest cost differential of carrying short securities. Repurchase agreements should be extended to all dealers who regularly participate successfully in the weekly bill offerings.

3. Operations of the account in connection with Treasury financings

Obviously the Treasury should be completely apprised of Federal Reserve policies and objectives at all times. This is essential to the formulation of intelligent long- or short-range debt management plans.

Beyond this, the Treasury should be fully informed of the extent to which it can expect aid from the System in carrying out its cash-offering and refunding operations. Here, two choices are available. The first assumes that the System should be committed to a policy at all times of underwriting Treasury financing operations by direct participation to the extent necessary. In the case of refundings, this would involve the maintenance of a sufficiently high rights value on maturing securities to assure a minimum of overall attrition regardless of the natural preferences of holders of these issues. Of necessity, the maintenance of a rights value sufficiently high to encourage holders to sell to the System tends to discourage other investors from purchasing rights at levels they believe to be attractive from those holders who may not wish to acquire the specific securities offered in exchange. Of course, the support of issues of comparable maturity to those being offered in exchange automatically creates an artificial level of rates and results in the acquisition of other securities into which the account is frozen.

There are many other obvious disadvantages to such an approach.

(1) It seriously hampers freedom of action in effectuating general credit policy.

(2) It temporarily reestablishes a pegged market.

(3) As pointed out previously, it tends to freeze the open market portfolio permanently into whatever securities have been purchased, because at maturity of the securities the committee is again expected to avoid forcing attrition and thus becomes obliged to roll over. Resale before maturity would involve a judgment as to timing and could not avoid disruption to the normal demand and supply relationships, in some cases in disproportion to the actual volume of sales.

(4) It creates a false impression to the Treasury of the worth of Treasury securities and eliminates a guide to the Treasury of the classes of securities most sought after by investors, thus precluding an accurate appraisal of the maturity areas in which Treasury refundings or cash offerings could best be achieved.

(5) It tends to encourage the Treasury to rely too heavily upon System support and thus tempts the Treasury to borrow at lower rates than the market justifies.

(6) It eliminates dealers as such and turns them into brokers for the account.

(7) Experience has indicated that System sales of securities that are approaching maturity frequently are purchased by corporate and other nonbank investors who have a specific need for funds which coincides with the maturity of these issues. Thus such sales by the System frequently result either in cash attrition to the Treasury or subsequent reacquisition for System account. In the latter case, the System is obliged to roll them over into the new security that is offered in exchange at maturity.

In summary, such a policy embraces a multitude of problems, but it points up particularly the difficulty of achieving the desirable degree of flexibility so necessary to the effectuation of credit and monetary policy. This factor has been apparent in recent refunding operations. The System has created reserves in the banking system contrary to general credit policies. It has either purchased rights during refundings at an artificial level or other securities of comparable maturity to those being offered in exchange. These cannot be resold for the purpose of reestablishing the desired level of bank reserves (or borrowings) without unduly affecting the then existing structure of prices and yields.

Responsibility for debt management decisions clearly belongs in the Treasury. As stated previously, the Treasury should be completely informed at all times of the current credit and monetary policy objectives of the Reserve System. The Federal Open Market Committee should accept no responsibility for initiating advice to the Treasury as to the terms of new issues that the Treasury contemplates offering either for cash or for refunding. The Federal Open Market Committee might be expected upon request of the Secretary to render advice to the Treasury, based on its best judgment of the attractiveness of any issues that the Treasury proposes to offer in the light of the Federal Open Market Committee's appraisal of market and credit conditions prevailing at the time. Beyond this, the System should assume no responsibility for directly underwriting any issues offered by the Treasury. It would follow from this that the System would refrain from purchasing any maturing issues for which an

exchange was being offered, when-issued new securities, or any outstanding securities of comparable maturity to those being offered for cash or refunding.

Treasury offerings should be priced in line with market conditions and expected credit policies of the System and be sufficiently attractive to assure ready market acceptance.

Appropriate pricing by the Treasury can best be determined by announcing in advance the general terms of the issue to be offered, in order to give the market an opportunity to adjust to the impact of an additional volume of securities in any one maturity area. After sufficient time for such adjustment the specific terms should be announced, the books opened for subscriptions, and subsequently closed at the earliest possible time thereafter. This technique, which is particularly important in the case of new cash offerings, would also be desirable in the refunding of a short security into a longer-term issue.

Assuming that Treasury financings are sufficiently infrequent, it would not appear unreasonable for the Federal Open Market Committee to agree to suspend during these periods any open-market operations in which it normally might be engaged. Under such a commitment it might be agreed that the Federal Open Market Committee would refrain from any sales in the market beginning with the period of the Treasury's preliminary announcement of the general terms. Such commitment would permit natural market adjustment to the impact of the new offering. Further, it would appear that the only other justifiable deviation, least inconsistent with the rule of nonintervention, would be for the Federal Open Market Committee to assure the Treasury that it would take such steps as might be necessary to prevent a rise in open-market Treasury bill rates from exceeding the highest rates that had prevailed during the period between the preliminary announcement and the announcement of the specific terms. This commitment would promote arbitrage favorable to the offering. Such a commitment, however, would be in effect only during the period that the books were open. It would appear that this set of conditions would best assure proper pricing and successful offerings.

As a corollary to the commitment to maintain bill rates, however, it also should be understood both by the Treasury and the market that once the subscription books had been closed the Federal Open Market Committee would be entirely free to engage in open-market operations to effectuate whatever credit policies it considered appropriate at the time without regard to the effect of such open-market operations on the prices of the newly offered or any outstanding securities. This would involve freedom to dispose of any bills that might have been acquired during the period that the books were open or a lesser or additional amount of bills that it might be necessary to sell to accomplish the objectives of credit policy.

4. Methods of dealing with disorderly markets

Intervention by the System outside the bill market should be strictly limited to the correction of disorderly conditions in the market. To accomplish this, the directive to the manager of the open-market account should be changed to supplant the present directive of maintaining orderly conditions in the market. Since conditions of such disorder as to require account intervention are likely to be remote, judgment as to whether intervention is necessary probably should rest with the executive committee. The System account manager should be charged with the responsibility of informing the executive committee of developments in the market that in his judgment would justify intervention. While it is not possible to set specific criteria of what constitutes disorderly conditions, it might be advisable for the Federal Open Market Committee to describe generally the type of circumstances which could be adjudged to constitute disorderly conditions in order to avoid the risk of too hasty intervention.

CONCLUSION

Adoption of the foregoing set of ground rules, as a basis for System open market operations, would go far toward solving the problems to which this study has been directed and to achieving a deeper, broader, and more resilient market for Government securities.

APPENDIX D

CALL MONEY FACILITIES

In the American money market of today there is no counterpart for the highly organized call money market which has been a principal feature of other great money centers, past and present. There is no place at the present time where a lender can offer temporarily idle funds for loan, confident that the loan will be well secured and that the funds will be available on demand completely at his convenience and option. Conversely, there is now no place in the American money market to which a dealer in money market securities can go for loans to carry his position, confident that with suitable collateral money will always be available to him on a completely impersonal basis, repayable at his convenience at any time, and at a cost which on an average will be reasonable as compared to other money market yields. In other words, there is no truly open market for call loans or demand money in the United States at the present time.

The famous New York call loan market which was centered during the twenties at the money post on the New York Stock Exchange has disappeared. It long served as a medium for the employment of liquid funds and the adjustment of bank reserve positions. It ceased to operate in any important sense during the thirties when excess funds were so plentiful and so widely held that resort to an open market mechanism offered little advantage to either lender or borrower. It came to an official end in 1946 when its very convenient technical facilities for making loans and handling collateral were dismantled.

Now that the long era first of huge redundant excess reserves and then of very low pegged interest rates has come to an end, the lack of an open market for call loans is being felt. Member banks outside the money centers, in the absence of such an outlet for short funds, offer money in the Federal funds market or invest in Treasury bills. Funds can only be put to work in the Federal funds market on a one-business-day basis. The mechanics of bill purchase or sale, the minimum inescapable costs of handling the transactions, are such as to make this outlet unprofitable for money that will be available for only a small number of days. Large corporations and other potential nonbank lenders with temporarily idle balances face the same cost handicaps when they attempt to invest in very short-term bills.

Nonbank dealers in Government securities, on the other hand, in the absence of an open market for call loans, have found it difficult on a number of recent occasions, and even for some sustained periods, to borrow money except at rates which penalize their functioning as dealers. In addition to usual market risks, nonbank dealers have had to assume the burden of a negative carry on their portfolios at such times, and there has been a tendency for them to limit their participation in the market and to maintain very small positions.

Such a dealer reaction naturally weakens the entire market in periods of strain. A market with depth, breadth, and resilience needs instead a dealer group functioning on completely different inventory policy. For such a market, credit must be available to dealers on terms that will permit and even encourage them to absorb a substantial volume of securities when market pressures are most severe as well as to hold large positions in short-term issues on a continuing basis. In terms of today's debt, a fully satisfactory market would probably require that dealer positions regularly run several times larger than in recent months.

Some important elements of an organized call money market are already present in the current American money market. New York City banks have always felt a responsibility to the Government securities market and they offer loans to dealers on what is in many respects a call money basis. These banks use the Government security dealer loan as one instrument for adjusting their reserve positions. When a New York bank has surplus funds, it posts a lending rate designed to attract dealer loans; conversely, when its reserve position is deficient, it in effect calls dealer loans by posting a noncompetitive rate for new loans and renewals. With the development of sustained general tightness in the reserve positions of member banks, however, the New York banks have come under special pressures and the volume of money they have had available for this

purpose has in general not been adequate. Accordingly, their rates on loans to Government security dealers have frequently been substantially above market yields on short-term Government securities. As a consequence, dealers have for some time been cultivating additional money sources through a series of individually negotiated customer transactions with larger banks outside New York and with some of their major corporate customers.

These facts suggest that some of the ingredients of a national call money market are forming under the pressure of need. There would seem to be considerable scope, however, for further and more organized development. Certainly, the present institutional gaps in the credit market are made clear by the fact that in recent months, when the money market has been tight, lenders throughout the country have been willing to hold bills and other short-term Government securities at considerably lower yields than the rates at which loans have been available to dealers, who offer these same Government securities as collateral and who assume the full risk of declines in security prices. Such a rate relationship may reflect the fact that many loan contracts with dealers have been on a customer basis in which the lender has not felt free to call in his funds without concern for possible inconvenience to the borrower. The relationship would be an anomalous one, however, if the dealer loans were essentially impersonal and could be called completely at the convenience of the lender. Then the loans would in fact be more liquid than the securities.

In a fully organized market, it would ordinarily be expected that the credit involving the lesser risk and greater liquidity to the lender would command the more favorable terms. In such a market Treasury bills should under most circumstances yield more in the market than a dealer loan made on an impersonal call basis and secured by bills. Investment in bills carries some market risk should the funds be needed before maturity. The dealer credit is virtually without risk of any kind since even the risk of adverse changes in the market for bills is underwritten by the dealer's capital. Loan rates to dealers should be much lower than the market rate on bills when the money market is tightening, when bill yields are rising to previous peak levels, and when uncertainty as to possible future yield increases is widespread. In such a situation, if there were facilities for doing so, many investors who are ordinarily fully prepared to accept the market risk of holding short-term Government securities would doubtless be glad to accept a lower return on their money in order to shift to another the risk of further price declines.

Except in a period of continuing ease, rates on dealer loans made on an impersonal call basis and fully secured by United States Government securities would tend to average below market rates on short-term Governments, provided there were an efficient mechanism for drawing call money together and making it available to dealers. Use of repurchase facilities would limit the upper range of fluctuations of such rates.

Under normal conditions there would seem to be large amounts of funds throughout the country which could be marshaled by a properly organized call money market. Banks, including many of the thousands of smaller banks, and large corporations hold millions in secondary reserves or idle balances which, if employed, must be available on very short notice. Much of this money cannot ordinarily be invested to advantage in short-term Governments, since the uncertainty of the period for which it might be invested, together with the trouble and risk involved in investment, tends to outweigh the interest that might be earned. It could be made available, however, for loans which are fully secured and subject to immediate call.

The potential supply of funds to a call-money market goes beyond this, however. A number of nonfinancial corporations and outlying banks are presently attempting to maintain reasonably fully invested positions in short-term Government securities, although they may not have the skilled personnel needed to limit risk while taking full advantage of the investment opportunities. Such investors might be better off to lend on call to Government security dealers rather than to hold securities themselves. On an average, a larger proportion of their secondary reserves could be safely invested in the day-to-day call loan. Thus, although they would ordinarily get a lower gross rate on a dealer loan than on the securities, the total net return to such lenders from the fuller use of their secondary reserve funds might well be larger in case dealer loans were available than the return they now obtain from more limited investment in Government securities. In addition, the time devoted by those who are following the Government securities market could be diverted to other activities.

It seems clear that the existence of an organized call-money market would be a major factor in encouraging dealers to assume a more active role in the Govern-

ment securities market, thereby enlarging the scope of that market. It also seems likely that recent changes in the role of credit in the economy and the resulting greater need to economize on financial resources enlarges the potential demand for such an institution on the part of both lenders and borrowers. Banks outside the money centers would find it very useful for close administration of their reserve positions. Business corporations would find it an outlet for surplus idle balances. New York City banks could service the loans for a fee.

The feasibility of a call-money post using such arrangements was demonstrated by the experience with the post of the New York Stock Exchange in the twenties. In the money-post operation of that decade, the New York banks made the loans for their correspondents on an agency basis. Low-cost techniques for handling collateral, including the substitution of collateral, were worked out. Considering the greater ease of handling Government securities and the larger loan unit that might be used, it may be that even more efficient procedures could be developed now for loans to Government security dealers. It was also the experience with the old call-money post that this market provided banks with a very useful mechanism for the rapid adjustment of reserve positions and that it served as a ready outlet for idle business funds.

It is fully recognized that one major question regarding the feasibility of a present-day call-money post for loans to Government security dealers would be whether lenders could safely depend on it as an adequate, consistent outlet for credit. Could such a call-loan market be large enough and stable enough to be a reliable mechanism for handling the secondary reserve positions of outlying banks? Obviously, a call-loan market of this size would require time for development. Dealers now are carrying positions which are small in relation to the size of the market. Nevertheless, in view of the fact that dealers are making outside arrangements for credit at considerable cost, it may be worth while to explore the possibility that an organized market might again be developed.

Comments of the Federal Reserve Bank of New York on Report of the Ad Hoc Subcommittee on the Government Securities Market

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PREFACE

The Ad Hoc Subcommittee on the Government Securities Market addressed itself to a study of the market under the changed conditions that have resulted from abandonment by the Federal Reserve System of its support of a relatively fixed pattern of prices and yields, and to an examination of the relevance and adequacy of the Federal Open Market Committee's own procedures and operations in the context of a market free to respond to changes in supply and demand. The report of the subcommittee emphasizes that the Federal Open Market Committee should be in a position to operate promptly and in appropriate volume at all times without fear of disruptive technical repercussions on the market. This,

it is suggested, requires a market characterized by "depth, breadth, and resiliency." Consequently, the subcommittee says, "It is with these characteristics of the market that this report is mainly concerned."

The subcommittee concludes that the best way in which the Federal Open Market Committee can promote the development of these market characteristics is to reduce its intervention in the market to the minimum required for the execution of monetary and credit policies. Furthermore, it recommends that such intervention be limited to short-term securities, preferably Treasury bills; that the operating techniques and relations with the Treasury of the Federal Open Market Committee be changed to conform with the principles of minimum intervention; that "ground rules" be made known to the dealers, which will henceforth govern the transactions of the Federal Open Market Committee with dealers; and that specific measures be adopted to facilitate the financing of dealers (and in this connection, revival of a call loan market be studied). Finally, "The subcommittee finds many anomalies in the structure and organization of the Federal Open Market Committee * * *" and recommends "that the Committee reexamine and review its present organization, and in particular that it consider the advantages and disadvantages that would ensue, were the manager of the open-market account made directly responsible to the Federal Open Market Committee as a whole, and not, as at present, responsible through the Federal Reserve Bank of New York."

The Federal Open Market Committee, with the general concurrence of other officials of the System, has already moved a considerable distance in the direction of certain of the recommendations. Other recommendations, however, raise a number of questions. Among them are the following:

1. May not there be overemphasis on promoting the "depth, breadth, and resiliency" of the market for Government securities as an appropriate aim of the Federal Reserve System? And will those characteristics, in fact, be promoted at all times by minimizing System intervention in the market and by confining System operations to short-term securities?

2. Are such market characteristics always essential to the effective execution of the monetary and credit policies of the System? Or may there, at times, be conflict between efforts on the part of the System to promote these characteristics and achievement of the aims of monetary and credit policies?

3. Is limitation of Federal open-market operations to very short-term securities necessarily consistent with minimum intervention in the Government securities market in all circumstances? May not such limitation, in fact, require larger-scale intervention at times, with resulting unnecessary expansion in the volume of Federal Reserve credit outstanding? Also, may it not risk unnecessary repercussions and distortions in one sector of the market?

4. In view of such questions, how far is it necessary or appropriate for the Federal Open Market Committee to go in making commitments limiting its scope of action for the future?

5. (A related question) Are 'ground rules" of the kind suggested necessary to enable dealers to operate effectively, and would they constitute any guaranty of dealer operations of such a character as to promote the "depth, breadth, and resiliency" of the market? Can we be sure that they would contribute to, and not interfere with, the effectiveness of System operations?

6. Would extension of repurchase facilities more freely to the dealers be consistent with the principle of minimum intervention in the market? Or would it constitute a new and indirect form of market support?

7. If the system of recognized dealers were abandoned, should the manager of the open-market account be left to decide in his own discretion with whom he will deal? Or what criteria should he observe in declining with whom he will deal?

8. If the system of recognized dealers were retained, but the list of such dealers revised, what are the qualifications that should be observed in determining which dealers to "recognize"?

9. If, in conducting certain special types of transactions, such as those designed to correct disorderly market conditions, the manager of the account is to do business with dealers outside the recognized group (if that group is continued), on what basis should he distribute the business?

10. What advantages to the Federal Open Market Committee or to the System as a whole are expected to result from curtailing the sources of information available to the manager of the account? What disadvantages might result?

11. Is it correct to say that the aspects of the present organization of the Federal Open Market Committee mentioned at the bottom of page 85 are "anom-

alous"? Or are there good reasons based on past experience for the present type of organizational arrangements?

12. Are the presumed disadvantages of the present status of the manager of the account valid? Would it be a feasible and effective arrangement to have the manager of the account conduct day-to-day (and, in fact, hour-to-hour) operations under the direction of the Federal Open Market Committee as a whole or its executive committee?

These and related matters are discussed in the following pages in three main sections. Part I deals with broad questions of policy; part II with the details of procedures and relations with dealers; and part III with organizational arrangements for conducting open-market operations. A final section sums up the conclusions indicated by the preceding sections.

I. THE SYSTEM'S INTEREST IN AND GENERAL RELATIONS WITH THE GOVERNMENT SECURITY MARKET

Continued active interest of the Federal Open Market Committee and of the Federal Reserve System generally in the market for Government securities is inevitable, despite the withdrawal from active support of the market early in 1951. That action could not mean complete divorcement of the System from any involvement with the market, since, as the subcommittee points out, the Federal open market account is still the largest single holder of Government securities. Not only do the System's open market operations have greater potential effects on the market than those of any other investor (because of their effect on bank reserves), but even inactivity of the System account—in the form of declination to participate in arbitrage operations, for example—may have an important influence on the market. The "accord" had as its major objective freeing the System, not to withdraw from the market entirely, but rather to operate in a manner consistent with the dictates of monetary and credit policy, and thus to restore open market operations to their potential position as the one most important instrument of System policy.

Unquestionably, as the report of the subcommittee points out, effective execution of open market policies requires a Government securities market of some "depth, breadth, and resiliency," yet there may be danger in going quite so far as the subcommittee has done in accepting the promotion of such market characteristics as a major objective of the Federal Reserve System. In order to promote them, the subcommittee proposes various commitments with respect to open market policies and operations which require the most careful consideration by the System to make sure that any such commitments, if adopted, would not prove a handicap in carrying out effectively the System's major responsibilities for monetary and credit policy.

The market characteristics just mentioned, and repeatedly emphasized in the subcommittee report, unquestionably are desirable from the viewpoint of debt management, but is it equally clear that the interests of debt management and of monetary policy necessarily coincide in this respect under all circumstances? May it not, in fact, be more desirable from the viewpoint of monetary policy to inhibit some types of market activities at times—particularly those which tend to facilitate expansion of bank credit in periods when the System is endeavoring to restrain credit expansion?

Still fresh in our minds is the extensive discussion of the question of shifting the public debt more largely into nonmarketable form and of compartmentalizing the debt to a much greater extent as a means of reducing potential offerings on the market of Government securities. It is true that such proposals were most relevant before the System had freed itself from the responsibility for maintaining relatively stable prices and rates in the Government securities market, and have become less relevant since the "accord." In any event, the subcommittee report reflects a strong tendency in the direction of broadening the market by permitting and encouraging the free play of the forces of supply and demand, rather than of recommending measures designed to narrow the market, and with that general tendency we would express no disagreement.

A related question, however, is whether to aim for a market which will be capable of absorbing the purchases and sales which the Federal Open Market Committee deems necessary or desirable to achieve a given effect on the reserve position of the commercial banking system with a minimum of price reaction in the Government securities market, or whether in some circumstances the System's major objectives may not be promoted by the effects of its open market operations on prices of Government securities and the resulting impact on financial markets generally. The inhibiting effect of price reductions for market-

able Government securities since the "accord" on the tendency of savings institutions and banks alike to shift from Government securities to loans and investments for the financing of private activities is a case in point.

But even from the viewpoint of promoting the "depth, breadth, and resiliency" of the Government securities market, it may be questioned whether the program suggested by the subcommittee, involving as it does assurances that the System will reduce its intervention in the market to a minimum and that it will limit its operations to very short-term securities, will be the most effective in all circumstances. For example, the assurance [1] given by the System during World War II that it would maintain a fixed pattern of rates was probably more effective than any other that could have been given in promoting the "depth, breadth, and resiliency" of the Government security market at that time. Undoubtedly there are a variety of circumstances in which many individuals and institutions would be attracted to Government securities if they felt confident that the System would act to maintain the prices of such securities, but would not want to assume the risks of price fluctuations in a free market. Obviously, the subcommittee would not favor a return to such practices, even though failure to do so may sometimes result in a more limited market.

Furthermore, the idea that the dealers will be encouraged to take larger positions and to make broader and firmer markets, once the System gives assurance that it will stay out of all but the short-term sector of the market, deserves scrutiny. The argument is that "a disconcerting degree of uncertainty exists among professional dealers and investors in Government securities with respect both to the occasions which the Federal Open Market Committee might consider appropriate for intervention and to the sector of the market in which such intervention might occur, an uncertainty that is detrimental to the development of depth, breadth, and resiliency of the market." It is hard to believe that such a degree of uncertainty still persists after 2 years in which intervention by the System in the Government securities market has been progressively reduced and for some time has been limited almost exclusively to short-term securities. Perhaps to some considerable degree this aspect of the report may already have become outdated. In any event, it must be remembered that the dealers are operating primarily with a view to making profits, and consequently that their inevitable tendency is to sell short and back away from offerings in a declining market and to extend their positions in a rising market. Thus, instead of exerting a stabilizing influence on the market, they tend to accentuate its swings—at least over short periods. Clearly it is the appraisals of the outlook for interest rates and security prices by dealers and investors, much more than any fear (or hope) of intervention by the System in the market for particular securities, that determine the "depth, breadth, and resiliency" of the market at any given time. Fear of adverse trends, or uncertainty as to what the trend is likely to be, is the predominant reason for thin markets, rather than apprehensions concerning System intervention in particular sectors to limit price movements.

From all this, the conclusion seems inescapable that the operating policies of the System most conducive to the market characteristics emphasized by the subcommittee will not always be those most conducive to effective monetary and credit policies. And, where the two considerations conflict, it must be assumed that the Federal Open Market Committee will wish to follow the course of action most favorable to the latter. It is on the basis of this assumption that the specific recommendations of the subcommittee should be examined.

Assurances or commitments

The major commitment which the subcommittee suggests as a means of eliminating uncertainty in the market with respect to the operating policies of the Federal Open Market Committee is "an assurance from the Federal Open Market Committee that henceforth it will intervene in the market, not to impose on the market any particular pattern of prices and yields but solely to effectuate the objectives of monetary and credit policy, and that it will confine such intervention to transactions in very short-term securities, preferably bills." With the first part of this assurance we can readily agree, provided the objectives of monetary and credit policy are not interpreted too narrowly. The last part of the suggested assurance, however, is much more questionable. It is quite likely that in most circumstances the System will be able to attain its policy objectives by operating only in the market for Treasury bills and other short-term securities.

[1] There was no formal, publicly announced, assurance of this kind, but the System's actions were tantamount to such assurance.

It is at least possible, however, that on some occasions the System might better be able to effectuate its policies by operating in other sectors of the market—even the longest maturities—depending on the economic conditions then prevailing, investor and market psychology and expectations, the structure of the public debt, etc. In most circumstances, when intervention in the long-term market by the System was considered appropriate or necessary, restriction of operations to short-term securities would probably either make the System's intervention ineffective or require larger scale intervention to achieve the objectives.

To illustrate the last point, a situation such as that created by the outbreak of war in 1939 may be cited. This would come under the heading of a potentially disorderly situation, of course, and the subcommittee would doubtless agree that the System could not then have corrected conditions in the market by operations limited to Treasury bills. The bill rate was already close to zero and the banks held large amounts of excess reserves, so that there was little likelihood that injections of Federal Reserve credit into the short-term market could have been effective in remedying the acute weakness in the long-term market. It may be conceded that the same conditions are not likely to recur in the foreseeable future, but in the event of a sudden shock to the long-term market of such a nature as to call for intervention by the System it is probable that the only effective form of action would be to make purchases in that sector of the market.

Furthermore, confining operations to very short-term securities might involve other problems. Frequently there is a heavy demand for such securities—for example, for temporary investment of corporation funds pending dividend and other disbursements—and System purchases in that sector of the market might cause distortions in the interest rate structure and interfere with the legitimate investment operations of others. It is emphasized in the preface to the subcommittee report, "that the possibility be minimized of disruptive technical market repercussions from Committee transactions." Limiting the scope of System operations too narrowly might increase, rather than reduce, the likelihood of just such disruptive repercussions. Bearing in mind the unforeseen developments that may arise in the future, it would seem better to keep a free hand to conduct System operations in such a way as to avoid distortions in the market and in the interest rate pattern which would serve no good purpose.

Against the background of System account operations for some months past, the emphasis in the report on avoiding operations in longer term securities seems rather outdated. Probably some of those who appeared before the subcommittee and complained of various aspects of the System's open market operations were still thinking in terms of certain practices that were followed at the time when the System was endeavoring to maintain the stability of Government security prices with a minimum extension of Federal Reserve credit. Surely, "the market" has now had enough experience with the System's changed operating policies so that trading in the intermediate and long-term maturities is no longer appreciably affected by any fear (or hope) of System intervention.

But there are broader grounds for questioning the advisability of a commitment to operate only in the short-term market. First of all, there is serious question whether the facilities for market "arbitrage" are so highly developed, or could be, as to assure a smooth flow of reactions from any System action in the short-term area throughout the longer sectors of the market in all circumstances. The subcommittee refers to operations in the short-term market as traditional central banking policy, but one of the major questions raised concerning traditional central banking policy concerns its ability to achieve the general restraint or ease intended solely through action in the short-term market.[2]

The degree to which arbitrage operations between different maturities of Government securities or among different types of investments could be expected to prevent unnecessary price fluctuations or to encourage a freer flow of investor funds in the market for Government bonds is extremely uncertain. The record indicates that little may be dependably expected through movements of funds from short- to long-term Government issues. In fact, in the conditions of market uncertainty characteristic of an incipient disorderly market, short- and long-

[2] This criticism was made strongly, for example, by J. M. Keynes in A Treatise on Money (1931), particularly in vol. II, pp. 362–63. In the preceding pages he referred to evidence taken from W. W. Riefler, Money Rates and Money Markets (1930), showing that changes in the short market at that time did exert some effect on the long market, but he questioned whether such effects were adequate and dependable. Riefler himself said (p. 218), "Whether the effect of credit policy on money rates * * * could ever seriously affect the level of bond yields * * * raises a question * * * that does not lend itself either to categorical affirmation or denial."

term rates might be expected to move counter to each other under the impact of a disequilibrating, rather than an equilibrating, movement of funds. At periods of temporary money-market ease or tightness, the resulting yield movements on short-term securities might encourage a trickle of funds into or out of longer maturities, but this marginal movement very probably would be insignificant in influencing long-term prices by contrast with the particular set of longer-run expectations prevalent in the bond market at the time. These expectations might or might not be pushing long-term prices in the same direction of movement prevailing in the short market. At several places in the subcommittee's report a close positive correlation is described between very short-term and long-term yield movements; the fact that such a correlation would be least likely to exist at some times when it was wanted and would be fortuitous, at best, at others casts doubt on the wisdom of relying upon short-term securities, and "market arbitrage," to effectuate all phases of open-market policy.

Outstanding commitments

In connection with the major "assurance" which it recommends, the subcommittee refers to two outstanding commitments "that may require intervention by the Federal Open Market Committee in other than the very short-term sectors of the market, and that may add to or subtract from reserve funds available to the market for purposes other than the pursuit of monetary policies directed toward financial equilibrium and economic stability." These are the commitment to maintain orderly markets and the practices involved in aiding Treasury refunding operations. (The latter, however, can hardly be called a commitment, since actual intervention by the System in connection with Treasury refundings has varied in recent months from very sizable operations to none.) With respect to the first, the emphasis within the System has already been shifting from maintaining orderly market conditions to preventing disorderly conditions, and formalization of the change, as suggested by the subcommittee, would seem quite appropriate.

Consideration of the course of action most likely to be effective in dealing with disorderly market conditions, however, provides a good illustration of the questionability of a commitment to confine the System operations to short-term securities. If the disorderly conditions developed at a time when the general policy of the System was to restrain credit expansion, it would be most desirable to hold the injection of Federal Reserve credit into the market to a minimum. But if the disorderly conditions were most acute in the long-term sector of the market, it is most likely that the greatest effect could be achieved with the smallest extension of Federal Reserve credit by operating directly in that sector of the market. In fact, it is questionable whether the desired results could be achieved at all by operating only in short-term securities. Furthermore, it is quite possible that the purchases of long-term securities could be offset by sales or redemptions of short-term securities. On the other hand, if an attempt were made to deal with the situation by buying only short-term securities, no offsets would be possible—at least until after some considerable lapse of time.

As for the second so-called "commitment," involving support of Treasury refunding operations, the active participants in the market know by this time that intervention by the System cannot be counted upon, and presumably the Treasury has the same understanding. (In this instance, also, actual events may have overtaken the subcommittee's report.) Nevertheless, it may be worth considering in this case, specifically, whether it is desirable for the Federal Open Market Committee to make definite commitments as to what it will not do. In some circumstances the Committee might (provided the maturity distribution of securities in the Federal open-market account permits) find it advantageous to reduce attrition through swaps—on whatever price basis seemed appropriate—and to that extent reduce the need for subsequent Treasury financing and avoid unnecessary interference with the execution of the System's credit policy. In connection with certain refunding operations, it might conceivably be useful to have in the Federal open-market account more of a new issue than would be acquired through the direct exchange of existing holdings. Swaps to obtain the "rights" would not involve any extension of Federal Reserve credit and, unless

they involved depletion of the System's holdings of maturities which might be needed later, would not interfere with the System's credit policy.[3]

Repurchase facilities

One recommendation of the subcommittee, which is classified among "operating techniques," but which involves a matter of System credit policy, is the proposal "that repurchase facilities at an appropriate rate and with appropriate limitation as to volume be made regularly available to nonbank dealers over weekends." To be of any material assistance to the dealers, and effective in enlarging the market for Government securities, presumably the repurchase facilities offered would have to be substantial. That might mean fairly regular extension of Federal Reserve credit at the option of the market, which would correspondingly increase member-bank reserves and reduce the need of member banks to borrow from the Reserve banks. In fact, the arrangement would probably be used frequently to enable the dealers to make temporary purchases of securities from banks and thus to bolster their reserves during tight-money periods. Consequently, it might tend to undermine the System's credit policy at times when the System was trying to restrain credit expansion by forcing member banks to borrow in order to maintain their required reserves. Furthermore, the fact should not be overlooked that extension of repurchase facilities to dealers constitutes, in effect, indirect intervention in the market and so tends to conflict with the objective of promoting as free a market as possible.

In general, it would seem more in keeping with the recommendation that intervention in the market be "solely to effectuate the objectives of monetary and credit policy," to reduce any form of automatic access to Federal Reserve credit to a minimum. Difficulties experienced by dealers in financing their portfolios on satisfactory terms and their consequent unwillingness to buy additional securities may, in fact, be helpful in making restrictive System policies effective. This is another illustration of the way in which the objective of promoting the "depth, breadth, and resiliency" of the market may be inconsistent with the objective of pursuing effective monetary and credit policies.

This discussion, however, should not be interpreted to mean that making repurchase facilities available to the dealers will never serve a useful purpose from the viewpoint of System policy. Unnecessary disturbances in the money market and wide fluctuations in interest rates caused by purely seasonal or other temporary phenomena serve no good purpose and can at times be avoided or minimized by opening the repurchase agreement window to dealers. But it would seem more consistent with the policy of limiting System intervention in the market "solely to effectuate the objectives of monetary and credit policy" that it be done deliberately on the System's initiative and not as a matter of routine.

Ground rules

The suggested "ground rules" to be made known to Government security dealers to clarify the System's relations with the market involve mainly the assurances or commitments discussed above as well as the matter of repurchase facilities. They also involve the specific relationships of the System with dealers which are discussed in section II which follows. Dealers, of course, would very much like the Federal Reserve System to telegraph its intended actions in advance, so that they could conduct their affairs in such a manner as to maximize their profits and minimize their losses. They would like to be in the position of "shooting fish in a bucket," but there is no obvious reason why the System should cater to that desire. The more understanding and self-reliant among them do not expect anything of the sort, but realize that they must draw their

[3] Incidentally, the danger that the open-market account might become frozen as a result of acquisitions of securities involved in refunding operations (discussed on pp. 35 and 36 of the report) raises the question of whether more could not be done toward redistribution of maturities in the account by responding to swap offers from dealers between Treasury offerings, if and when they suited our convenience. Such swaps (or practically simultaneous sales and purchases, sometimes involving different dealers) were made frequently in past years. Far from constituting undesirable intervention in the market, they frequently contributed to the "depth, breadth, and resiliency" of the market, and were advantageous to the System as well.

own conclusions as to what lies ahead and assume their own risks in return for the profits they hope to make. The advisability or inadvisability of promulgating any suggested ground rules will have to be decided, not on the basis of dealer preferences, but on the basis of the conclusions reached as to whether such rules would contribute to the effectiveness of the System's operations.

There are times when uncertainty in the market as to what the System will do may be helpful in promoting the System's credit policy objectives. To illustrate, if dealers are uncertain whether or not the Reserve banks will take Government securities from them under resale agreement—over weekends or at any other time—they will be more cautious in buying additional securities; potential sellers will find that they cannot so readily convert Government securities into cash; and the System will avoid opening its doors to ready access to Federal Reserve credit. Such effects of uncertainty in the Government security market may at times be highly desirable from the viewpoint of monetary and credit policy, even though they may limit the breadth and activity of the market for Government securities.

To the extent that is considered desirable to promote a better understanding of the general character of the System's operations that may be expected, may it not be better to convey to the market, through a consistent pattern of operations, a good understanding of the general principles and procedures of the Federal Open Market Committee than to make specific pronouncements which might, in some circumstances, be unnecessarily restrictive and embarrassing? If the recent operating policies of the System are continued, operations in the short-term sector of the market will soon come to be regarded as the normal expectation, and it will be observed that operations in other sectors are undertaken only for good reasons.

Relations with the Treasury

Mr. Sproul's notes on this subject were presented at the meeting of Reserve bank president with members of the Board of Governors on January 27. A copy of his notes is attached as an appendix.

II. SPECIFIC RELATIONS WITH DEALERS

General comment

It is the view of the subcommittee report that, despite the presence of generally satisfactory organizational elements, the market currently lacks "depth, breadth, and resiliency" to the full degree that would be desirable for the efficient conduct of effective and responsive open market operations. This condition, in the view of the subcommittee, is in part a product of the character of Federal Open Market Committee market relations which have, in the present context, become a barrier to the full development of the attributes considered necessary for an efficient market. The reasons for this, the subcommittee believes, are to be found in (1) the existing dealer-qualification procedures which, on the one hand, limit the advantages to the System accruing from the market's facilities and, on the other hand, inhibit the development and effective operation of dealer firms by denying to them the "privilege" and advantages of handling transactions for the System and obtaining credit through repurchase agreement, and (2) the operating techniques of the Federal Open Market Committee which involve paternalistic interference with dealer activities and an undue "personal" intrusion in their operations and business affairs.

The specific recommendations of the subcommittee for remedial action in these general areas are reviewed and examined in this section. A few broad observations appear to be in order, however, before turning specifically to individual recommendations. The Federal Reserve Bank of New York recognizes much that is sound in the detailed proposals covering our specific relations with the dealer market. Many of those proposals are an acknowledgment of a changed situation—a situation in which we have shed as much as possible of the role of price fixing in the Government securities market. Most of them are broadly consistent with the procedures followed over the past 20 months, since the "accord," by the Federal Open Market Committee and by the manager of the account in areas where he had discretionary authority. Hence, some of the practices and procedures singled out for review and corrections have already been modified or discarded in response to new conditions in the Government security market and to the requirements of a more nearly traditional approach in the application of a policy of general credit control. To some extent, therefore, actual events have overtaken the subcommittee's report. Other proposals of the subcommittee have not been tried, or recommended for trial by the Federal Reserve Bank of New

York because they either present no clear-cut advantages or raise new problems requiring further examination and experience for solution.

It is important to bear in mind in considering this section of the report and the contributions to be expected from the proposed change in operating techniques that "breadth, depth, and resiliency" are not absolute concepts as they relate to the Government securities market; they can at best be realized only in a relative sense and gains or progress to this end should not be bought at too high a price in terms of credit policy or by inviting new and possibly more difficult problems in market relationships and policy implementation. There must be assurance that the basis of the account's dealer relationship, if appreciably broadened, does not invite more, rather than less, activity in the System account by widening dealer access to Federal Reserve credit, that the System has the technical information necessary to enable it to render informed judgments as to the need and the character and timing of operations in the market, and that it avoids the dangers of extreme reaction in attempting to be too impersonal in a market that is itself personal in character, based on the principle of negotiated transactions.

Dealer qualification

The ad hoc subcommittee finds no present or prospective justification for continuing the present system of rigid qualification for dealers with whom the account will transact business and recommends that the system be dropped. As an alternative, the subcommittee suggests a revision in the list of qualified dealers and the abandonment of a policy of differentiating between qualified and other dealers in the case of repurchase agreements, purchases of "rights" (if any) in support of Treasury refunding operations, and transactions to correct disorderly markets. This is a case of Hobson's choice; to accept the second alternative is in effect tantamount to concurring on the first, or basic recommendation.

For a full understanding of the present qualification procedures a brief description of its antecedent is necessary. The whole question of dealer relations was reexamined by the Federal Open Market Committee in 1943. Early in 1944 the Federal Open Market Committee formally approved tthe procedure currently in effect governing System-dealer relations. In explaining that action in the Record of Policy Actions of the Federal Open Market Committee in the Annual Report of the Board of Governors of the Federal Reserve System for 1944 the following statement is made:

"The * * * action of the Federal Open Market Committee followed a thorough study of the relationships with the dealers and brokers through which transactions for the System open-market account were executed. The Committee felt that, although the informal arrangement that had existed previously was satisfactory for a period when tthe volume and amount of transactions for the System open-market account were relatively small, the increase in the activity of the account, and the likelihood that operations in very large amounts would continue during the remainder of the war and into the postwar period, made it desirable to place the existing relationships on a formal basis. The terms of agreement represents in substance the informal agreement that had been in effect between the Federal Reserve Bank of New York, as agent, and the dealers and brokers with whom the Reserve bank previously had transacted business for the System open-market account."

Qualification procedures, involving dealer "recognition," in some form have always been used in dealing with the market. Formalization of those procedures in 1944, as the culmination of a thoroughgoing review in 1943 of the System-dealer relationship, was not consciously or deliberately related to, or developed as an integral part of, the whole apparatus of pegged markets which reached its zenith some 4 years later. It was, on the contrary, recognition of a need to lay down principles governing operating procedures which would be understandable and defensible in the circumstances then existing or likely to eventuate; and in serving that purpose it formalized and continued in operation a system of market contact that was originally set up at the Federal Reserve Bank of New York to serve the interests of credit policy.

The Federal Reserve Bank of New York holds no brief for the present qualification procedures or for their maintenance on a formal footing. They are admittedly imperfect procedures which have been under almost continuous criticism and review at the Federal Reserve bank since their formal adoption. In considering this aspect of the System's market relation the Federal Reserve Bank of New York does, however, start from the premise that some procedure for the designation or the qualification of dealers for transactions with the Federal

Reserve banks is both necessary and desirable if our dealings with the market are to be handled in the most effective way. It is, therefore, no wholly constructive or final solution to advocate the dropping of current qualification procedures; for that course leaves unanswered more questions than it settles.

The basic recommendation on dealer relationships in the ad hoc subcommittee report points up the need for a redetermination by the Federal Open Market Committee, of its position on dealer qualification and a decision by it as to whether the details of System account contact with the dealer market are to be laid down by it, as a policy body, or are to be delegated to the Federal Reserve Bank of New York, chosen as the executive agent of the Federal Open Market Committee, and the officer of the bank selected to serve as manager of the account. Once that basic question has been answered, there remain the subsidiary matters of appraising the advantages and drawbacks of a formalized procedure whose inflexibility precludes operations, in special situations, with some of the smaller dealers, as against an informal procedure with latitude for discretion in action. Finally, the Committee itself or the Federal Reserve bank, acting as the agent of the Federal Reserve System as a whole with the aid of the manager of the System open-market account, would be still faced with the task of developing workable criteria governing the choice of dealers eligible for handling transactions with the System open-market account.

Either way, the "problems" of dealer-Federal Reserve System relations will not be easy. The Federal Reserve Bank of New York, as fiscal agent of the Treasury and in its agency capacity for various foreign central banks and others, will continue to be an important factor in the Government securities market and it will, through its directors, continue to make a determination with respect to those dealers through whom it is prepared, as agent, to execute orders in Government securities. Insofar as practicable, those procedures would have to be broadly consistent with those governing open-market operations if it were intended to screen from the market the account for which particular operations are carried out. On the other hand, if different procedures were used and if the market were able to distinguish between transactions by the bank, as agent for the Federal Reserve System and transactions by it in its other agency capacities, dealers and others might continue to be dissatisfied and articulate in their criticism of the System on the grounds that its choice of dealers was a wholly capricious one. If any disinction is made between dealers serving the bank as it functions in its two leading capacities in the market, the question will inevitably arise in the public mind as to why two sets of standards are utilized.

Whichever way these decisions may go, however, difficulties in connection with the question of qualification will be faced by the Federal Reserve Bank of New York and the Federal Open Market Committee in justifying whatever procedure is adopted governing their relations with dealers; for no matter what their formality or their informality may be, or their criteria or the lack of them, those procedures will inevitably involve the recurring questions of the marginal firm and the equity or justification of excluding it. We shall always have the problem of differentiating between one set of dealers and another on some basis. For even if there is no list of qualified dealers, the bank cannot do business with everyone all the time. That would be an administrative impracticability. How, then, shall the bank distribute its business? There will have to be some principles, and their effect will have to be to include some dealers and exclude others, whether that is formalized as a qualification procedure or not.

The alternative to discarding existing qualification procedures presented by the subcommittee, i. e., revision of the list of qualified dealers, and limited qualification of "nonrecognized" dealers—presumably any dealer—for certain types of transactions, is not a promising line of approach. Under existing practice, the qualification procedures are applied by the manager of the account. By and large the factors to be taken into account in determining qualification have been applied with reasonable flexibility and all decisions by the manager have received Federal Open Market Committee approval. It is true that there is some room for revision of the list of presently qualified firms within the existing framework, but any such revision might, if based on stricter interpretation, result in a contraction rather than an expansion in the number of dealers serving the account, a course which would presumably be at cross-purposes with the objective of the ad hoc subcommittee. To do otherwise would be to vitiate the standards, and then new ones would have to be substituted. The subcommittee does not suggest any different standards. Consequently further study of that question will have to await the development of substitute criteria.

Related to the suggestion for a revision in the list of qualified firms is the recommendation that the account undertake transactions—to the extent that such trans-

actions are called for—with dealers, other than those qualified, in the case of transactions in "rights" to support Treasury refunding operations and to correct disorderly markets, and to enter into repurchase agreements with all dealers who participate regularly in the weekly bill auction. Taken collectively, these are, of course, important areas of System intervention, although each is of shifting relative importance, repurchase agreements being currently the most significant. Viewing the use of repurchase agreements as an orderly market operation, this is little more than a recommendation that the System use various dealer groups on the basis of a functional distinction in System open-market operations which would limit outright transactions for purely credit purposes to qualified firms. This dual standard of qualification is questionable, for it breaches the qualification procedure not for the purpose of promoting the System's major policy objectives, but for the sake of secondary purposes—for what are, in effect, "orderly market" operations and support of Treasury financing. It would seem preferable from the standpoint of the market and the System to have a uniform, defensible, and easily understood procedure for all transactions under Federal Open Market Committee direction.

Operating techniques

Under the heading of "Operating Techniques" the subcommittee report recommends the discontinuance of the following practices:

1. "Reluctant buying";
2. Agency transactions for the System account;
3. Refusal to purchase "rights", to the extent that any "rights" are purchased, from dealer positions as well as from customers; and
4. Refusal to buy bills acquired by dealers on a cash basis.

These proposals for change in operating procedure are among those which have now been overtaken by actual events insofar as their immediate application is concerned. The practices cited were initially undertaken at different times in the past for valid reasons with the knowledge or approval of the Federal Open Market Committee, but have since been virtually abandoned as operating techniques following the "accord" with the treasury and the subsequent development of a freer market for United States Government securities. In general, the recommendations in this section of the report represent desirable procedures at this time which are in conformity with current practice but it would seem that there are not, and probably cannot in practice, be any iron-clad rules governing Federal Reserve System open market techniques under the full range of unpredictable market circumstances and credit policy problems arising out of alternating programs of restraint, neutrality and ease.

"Reluctant buying."—The subcommittee favors the complete abandonment of "reluctant buying." The practice of "reluctant buying" predates World War II although it found its most extensive use during the periods of heavy support of the long-term market at fixed prices in the early postwar years. It was used primarily in dealing with sophisticated investors who were large holders of Treasury bonds and who were anxious to sell but were not easily stampeded by rumors. Its use was based on the belief that it was the best way to hold the line on security prices without unnecessarily large expenditure of Federal Reserve credit. Support operations, to which this practice was primarily related, have long since been abandoned. If applied to operations undertaken to correct disorderly market conditions, the recommendation for "aggressive" as opposed to "reluctant" buying may require further consideration.

In certain types of situations "reluctant buying" rather than "aggressive buying" can be a technique which tends to support rather than defeat a restrictive or neutral credit policy. There would appear to be no immediate use for this device as an operating procedure in the context of current credit policy and prevailing market conditions and, therefore, it would seem unwise to advocate either "reluctant" or "aggressive" buying at this time. The use of either technique in the future, as in the past, should depend on the circumstances and on other System policies.

Abandonment of transactions for the System account on an agency basis.—The subcommittee recommendation that "agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis" seems appropriate so long as open market operations are limited almost exclusively to the execution of credit policy. When the System is undertaking to provide the banks with additional reserves through open market operations, there is no apparent reason why it should matter whether the securities come from the portfolios of dealers or from investors so long as the price is satisfactory.

It is essentially a practice that has primary reference to price support activities and not the realization of credit objectives.

In the pre-accord years, the Federal Open Market Committee showed a pronounced preference for effecting transactions with dealers in United States Government securities acting as agents rather than as principals. The Committee's concern with the capacity in which a dealer acted in connection with a System transaction was an outgrowth of the increase in the public debt, an expansion in over-the-counter activity in Government securities and the need for more active participation by the System in the market in connection with wartime rate stabilization operations. It reflected, in part, an effort to limit dealer revenues arising from System operations and, to that extent, to encourage the conduct of business "away from the System" insofar as commissions might be an influence, The practice was continued in the postwar years along with market stabilization policies. At a meeting on June 10, 1946, the executive committee of the Federal Open Market Committee decided that transactions in which a dealer was acting as principal should be limited to exceptional cases. Two years later further consideration was given to the question of agency and principal transactions, and at the meeting of the Executive Committee on May 20, 1948, it was decided to permit transactions in Treasury bonds between the Federal Reserve Bank of New York and qualified dealers, with the dealers acting as principals rather than as agents in cases where it appears desirable, in the interest of maintaining an orderly market, to avoid identification by the market of System operations. The latter action reflected only a nominal relaxation in the Committee's preference for effecting transactions with dealers on an agency basis.

Agency transactions by the dealers worked well in a supported market when the System was dealing with a "residue" which was in reality a large part of one side of the market. But it has little relevance to the present market and the effort of the System to regain initiative over the availability and supply of reserves on the basis of its own criteria. Actually no transactions have been made on an agency basis for over a year except those connected with the support of certain Treasury refundings where it was desirable to limit the dealer incentive to buy "rights" for resale to the System account.

In line with the subcommittee's recommendation, it would appear desirable in terms of both policy execution and market mechanics that the current direction from the Federal Open Market Committee regarding transactions for the account on an agency basis be revoked and that in lieu of it the manager of the account be granted full discretion as to whether System open market account transactions are to be conducted with dealers acting as principal or as agent.

Purchase of "rights" from dealer positions.—The subcommittee report recommends that if "rights" are acquired during Treasury refunding operations they be purchased from dealers without regard to whether or not they come from dealer positions. In considering this proposal it should be said that the manager of the account has never followed a specific policy of deliberately abstaining from purchasing "rights" from dealer positions. In fact, transactions in support of Treasury refunding operations have more often than not included purchases of "rights" from dealer positions, depending upon the particular circumstances governing the refunding operation. The manager has felt justified, on occasions, in refusing to relieve dealers of all "rights" offered to the account for sale in this situations where—

1. the dealers needed to be reminded of their stake in the market and of their responsibility as dealers to carry in position reasonable amounts of such "rights," and
2. it was necessary to avoid exploitation of System operations in support of Treasury refundings by dealers who had acquired "rights" on a speculative basis in advance of such refunding operations and later attempted to unload on the Federal those "rights" when the anticipated demand for the new securities into which the "rights" were exchangeable failed to develop.

Such occasions arose mainly when the System was pegging rates, and the dealers were understandably unhappy over the responsibility placed upon them for sharing the task of maintaining the market.

Recent practice of the System in supporting Treasury financing operations (when there has been such support) by either paying only par or a nominal premium for "rights," or by limiting such support to Treasury bills and the use of repurchase agreements, should remove any hope that the System will, in the future, buy "rights" on a basis that would guarantee a quick profit. In these circumstances it is not likely that the dealers would acquire substantial amounts of

"rights" for their own accounts until it is clear that the new securities would sell at appreciable premiums within a reasonable period. Consequently unless some unforeseen development should occur to change that expectation, they would be unlikely to press their "rights" on the system and if such a development occurred there would seem to be no reason why the System should not take "rights" from dealer positions as readily as from anyone else.

It seems clear that a fixed refusal to buy "rights" from dealer positions is in principle an undesirable procedure at this time.

Refusal to buy bills acquired by dealers on a cash basis.—The subcommittee recommends the discontinuance of a refusal to buy bills acquired by dealers on transactions for cash delivery. This practice was adopted at a time when the System was supporting a fixed structure of rates based on transactions for regular delivery and attempting to maintain reserve positions conducive to market stability. It was, therefore, trying to avoid market practices which would tend to cause sudden fluctuations in bank reserves (particularly of the money market banks) to which open market operations could be adjusted only with a short time lag. Since the System is no longer supporting a structure of rates and attempting such day-to-day stabilization of reserve positions and money market conditions and, in general, buys securities only to meet somewhat longer-run needs for reserves, the System account no longer refuses to buy bills on the grounds that they have been bought by dealers for cash delivery. Accordingly, the subcommittee's recommendation that this consideration now has no place in the conduct of the System open market account gives appropriate recognition to current practice.

Information from dealers

Another phase of dealer-Federal Open Market Committee relations which is the subject of criticism and of recommendations by the subcommittee concerns the personal contact with, and the information obtained from, dealers in Government securities. It is the view of the subcommittee that the existing relationships between the System account and the dealers are not as impersonal as is desirable now that the Committee is no longer trying to peg prices and yields on Government securities and, further, that the manager of the account obtains from dealers information that is unnecessary in amount and too complete as to detail for his needs in the day-to-day operation of the account. As a corrective, the report recommends—

1. that the morning conferences with the dealers be abandoned,
2. that no effort be made at the trading desk to identify customers of dealers,
3. that independent reports of individual dealer positions and trading volume be prepared by some officer of the System other than the manager and only the aggregate of volume and position for all reporting dealers be turned over to the maanger, and
4. that the present practice of asking dealers to report transactions in detail during the trading day be discontinued.

These proposals reflect the view that in the overall framework of the subcommittee's recommendations there is, or will be, less need for market information as a guide to the successful conduct of open market operations. There is also implicit in these proposals the belief that there is no need for more than a restricted contact on the part of the management function with dealers and that it would be desirable to eliminate any possibility of undue interference with or improper influence over the dealers, on the one hand, and the opportunity, on the other hand, for loose inferences by them regarding the policies of the Federal Open Market Committee. These recommendations are discussed in the following paragraphs.

Morning conferences.—An important phase of the bank's contact with the market consists of daily conferences prior to the opening of the market at 10 a. m. between representatives of qualified dealers, appearing on a rotating schedule, and those officers directly responsible for the conduct of open market operations. At these conferences, the representatives review the more important developments in the market, summarize their transactions and pass on to the officers of the Reserve bank any comments they wish to make or any suggestions that they have gathered in their conversations and contacts with the investment public in general. These conferences serve to amplify the bare statistics of the written reports and offer a closer, somewhat more intimate sidelight on a firm's policy and on the market's general psychology. Recently attendance at these meetings has been curtailed and only one, or at most two, officers of

the New York bank are in attendance. The fact that no notes are now made or kept of the interviews should help to allay possible feeling among the dealers (if it exists) that the information they furnish may be subject to improper use or incorporated in a formal record.

These meetings are of long standing—they were started many years before there was any thought of pegging the market for Government securities. Their original purpose was to keep the manager of the open market account and the principal officers of the System well informed on developments in the market, and to enable them effectively to respond as fiscal agent to requests from the Treasury for advice concerning its public debt operations. There is no reason to believe that these morning conferences gave rise to objections from the dealers prior to the postwar period of support operations, and until the report of the ad hoc subcommittee appeared we did not know that they were resented in the more recent period. Presumably the officers of the System should continue to keep well informed, for the reasons mentioned above, if for no other.

In the absence of such conferences it is believed that dealers would, as in the past, call upon the manager of the account in person just as they now make regular calls at the offices of their customers and others in the pursuit of information and business. Such occasional informal and unscheduled interviews, while they have their place, would not seem to be an adequate substitute for regularly scheduled morning conferences of the kind now held. The question whether to discard or retain this point of contact with the dealers turns on whether the dealers wish voluntarily to continue the meetings and whether such meetings contribute enough in the way of market information and policy guidance to justify their continuance by the manager of the open-market account. The answer to the latter question will, in turn, depend on whether the operating officers of the System charged with the responsibility for the conduct of open-market operations can keep easily and adequately informed through their other contacts with the dealers. It is the opinion of the operating personnel at the New York bank that these interviews serve a real purpose and meet a real need as a source of information for the execution of open-market policy and for reports of conditions in the money market and the Government securities market which are made on both a formal and informal basis to the Federal Open Market Committee, the Treasury, and the Board's staff. They enable the officers to maintain contacts on a much more efficient and less time-consuming basis than would be involved if the sole source of contact were visits from individual dealers at various times during the working day. For these reasons, the bank cannot agree with this recommendation. It wonders how general was the criticism of the morning meetings and what were the specific grounds of criticism.

Identification of dealers' customers

The report recommends that the information concerning dealers' operations obtained at the trading desk be restricted so as to prevent identification of individual customers. This recommendation evidently refers to past operations by the System account during periods of fixed-price support when at times the System tried to avoid unnecessary purchases of large blocks of securities from individual investors. Under the policy of fixed-price support and a practice of "reluctant buying," occasional attempts were made by investors and by others to liquidate blocks of securities by dividing large offerings of such securities into smaller amounts among various qualified dealers. In a number of cases this led to the identification of customers by the manager through indirection; the name of the seller was not requested, but the identity was made clear by qualified dealers who were attempting to cooperate.

The needs of the System in this connection are adequately met by obtaining general information regarding classes of investors rather than the names of individual investors. As the subcommittee indicates, System personnel should not and do not currently ask for the latter type of information.

Independent tabulation of reports of dealer positions

The subcommittee recommends that reports on dealer positions be collected by an officer of the System, other than the manager of the account, and that only the totals of such positions be furnished to the manager. This is, like the question of dealer conferences, a matter of judgment as to the amount and character of information necessary for the effective conduct of open-market operations, whatever their specific purposes. The manager has received and compiled this information since the decade of the thirties from the dealers who were qualified or recognized, as well as from others who voluntarily submitted detailed data regarding their trading volume and position. The manager has found this infor-

mation of basic value in the effective management of the account in the various circumstances and conditions prevailing in the past. It is important in judging the degree of self-interest in dealer opinions regarding the position of the market at any given time and in judging the need for repurchase agreements. And it is also helpful as a guide to future developments and a useful key to market psychology and the role of individual dealers in its formation. This is not to say that the information is needed and used daily, but only that there are times when it can be critically important.

Information on individual dealer positions is an integral part of the whole body of data intended to give an insight into the technical position of the money and Government securities markets. The aggregate of the dealer positions is not enough in itself, for such an aggregate is the sum total of net positions of each individual dealer. That necessarily means that the short position of one dealer and the long position of another in a given issue, or issue category, is netted, so that the account manager could only get from the totals either an incomplete, or a wholly misleading view of the position of market professionals. In the event of the need for System intervention in the market to correct disorderly conditions, it would be helpful for the manager to have information concerning individual dealer holdings in particular issue categories, the purchase of which, in whole or in part by the System, might help to relieve the situation quickly. Such information is also needed by the manager whenever extension of repurchase agreements is under consideration.

To withhold this kind of information from the manager would imply that he could not be trusted to use it impartially in the best interests of the market and in effective expression of System policy. If the information is to have any value to the manager and to the Federal Open Market Committee, it is inevitable that at times it may be disadvantageous to the individual dealer to have his position known in detail, just as at other times it may be advantageous to him. But that does not mean that in a broader sense the market as a whole does not gain. The case against current practice with respect to the collection and use of data on dealer positions is essentially the risk that it will be misused. The case in favor of continuing the present practice is the demonstrated value of this information in providing one more element in a balanced and informed view of the underlying position of the market which is vitally necessary in connection with the administration of repurchase agreements and any operations intended to correct disorderly conditions.

Detailed reports of transactions.—The report recommends that we discontinue asking dealers to report their transactions in sufficient detail to permit the computation of current individual dealer transaction sheets. The origin and the nature of this recommendation is obscure. The Federal Reserve Bank of New York does not compute current transaction sheets for each dealer. It does maintain an informal record of the larger transactions reported so as to maintain a current picture of the supply and demand in the market but this record is not kept in such form as to show the activities of one dealer as compared with another. Any less information than we are now receiving would be clearly inadequate to form the basis for reports on market conditions. Sometimes the information about a sizable order received at the trading desk is compared as a matter of interest with the volume figures reported by a particular dealer but this is not done on a regular basis.

It would appear that the subcommittee's recommendation is based on a misunderstanding.

Information required by the Manager.—The Federal Reserve Bank of New York believes that effective administration and execution of open market operations (even if more narrowly circumscribed than at present) require close and continual contact with the money and Government securities markets as necessary sources of technical information for the constant rendering of judgments regarding the timing, the form, and the amount of System intervention. Adequate information could not be obtained from statistical evidence alone. The most important aspects of the System's contact with the market and its primary source of market information are (1) the daily conferences with the representatives of the dealers in rotation, (2) the confidential daily written reports submitted to the Federal Reserve Bank of New York and (3) continuous contact maintained over the private wires between the bank and the dealer houses. Their purposes have much the same general objective but each complements the other making its own special contribution to a rounded integrated picture of actual and prospective developments in the market.

Such channels of information are a necessity if the System is to play an effective role in meeting its primary responsibilities for credit policy and its secondary responsibilities for preventing disorderly market conditions and for cooperation with the Treasury in its financing operations. The volume and character of information which the manager has sought and obtained through these channels has shown appropriate variation over the years with changes in policy. In general, it would seem preferable to maintain those contacts and those sources of information which have proved useful to the Federal Open Market Committee through the operating personnel in the field and to leave some discretionary latitude to the manager for appropriate and flexible variations in the operating relationship with dealers.

Call money post

The subcommittee recommends that the feasibility of reestablishing a central call money post for dealers be explored. This proposal has some attraction for, if successful, it would fill a gap that has been created in the money market by the demise of the call money market of earlier years.

If it worked as anticipated, the result probably would be for dealers to hold considerably larger amounts of Government securities and for corporations and other temporary investors to put at least some of their funds on loan instead of investing them directly. Whether or not that would result in a broader and more stable market for Government securities, however, is questionable; it is quite possible that dealers' holdings would prove to be more volatile than holdings of those who now invest directly instead of making call loans.

The availability of such a facility would probably be useful at times, but can we safely generalize for the future and say that an active call money market would be helpful in all circumstances? Is there not the possibility that the volatility of such a market might sometimes become a disturbing influence?

In any event, it is not clear how the proposal can be implemented satisfactorily. It is very doubtful whether the New York City banks would be interested in promoting a mechanism which might take business away from them, and it is most unlikely that the New York Stock Exchange would be interested in reestablishing a money post which would largely serve nonmembers of the exchange. Government security dealers presumably would be interested, but would not care to have the money post in the hands of anyone who might be interested in their positions as reflected in their borrowings. The Federal Reserve Bank of New York might be accepted as a neutral spot, but it is not clear why we should undertake a function of this sort serving one particular type of private interest.

Federal Reserve reports

The subcommittee recommends that, with a view to improving the data it makes available to inform the public of its operations, the following information be shown in the weekly statement of condition of the Federal Reserve banks:

(*a*) Securities held on repurchase agreements,
(*b*) Special certificates of indebtedness held by the System,
(*c*) Weekly averages of member bank borrowing.

It is presently possible for those who are skillful in interpreting Federal Reserve statements to get a fairly accurate idea of the amounts and types of securities involved in repurchase agreements. Nonetheless, there may be some question whether the System should facilitate a more complete and accurate determination of the amount of repurchase agreements on grounds that such a disclosure might be detrimental to the dealers at times of money-market stringency insofar as those agreements provide an accurate measure of dealer positions in short-term Government securities. The decision here thus seems to turn on whether the System should take any official action which would broaden public knowledge of the dealers' positions at times when credit is tight and repurchase agreements are outstanding in volume.

Information regarding Treasury use of special certificates of indebtedness is now carried in the Federal Reserve Bulletin with a considerable time lag and on a more current basis in the debt section of the daily Treasury statement.

How much interest there would be in the record of weekly averages of member bank borrowing is questionable. Apparently little attention has been paid to the figure now given on weekly average excess reserves.

All things considered there would appear to be no objection to the inclusion of all these items in the statement on a separate basis if it is concluded after full consideration that the matter of dealer positions raises no problem. If the decision is in favor of separating repurchase agreements from other security

holdings, an alternative form of publication which might be considered would be to show them as "other loans." (They should not be included in "Discounts and advances.")

III. "HOUSEKEEPING" IN THE FEDERAL OPEN MARKET COMMITTEE

Under present arrangements the responsibility for executing transactions of the Federal open-market account is delegated to the Federal Reserve Bank of New York, and one of its officers has customarily been appointed manager of the account subject to the approval of the full committee. The manager conducts operations under the general directives of the full committee and the specific articulation of those directives provided by the executive committee. The day-to-day performance of the manager is under the continuing surveillance of the president of the New York bank, both in his capacity as vice chairman of the Open Market Committee (and of the executive committee) and as senior executive officer of the bank which must answer to the committee for the satisfactory performance of the manager's functions.

The subcommittee considers these arrangements anomalous and proposes study of methods for separating the management of the account from the Federal Reserve Bank of New York. The subcommittee's report covering these matters raises three importat questions. Question 1 is whether the present arrangements are in fact anomalous, or more broadly, whether they fail to conform with the letter and spirit of existing law. Even if there are in fact no anomalies, question 2 is whether the New York bank and its president should, for other reasons, be relieved of direct responsibility for the conduct of the account. And question 3 is whether performance could be improved by making the account an independent entity within the System, separate from the Board of Governors and from all of the Reserve banks, with the manager of the account responsible only to the Committee as a whole.

The anomalies

An anomaly is something abnormal, peculiar, or in the historical sense, "out of date" or incongruous. But the subcommittee seems to mean even more than this—something which has grown into a form that no longer fits the intention of the law. Specifically, the subcommittee suggests as inconsistent with the statutory position of the Federal Open Market Committee:

(*a*) The absence of a separate budget covering its operations;

(*b*) The absence of a separate staff responsible only to the Committee; and

(*c*) The delegation of the management function to an individual Federal Reserve bank.

It makes no firm recommendations as to changes, but suggests "that the Committee reexamine and review its present organization, and in particular that it consider the advantages and disadvantages that would ensue, were the manager of the open-market account made directly responsible to the Federal Open Market Committee as a whole, and not, as at present, responsible through the Federal Reserve Bank of New York."

This line of thinking seems to be predicated on the premise that the Federal Open Market Committee should be not only a policymaking body, but also an operating organization. There is no apparent basis for this premise in the provisions of the Federal Reserve Act governing the Federal Open Market Committee. Section 12A provides for the creation of the Federal Open Market Committee and specifies its membership, prohibits the Federal Reserve banks from engaging or declining to engage in open-market operations except in accordance with the direction of and regulations adopted by the Committee, and sets forth the governing principles of open-market operations. There is no suggestion, however, either in this section or in section 14 that the Federal Open Market Committee is itself expected to conduct open-market operations. The implication would seem to be that the Reserve banks are to perform these operations, but subject to the policies and regulations of the Committee.

Nor is there any suggestion that the Committee should be provided with funds with which to engage in operations or to set up a separate organization with a separate budget. On the contrary, the clear inference is that the Federal Open Market Committee was expected to be solely a policymaking body consisting of members with other primary duties in the fields of System policies and operations, and that the Reserve banks were expected to buy and sell Government securities in accordance with the direction and regulations of the Committee.

There is also at least an implication that the policymaking body was expected to fulfill its functions best if it were closely interrelated, through its membership, with all other policy and operating responsibilities of the System—rather than standing apart as an independent unit within the System.

The open-market account was created under the regulations of the Committee as a means of coordinating and centralizing the operations of the Reserve banks. Experience showed that as a practical matter these operations had to be closely coordinated as to timing and impact. Consequently, although all Reserve banks had the power to act, it was found administratively essential to pool all of their activities into 1 account, and to designate 1 Reserve bank to conduct all operations. The Federal Reserve Bank of New York was delegated the responsibility for executing transactions because it is the bank located in the central market for Government securities, and one of its officers has been appointed manager of the account subject to the approval of the Federal Open Market Committee. The intent and spirit of the law would seem to be that only the Reserve banks, or one acting for all, should conduct operations in Government securities. To take this function away from all Reserve banks and place it in a separate entity would seem to depart from the intent of the statute and also from the "Federal" structure of the Federal Reserve System. That is, instead of allocating System functions among the 12 Reserve banks as the operating arms of the System, the new procedure would be to create a unit of a different type, outside all of the banks—a "thirteenth" operating institution to handle some of the System's most important kinds of transactions.

Just why presently existing arrangements should now be regarded as in any way anomalous is far from clear both in view of their legal basis and because they have emerged in response to needs over a period of years, and are not in any sense an historical accident. Moreover, the usual practice in all the committee activities of the System is to draw on available personnel at the Reserve banks and the Board, rather than to set up separate staffs with separate budgets. That is the way to assure strong staffs at the Board and in the Reserve banks, and to assure the most efficient use of all of the talent available throughout the System. The Federal Open Market Committee does differ from other System committees in having been specifically set up by statute. But, as has been pointed out above, that very statute confirms the usual System practice by placing on the Federal Open Market Committee only members having other major responsibilities, rather than members having no other functions or responsibilities.

The report states that the Federal Open Market Committee "is especially charged, also, to use its powers to provide an elastic currency for the accommodation of agriculture, commerce, and business, i. e., to promote financial equilibrium and economic stability at high levels of activity." That stretches considerably the statutory provisions now governing the Committee. The statement better describes the responsibilities of the System as a whole, and even for the System as a whole it is based in part on inference rather than any specific provisions of the Federal Reserve Act. In any event, whatever the merits of giving new status to the Open Market Committee as the single embodiment of all System authority—and there may be such merits, to be sure—the Committee does not have that comprehensive authority now. The proposals for a separate budget and separate staff thus rest on a false premise. The effect of creating a separate staff and separate budget might actually be to weaken the participation of the Reserve banks in the work of the Committee. This risk could only be justified, as the subcommittee seems implicitly to recognize, if a major change in the structure of the System were to be made—placing upon the Committee responsibility for all of the policy actions of the System.

Consideration of changes in the organizational arrangements for carrying out the policy decisions of the Committee, therefore, must depend primarily on the question of whether present arrangements have serious shortcomings and, if so, what arrangements might be made that would give assurance of substantially better results. The report points out that "It would be extremely difficult to build up a new and independent staff as qualified as the personnel which it now enlists to work on its problems." It goes on to state, "It would be equally unfortunate to lose the contributions of that staff to System problems that fall outside the limited area of responsibility of the Federal Open Market Committee. Yet there are equal dangers in a situation where the time of no one person on the whole staff of the Committee is wholly devoted to its responsibilities, where everyone wears two hats, and where each must fulfill duties separate and distinct from those imposed by the Federal Open Market Committee." Just what the dangers are, to which the last-quoted sentence refers, have not been specified

in the report. The fact of the matter is that the manager of the open-market account and his principal assistants devote their attention and efforts almost exclusively to the interests of the System's open-market operations, and engage only to a minor extent in other activities. In any case, there is no conflict between their primary activities in behalf of the open-market account and any secondary responsibilities; the latter serve generally to broaden their knowledge and capabilities for performing their primary duties for the account.

Removing the responsibility of the New York bank and its president

Even though present arrangements are the consequence of statute and experience, and do not involve any apparent anomalies, it is nonetheless proper to inquire whether some changes in arrangements could materially improve the functioning of the Open Market Committee within its present range of responsibilities. The subcommittee does not ask whether some other Reserve bank might better manage the account. Presumably that is not suggested because the present organization of the Government security market makes it inevitable that the major point of System contact with the market must be in New York.

With respect to the delegation of the management of the open-market account to the Federal Reserve Bank of New York, the report points out that the present arrangement has the advantages of being able to use the personnel of the bank for all the operational aspects of open-market operations and of having the directives of the Federal Open Market Committee and its executive committee carried out under the supervision of the president of the bank (who is also Vice Chairman of the Committee), thus assuring "that policy is made effective in operations."

The report goes on to suggest, however, that this arrangement "has the disadvantage that the president of the Federal Reserve Bank of New York sits at meetings of the Federal Open Market Committee and of the executive committee necessarily in a somewhat different role from that of his colleagues. He comes not only as a contributor to the discussion on policy formation but also necessarily as a protagonist for the actual day-to-day operations of the account. These operations are his responsibility. He cannot criticize them without criticizing his own staff. The Committee, therefore, in some part loses contact with the critical insight of its best-informed member. It has the disadvantage also that other members of the Federal Open Market Committee, reluctant to seem critical of a colleague, may hesitate to scrutinize adequately the technical operations of the account. This is a serious deficiency because the other bank president members of the Committee are usually scattered and out of intimate touch with one another as well as with the market. They must depend on give-and-take discussion at Committee meetings and at the meetings of the executive committee to sharpen their appreciation of the Committee's operating problems."

These statements are not intended, we know, to be critical of the individual who is now the president of the Federal Reserve Bank of New York, although they do seem to assume that through negligence or lack of capacity he, as president of the institution delegated the responsibility for executing operations, is likely to be unable to live up to those responsibilities. They imply that he must always defend what has been done, cannot admit mistakes, or learn from them, and must be a "protagonist" rather than a full participating member of the superior body—the Open Market Committee. If that is true of the president of the Federal Reserve Bank of New York, situated as he is, who can be expected to do a better job? Is it to be assumed that the Committee as a whole, or its executive committee as a group, or some other individual can better supervise day-to-day and hour-to-hour operations? Or is it assumed that the manager of the account, if he were separated from the Federal Reserve Bank of New York and from the supervision of its president (and the Vice Chairman of the Federal Open Market Committee), could operate the account more competently? It would be helpful in giving further consideration to this part of the subcommittee's report, to have the answers to these questions.

Historically, it has been a source of strength for the Federal Reserve System that it possessed unique facilities for accomplishing an integration of the national and regional aspects of its overall policy. Through the Reserve banks, men of high competence are available in all parts of the country to carry out, or to report upon, the credit developments resulting from a unified System policy. To create a parallel organization outside the Reserve banks, for the particular problems that come into focus through the Government security market in New York, would risk impairing the strength and usefulness of the present regional organization. A conscientious president of the New York bank would continue to maintain close contact with the market, and with the account, regard-

less of any change in the New York bank's responsibilities for the conduct of the account, but he would not be in as good a position to apply his knowledge and ability to the formulation of System policy and to the operations of the Federal Open Market Committee if a separate organization were set up to execute transactions.

The position of the New York bank is the inescapable outcome of geography. A Reserve bank located in New York, if it is fully to discharge its responsibilities for special competence in the credit problems of particular importance in its area, must maintain close contact with the Government security market. To lose that contact would be as harmful to the System as for the Board of Governors deliberately to cut itself off from all political developments in Washington, for example, or for any Reserve bank to ignore the characteristics of borrowing member banks. Thus the New York bank should, by the sheer fact of location, always be the best informed unit of the System on developments in the Government security market. To lose any of that insight would be harmful to the System. To try to separate the president of the Federal Reserve Bank of New York from the operations of the Federal open-market account would only make it more difficult and more burdensome for him to do all that he could and should to contribute to the effectiveness of system policies and operations. There does not seem to us to be a practicable way, consistent with his duties either as a Reserve bank president and his location in New York, or as Vice Chairman of the System Open Market Committee and its executive committee, to lessen the real and special responsibility of the New York president for system operations affecting the Government security market.

A separate management for the account

Even though the New York president should be encouraged to maintain a close watch on the System account, it is worth considering whether the account itself could function better under a separate management, instead of using officers and staff of the New York bank. How? Is it unwise to have the manager of the account under more or less continuous surveillance by the resident member of the Open Market Committee? Does the manager need independence from the experience and associations provided by his position as a senior officer of the New York bank? Does the New York president present an unwelcome buffer between the manager and other members of the Committee (or of its staff)? Has the New York president made less than a desirable contribution to open-market policy because of his assumed protective or defensive attitude, suggesting that his critical faculties have been impaired by a desire to rationalize mistakes in the execution of policy directives? These are the unspoken questions raised by the subcommittee report.

In the absence of these specifics, what about some of the problems of detail that would arise? If the manager of the account were to be separated from the organization of the Federal Reserve Bank of New York, presumably he would have to be supplied with assistants and staff to carry out all aspects of open market operations. If he alone were employed directly by the Federal Open Market Committee, it would become necessary to appoint a replacement for him every time he was absent for any reason, and presumably the alternate would have to be drawn from the staff of the Federal Reserve Bank of New York, which would involve the same questions that are seen in the present arrangements. The only real alternative would be to establish an entirely separate staff and that would undoubtedly involve additional expense, since the personnel engaged by the Committee presumably could not be used for any other work of the Federal Reserve Bank of New York, such as executing security transactions for foreign accounts or for the United States Treasury. To some extent, therefore, duplication of staffs would be unavoidable. From this narrow point of view, then, the question is whether there is sufficiently strong evidence of unsatisfactory results from the present arrangements (and sufficiently strong reasons for believing that a separate staff would produce much better results) to justify the duplication and additional expense. The expense aspect, however, while probably considerable, would be a relatively minor consideration if it would assure substantially better results. But the subcommittee report has not provided the basis for such assurance.

In any case, this would appear to be a good time to settle the question of how the policies of the Federal Open Market Committee and the directives of its executive committee are to be carried out. The manager of the account cannot be expected to take instructions as to specific transactions from several different individuals, although he may reasonably be expected to listen to suggestions from

those who have a proper concern and to supply information on market conditions and on the details of his operations to the members of the Committee on request. Should he operate only under the direct supervision of the president of the Federal Reserve Bank of New York, acting as the chief executive officer of the institution delegated the responsibility of carrying out for all Reserve banks the directives of the committee, so that the president can be held responsible for the way he operates? Should he be autonomous and operate according to his best judgment, without interference or supervision from anyone, and be answerable only to the Committee or the executive committee as a whole for the manner in which he carries out its directives? Should he operate directly and solely under the supervision of the chairman of the executive committee? If so, would not the Chairman be placed in the same position as the Vice Chairman under the present arrangement, but without the same advantage of proximity to the manager of the account, the operating staff, and the market? (Presumably under either the second or third of these possible arrangements the manager of the account would operate independently of the Federal Reserve Bank of New York, which would then assume no responsibility for his acts.) These are the kinds of questions that should be faced, considered carefully, and decided upon.

In so deciding consideration should also be given to the possibility that the suggested change might create an undesirable island of autonomous or independent authority within the System. The high degree of complexity in Government security market operations, and the need for some dependence upon judgments that can only be formed on the basis of actual operating experience, make it unlikely that a successful transference of authority for hour-to-hour surveillance of the manager's performance can be made to someone located outside New York. The transfer could be attempted, of course, but would the recipient be able to maintain the kind of intimate, continuous knowledge of the market that is needed for best exercise of such surveillance in the System's interest? The result might well be a less effective ("remote control") conduct of System account operations. And in that case the System might find that, instead of the present medium of reliance on the New York bank, it had created a "free planet" in the form of an independent manager of the account. Such a manager, while not a member of the Federal Open Market Committee, and not in a position to share the full breadth of responsibility for overall System policy, might be able (if he chose) to "make a lot of policy on his own."

SUMMARY AND CONCLUSIONS

The study conducted by the ad hoc subcommittee provides a useful review of past workings of the market for Government securities, and of the System's open market organization and its relations with the market. On the basis of its study the subcommittee has made a number of recommendations dealing with matters of general policy, relations with the market, and details of operating practices and organization in conducting open market operations.

With some of the recommendations we think there will be general agreement. The most important of these is that the Federal Open Market Committee give further assurance "that henceforth it will intervene in the market, not to impose on the market any particular pattern of prices and yields, but solely to effectuate the objectives of monetary and credit policy * * *" (provided that assurance is interpreted broadly enough to cover the item mentioned next). Another is the recommendation that the emphasis in one phase of System open market operations be changed from maintaining orderly market conditions to correcting disorderly conditions. Still another is that the Committee henceforth "refrain, as an official body, from initiating regularly proposals with respect to details of specific Treasury offerings." We can also agree that in most circumstances transactions in short-term securities will probably be found the most appropriate form of System open market operations (although a commitment to make such transactions the sole form is decidedly questionable). The Federal Open Market Committee has, in fact, been moving progressively in the directions suggested by these recommendations.

One of the most important questions raised by the report of the subcommittee is how far the Federal Open Market Committee should go in promoting the "depth, breadth, and resiliency" of the market by making commitments as to what it will or will not do in its future operations. Part I of the preceding discussion suggests that efforts to promote these market characteristics may not always be helpful in achieving the System's major policy objectives, but may at times conflict with those objectives. Especially questionable is the proposed assurance

that the Federal Open Market Committee henceforth will confine its intervention in the market "to transactions in very short-term securities, preferably bills." Restriction of operations to short-term securities, while appropriate as the normal practice, might in some circumstances interfere seriously with the effectiveness of the System's operations. There is, as yet, no valid basis for the assumption that the market has attained, or will soon attain, such a degree of fluidity as to assure dependable effects in the long-term sector of injections of Federal Reserve credit in the short-term sector. Furthermore, undue emphasis on operations in very short-term securities might at times cause the very distortions in the market which the subcommittee seeks to avoid.

The Federal Open Market Committee has already gone a long way toward carrying out the recommendation of the subcommittee that direct support by the System of Treasury refunding operations be discontinued. The only remaining action that might be taken would be a formal commitment that the System open market account would not in the future purchase "rights," when-issued securities, or outstanding issues of maturities comparable to those of the new securities. It is here suggested that any such commitment is unnecessary and undesirable; that in this case, as in others, the Federal Open Market Committee might better keep a free hand to take such action as it considers best designed to promote the System's major policy objectives in the light of all the circumstances at any given time. It is further suggested the Committee consider the feasibility and desirability of "swap" operations—either in connection with Treasury refinancing operations or at other times—when it appears that such transactions would be useful in achieving a better maturity distribution in the open market account and in avoiding a "frozen" condition in the account.

Another questionable point is the recommendation that repurchase facilities be made regularly available to nonbank dealers over weekends (and the related proposal that dealers be notified in advance when repurchase facilities will be made available to them). These proposals appear to be in conflict with the basic recommendation that intervention by the System in the market be "solely to effectuate the objectives of monetary and credit policy," as they would constitute an indirect form of intervention designed to facilitate the functioning of the Government security market, rather than to effectuate the objectives of monetary and credit policy. They would also conflict with the tendency of the past 2 years to reduce any form of automatic access to Federal Reserve credit to a minimum. The desirability of making repurchase facilities available to dealers in certain circumstances on the initiative of the System, however, is recognized.

The question of promulgating "ground rules" which would henceforth govern transactions with dealers is closely tied in with the whole question of how far the Federal Open Market Committee should go in giving public assurances as to what it will or will not do in its future operations. The dealers would, of course, like to know in advance what the System can be expected to do in its dealings with the market. It is quite possible, by following a consistent pattern of operations, to convey to the market a reasonably good understanding of the general character of the System's policies and operations that may be expected under various types of circumstances, without making specific commitments which, at times, might prove to be a serious handicap to effective operations. In other words, action rather than words is considered the better way to convey to the market an adequate understanding of the general operating policies of the System. It avoids the constriction of the scope of action available to the System that is involved in the enunciation of any definite set of "rules."

In fact, the general conclusion suggested by part I of this discussion of the subcommittee's report is that it is likely to be most conducive to effective implementation of the System's monetary and credit policies if the Federal Open Market Committee avoids commitments which would tend to tie its hands in dealing with whatever situations may arise in the future. There is always danger in attempting to formalize for all time the principles and procedures that have grown out of current experience. There is particular danger for a central bank, which depends for its effectiveness upon psychological as well as direct influences, in making formal and comprehensive public declarations on such matters.

Relations with dealers

There is much that is sound and constructive in the discussion in the report of the subcommittee of the specific relationships of the Federal Open Market Committee with the dealer market. Many of the recommendations put forward

have already been applied in our market relationships as an aid to the expression of current open market and credit policy. These changes have been made over the period since March 1951 and have been appropriate to the circumstances of this period. It would be a mistake, however, to go so far as the subcommittee in presuming that the new procedures should have universal application under any and all sets of circumstances. Some of them might better be subject to continuous consideration in the light of credit policies adjusted to a constantly changing economic and credit situation; it is conceivable that revival of some of the now abandoned procedures might be found advisable at some future time, depending on the current aim of the account's operations.

In other aspects of the System's market relationships, especially those dealing specifically with the information obtained from, and contacts maintained with, Government securities dealers, some dissent is taken from the recommendations of the subcommittee. The Federal Reserve Bank of New York believes that this information does, and should, vary in both amount and content with the changing requirements of policy and market conditions, and it believes that appropriate adjustments in these respects have been made in response to recent developments. These channels of communications and sources of information should be kept open and operative and used with discretion. Disagreement here between the bank and the ad hoc subcommittee as to the amount and content of information is primarily a matter of degree rather than of kind, and involves questions of judgment as to what is needed by the operating personnel in the conduct of open market operations under the direction of the Federal Open Market Committee. The bank considers the information it now receives to be necessary for the effective execution of Open Market Committee policy, and at the present time this is particularly so in connection with the judicious use of of repurchase agreements. We do not consider that current practices with respect to information and dealer contacts are an unjust personal intrusion into dealers' affairs that threatens to exercise a harmful influence on the efficiency of the Government securities market; or that they are not warranted by the System's responsibility to and position in the market and the personal character of the market. The matter of market information would seem to be an area where the System might well have and use its own criteria rather than those of the dealers. The components of the dealer market are apt to see the problem of the manager of the account and the Federal Open Market Committee more in terms of the relationship of the individual firm to the System, than of the dealer market as a whole to the System, and of the System to the Nation.

The most difficult problem of Federal Reserve-dealer relationships that is a subject of subcommittee recommendation concerns existing qualification procedures for dealers in Government securities. The System has not in the past found it feasible or desirable to deal at random with any and all of the dealers specializing in Government securities, but has limited its transactions to certain firms which, by meeting specific standards, become qualified. These procedures are of long standing and reflect principles which have been considered necessary in governing the relationships between the Federal Reserve Bank of New York, as agent of the Federal Open Market Committee and of the other Federal Reserve banks, and the market for Government securities. They were not designed specifically as part of the rate-stabilizing operations which the System undertook during the Second World War and continued into postwar years.

Certainly the System should avoid any action which would justify a charge of conferring "privilege" on any group of Government securities dealers, and it would seem that qualification of dealer firms for transactions with the System open market account on the basis of demonstrated performance, trade position, integrity, and financial resources, if fairly and honestly administered, would preclude any valid accusation of that sort. At the same time, however, it is clear that mere abandonment of the present system would constitute no solution of the problem; criticism of the distribution of the System's transactions among dealers might be accentuated, rather than reduced, if there were no "recognized" dealers and no definite criteria for the selection of dealers. The central problem is that of determining the most effective basis on which the System can make contact with the dealer market in the expression of credit policy; what principles should govern and how they are to be implemented. The subcommittee is silent with respect to these aspects of the problem, limiting its comments largely to the expression of dissatisfaction with existing qualification standards and procedures.

"Housekeeping"

The subcommittee makes no firm recommendations as to changes in the organization arrangements for carrying out open market operations, but suggests that

the Federal Open Market Committee reexamine and review the present arrangements and specifically that it consider making the manager of the account directly responsible to the Committee as a whole, rather than indirectly through the Federal Reserve Bank of New York. The report characterizes the present arrangements as anomalous for reasons which include: (a) The absence of a separate budget covering its operations; (b) the absence of a separate staff responsible only to the Committee; (c) the delegation of the management function to an individual Federal Reserve bank.

This approach to the problem of the System's organizational arrangements for the determination and execution of open market policies raises the fundamental question of whether the Federal Open Market Committee was intended to be, or should be, an operating body as well as a policymaking body, and the further question of whether the open market organization should be something apart from either the Board of Governors or the Federal Reserve banks. Careful examination of the provisions of the Federal Reserve Act governing open market operations reveals no basis for the assumption that the present arrangements are anomalous. On the contrary, section 12A and 14 clearly suggest that the Federal Open Market Committee was intended to be solely a policymaking body and that actual operations were intended to be conducted by the Reserve banks in accordance with the direction and regulations of the Committee. There is at least an implication that the policymaking body was expected to fulfill its functions best if it were closely interrelated, through its membership, with all other policy and operating responsibilities—rather than standing apart as an independent unit within the System.

As a practical matter, most of the actual transactions in Government securities have necessarily, from the earliest development of open market operations as an instrument of monetary and credit policy, been conducted for the Reserve banks by the Federal Reserve Bank of New York, since it is located in the central market for Government securities. This inescapable fact of market location is the historical reason for the designation of the Federal Reserve Bank of New York as the institution assigned the responsibility for executing transactions and for the appointment of an officer of that bank as manager of the open market account.

It is, of course, entirely appropriate for the Federal Open Market Committee (or for the System as a whole) to review its organizational arrangements from time to time and to make such changes as appear to offer definite prospects of improved performance. In considering changes, however, it is important to make sure that any assumed deficiencies in existing arrangements do, in fact, exist, and that there are sound reasons for expecting that alternative arrangements will offer real advantages. The statements and inferences in the report of the subcommittee concerning present arrangements for open market operations do not seem to us to give such assurance.

The subcommittee recognizes the advantages to the System in being able to use the staff of the Federal Reserve Bank of New York not only in executing purchases and sales of securities, but also in conducting all the other operating details incident to management of the open market account. But the report sees dangers (unspecified) in the fact that members of the staff have other duties. And most important of all, it implies that the president of the Federal Reserve Bank of New York comes to the meetings of the Federal Open Market Committee and of the executive committee not with an objective approach to the problems of the Committee, but as a biased protagonist of the operating staff. The obviously unconscious inference of such statements is that the president of the Federal Reserve Bank of New York is likely to be compromised by being at the same time Vice Chairman of the Committee and head of the institution to which is delegated the responsibility for carrying out the directives of the Committee. If the president of the New York Reserve Bank, with his intimate knowledge of the objectives and intentions of the Committee, his close relationship to the operating staff and his proximity to the market, and his consequent ability to keep fully informed on current developments, is unable to provide a connecting link between policy formulation by the Committee and the operations for the account, who is in a position to do so? Is not such a connecting link necessary or at least desirable?

The answer to these questions which seems to be suggested by the Ad Hoc Subcommittee for consideration by the full Committee is that the manager of the account operate under the direction of the Federal Open Market Committee at a whole or its executive committee. Careful consideration of just how these committees might direct the daily or hour-to-hour operations of the manager of the account will demonstrate, we believe, the impracticability of such an arrangement. As part III of the preceding discussion points out, the result

might be to make the manager of the account a "free planet" without effective supervision either by the Committee or by anyone else, and consequently to place him in a position to "make a good deal of policy on this own." And while the duplication of expense that would be involved in setting up an entirely separate operating staff, paralleling the staff which the Federal Reserve Bank of New York would have to maintain to execute transactions for foreign accounts, for Treasury accounts, and for others, is not the most important consideration, it would be difficult to justify such duplication in view of the statutory basis for the Federal Open Market Committee and for open-market operations, unless serious deficiencies in the existing arrangements can be demonstrated and alternative arrangement offer definite prospects of superior performance.

We do not think the report of the Ad Hoc Subcommittee has demonstrated deficiencies in the present organization or offered suggestions for a better organization which would provide the basis for a change. It is true that it makes no definite recommendation on this point, except to recommend study and consideration. Our study and consideration does not support the view which, apparently, is held by the subcommittee that a change should be made.

APPENDIX. NOTE ON RELATIONS WITH TREASURY AD HOC SUBCOMMITTEE REPORT

(For meeting of the executive committee of the Federal Open Market Committee, January 27, 1953.)

Like some of the other recommendations in the report, the recommendation with respect to relations with the Treasury is really a recognition of a changed situation; a situation in which we have shed as much as possible of the role of price-fixing in the Government security market. So long as we were maintaining a pattern of rates, and so long as we were the established underwriters of all Treasury issues, there was a basis for our having some initiative with respect to the terms of the securities issued. The locus of primary responsibility had already been blurred. This was particularly so in view of the attitude of the Treasury toward monetary policy during this period.

Now that we are no longer pegging prices and are trying to shrink our underwriting function, the new approach to relations with the Treasury seems to me, in general, to be the appropriate one.

We do not want to become too doctrinaire about this matter of areas of responsibility, however. With a Federal debt which is so large a part of all debts, public and private, which permeates and dominates to some extent the whole securities market, and which has become a principal medium for adjusting portfolios of financial institutions, and the reserves of banks and others, we are not and won't be wholly free to administer credit policy without regard to the Government security market, and without regard to Treasury financing requirements. It won't be enough to say to the Treasury, Here is the credit policy we are going to follow; now you manage the debt. These are areas of overlapping secondary responsibilities and opportunities.

While the Secretary of the Treasury can and should consult with whomever he wants, inside and outside the System, therefore, I don't think we should demote the Open Market Committee to the status of the ABA or the IBA or any other groups or individuals when it comes to debt management. Nor do I think we should commit ourselves to never taking the initiative. We are a statutory public body with public responsibilities in a field closely related to debt management, and there should be a maximum of coordination consistent with the primary responsibilities of the Treasury and the Committee.

It seems to me that it would be consistent with the spirit of the subcommittee recommendation, to have the Chairman and Vice Chairman of the Open Market Committee inform the Secretary of the Treasury—

1. Of the desire of the Committee to work with him closely as possible.
2. Of the intention of the Committee to keep him informed of the credit policies of the System, and particularly of open market policy.
3. Of the willingness of the Committee to have its representatives consult with him concerning credit-policy or debt-management problems whenever he requests such consultation.
4. Of the intention of the Committee to have its representatives bring to his attention, if and when it seems desirable, matters which may be of mutual interest.

I think this can be done quite naturally, orally, with the new people at the Treasury, without in any way perpetuating the situation which the subcommittee seeks to correct.

(Whereupon, at 4:10 p. m., the subcommittee adjourned.)

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THE BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

AMENDMENTS

TO THE

FEDERAL RESERVE ACT

AND

APPENDIX

ENACTED BETWEEN

NOVEMBER 1, 1946 AND DECEMBER 31, 1953

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FEDERAL RESERVE ACT

APPENDIX

Pages listed in Table of Contents refer to location of amendments in this pamphlet. Page cited before text of each amendment refers to location of amended provision of law or appropriate location of new material in bound volume of Federal Reserve Act as amended to November 1, 1946

P. 18—Sec. 9:

(Amended August 17, 1950)

Section 9 of the Federal Reserve Act was amended by inserting after the 1st paragraph the following new paragraph (this new paragraph becomes the 2nd paragraph of section 9 and the remaining paragraphs are renumbered accordingly):

> Upon the conversion of a national bank into a State bank, or the merger or consolidation of a national bank with a State bank which is not a member of the Federal Reserve System, the resulting or continuing State bank may be admitted to membership in the Federal Reserve System by the Board of Governors of the Federal Reserve System in accordance with the provisions of this section, but, otherwise, the Federal Reserve bank stock owned by the national bank shall be canceled and paid for as provided in section 5 of this Act. Upon the merger or consolidation of a national bank with a State member bank under a State charter, the membership of the State bank in the Federal Reserve System shall continue.

P. 18—Sec. 9:

(Amended July 15, 1952)

The 2nd paragraph of section 9 of the Federal Reserve Act (the 3rd paragraph after the amendment of August 17, 1950) was amended by adding a new sentence reading as follows:

> The approval of the Board shall likewise be obtained before any State member bank may establish any new branch within the limits of any such city, town, or village (except within the District of Columbia).

P. 21—Sec. 9:

(Amended July 15, 1952)

The 10th paragraph of section 9 of the Federal Reserve Act (the 11th paragraph after the amendment of August 17, 1950) was amended to read as follows:

> No applying bank shall be admitted to membership unless it possesses capital stock and surplus which, in the judgment of the Board of Governors of the Federal Reserve System, are adequate in relation to the character and condition of its assets and to its existing and

prospective deposit liabilities and other corporate responsibilities: *Provided,* That no bank engaged in the business of receiving deposits other than trust funds, which does not possess capital stock and surplus in an amount equal to that which would be required for the establishment of a national banking association in the place in which it is located, shall be admitted to membership unless it is, or has been, approved for deposit insurance under the Federal Deposit Insurance Act. The capital stock of a State member bank shall not be reduced except with the prior consent of the Board.

P. 27—Sec. 10:

(Amended, in effect, October 15, 1949)

The 1st paragraph of Section 10 of the Federal Reserve Act was in effect amended by Act of October 15, 1949, which fixed salaries of Board members at $16,000 per annum.

P. 30—Sec. 10:

(Amended July 30, 1947 and May 29, 1953)

The 9th paragraph of section 10 of the Federal Reserve Act was amended by changing the period to a colon and by adding the following proviso:

Provided further, That the cost as above specified shall not be so limited as long as the aggregate of such costs which are incurred by all Federal Reserve banks for branch bank buildings with the approval of the Board of Governors after the date of enactment of this proviso does not exceed $30,000,000.

Pp. 41–72—Sec. 12B (omit):

Section 12B of the Federal Reserve Act was withdrawn by Act of September 21, 1950, and the subject reenacted as the Federal Deposit Insurance Act. See Appendix for certain sections of particular importance to the Federal Reserve System.

P. 84—Sec. 14(b):

(Amended April 28, 1947, June 30, 1950, and June 23, 1952)

Subsection (b) of section 14 of the Federal Reserve Act was amended by striking out the proviso and inserting the following:

Provided, That, notwithstanding any other provision of this Act, (1) until July 1, 1954, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities either in the open market or directly from or to the United States; but all such purchases and sales shall be made in accordance with the provisions of section 12A of this Act and the aggregate amount of such obligations acquired directly from the United States which is held at any one time by the twelve Federal Reserve banks shall not exceed $5,000,000,000; and (2) after June 30, 1954, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities but only in the open market. The Board of Governors of the Federal Reserve System shall include in their annual report to Congress detailed information with respect to direct purchases and sales from or to the United States under the provisions of the preceding proviso.

P. 102—Sec. 19:

The footnote to the 14th paragraph of section 19 of the Federal Reserve Act should include the following sentence:

"Cessation of hostilities" was proclaimed by the President on December 31, 1946.

P. 104—Sec. 21:

(Amended June 30, 1948)

The 4th sentence of the 3rd paragraph of section 21 of the Federal Reserve Act (the 2nd paragraph of section 5240 of the Revised Statutes) was amended to read as follows:

The examiners and assistant examiners making the examinations of national banking associations and affiliates thereof herein provided for and the chief examiners, reviewing examiners and other persons whose services may be required in connection with such examinations or the reports thereof, shall be employed by the Comptroller of the Currency with the approval of the Secretary of the Treasury; the employment and compensation of examiners, chief examiners, reviewing examiners, assistant examiners, and of the other employees of the office of the Comptroller of the Currency whose compensation is and shall be paid from assessments on banks or affiliates thereof shall be

without regard to the provisions of other laws applicable to officers or employees of the United States.

Pp. 107–108—Sec. 22(a), (b) and (c) (omit):

Subsections (a), (b) and (c) of section 22 of the Federal Reserve Act were repealed by Act of June 25, 1948, codifying criminal laws, but substance was incorporated in U.S.C., Title 18, sections 217, 218, 220, 655, 1906 and 1909 which are contained in the supplemental material to the Appendix.

Pp. 111–112—Sec. 22(h), (i), (j) and (k) (omit):

Subsections (h), (i), (j) and (k) of section 22 of the Federal Reserve Act were repealed by Act of June 25, 1948, codifying criminal laws, but substance of subsections (h), (i) and (k) was incorporated in U.S.C., Title 18, sections 219, 656, 1005 and 1014 which are contained in the supplemental material to the Appendix. Subsection (j) was in effect incorporated in U.S.C., Title 18, section 433.

Pp. 114–115—Sec. 24:

(Amended October 25, 1949, April 20, 1950, and September 1, 1951)

The 1st paragraph of section 24 of the Federal Reserve Act was amended to read as follows:

Sec. 24. Any national banking association may make real-estate loans secured by first liens upon improved real estate, including improved farm land and improved business and residential properties. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by a mortgage, trust deed, or other instrument upon real estate, which shall constitute a first lien on real estate in fee simple or, under such rules and regulations as may be prescribed by the Comptroller of the Currency, on a leasehold (1) under a lease for not less than ninety-nine years which is renewable or (2) under a lease having a period of not less than fifty years to run from the date the loan is made or acquired by the national banking association, and any national banking association may purchase any obligation so secured when the entire amount of such obligation is sold to the association. The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised value of the real estate offered as security and no such loan shall be made for a

longer term than five years; except that (1) any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than ten years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of title II, title VI, title VIII, section 8 of title I, or title IX of the National Housing Act or which are insured by the Secretary of Agriculture pursuant to title I of the Bankhead-Jones Farm Tenant Act. No such association shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus the amount of its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater. Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such association is located.

P.115—Sec. 24:

(Amended August 15, 1953)

Section 24 of the Federal Reserve Act was amended by inserting after the 1st paragraph the following new paragraph (this new paragraph becomes the 2nd paragraph of section 24 and the remaining paragraphs are renumbered accordingly):

Any national banking association may make real-estate loans secured by first liens upon forest tracts which are properly managed in all respects. Such loans shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument; and any national banking association may purchase any obligation so secured when the entire amount of such obligation is sold to the association. The amount of any such loan shall not exceed 40 per centum of the appraised value of the economically marketable timber offered as security and the loan shall be made upon such terms and conditions

as to assure that at no time shall the loan balance exceed 40 per centum of the original appraised value of the economically marketable timber then remaining. No such loan shall be made for a longer term than two years; except that any such loan may be made for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize the principal of the loan within a period of not more than ten years and at a rate of at least 10 per centum per annum. All such loans secured by first liens upon forest tracts shall be included in the permissible aggregate of all real estate loans prescribed in the preceding paragraph, but no national banking association shall make forest-tract loans in an aggregate sum in excess of 50 per centum of its capital stock paid in and unimpaired plus 50 per centum of its unimpaired surplus fund.

P. 116—Sec. 24:

(Amended May 25, 1948 and September 1, 1951)

The 3rd paragraph of section 24 of the Federal Reserve Act (the 4th paragraph after the amendment of August 15, 1953) was amended to read as follows:

Loans made to established industrial or commercial businesses (a) which are in whole or in part discounted or purchased or loaned against as security by a Federal Reserve bank under the provisions of section 13b of this Act, (b) for any part of which a commitment shall have been made by a Federal Reserve bank under the provisions of said section, (c) in the making of which a Federal Reserve bank participates under the provisions of said section, or (d) in which the Reconstruction Finance Corporation or the Housing and Home Finance Administrator cooperates or purchases a participation under the provisions of the Reconstruction Finance Corporation Act, as amended, or of section 102 or 102a of the Housing Act of 1948, as amended, shall not be subject to the restrictions or limitations of this section upon loans secured by real estate.

P. 139—Depositories for any internal revenue taxes (new):

(Act of August 27, 1949; U.S.C., title 26, sec. 3310)

Section 3310 of the Internal Revenue Code was amended by the addition of subsection (f)(2) which reads as follows:

> (2) USE OF GOVERNMENT DEPOSITARIES.—The Secretary may authorize Federal Reserve banks, and incorporated banks or trust companies which are depositaries or financial agents of the United States, to receive any tax imposed by this title, in such manner, at such times, and under such conditions as he may prescribe; and he shall prescribe the manner, times, and conditions under which the receipt of such tax by such banks and trust companies is to be treated as payment of such tax to the collector.

P. 139—Depositories for RFC:

The Reconstruction Finance Corporation Act was revised June 30, 1947 and section 7 was replaced by the following section 6:

> SEC. 6. The Federal Reserve banks are auth rized and directed to act as custodians and fiscal agents for the Corporation in the general performance of its powers conferred by this Act and the Corporation may reimburse such Federal Reserve banks for such services in such manner as may be agreed upon.

By act of July 30, 1953, liquidation of the Corporation must be completed by June 30, 1954.

P. 139—Fiscal agents for Small Business Administration (new):

(Act of July 30, 1953; U.S.C., title 15, sec. 635)

Section 206(a) of the Small Business Act 1953, provides as follows:

> SEC. 206. (a) All moneys of the Administration not otherwise employed may be deposited with the Treasurer of the United States subject to check by authority of the Administration. The Federal Reserve banks are authorized and directed to act as depositaries, custodians, and fiscal agents for the Administration in the general performance of its powers conferred by this title. Any banks insured by the Federal Deposit Insurance Corporation, when designated by the Secretary of the Treasury, shall act as custodians, and financial agents

for the Administration. Each Federal Reserve bank, when designated by the Administrator as fiscal agent for the Administration, shall be entitled to be reimbursed for all expenses incurred as such fiscal agent.

P. 140—Depositories for HOLC (omit):

The Home Owners' Loan Corporation was dissolved by Act of June 30, 1953.

P. 141—Depositories for Smaller War Plants Corporation (omit):

The Smaller War Plants Corporation was abolished by Act of June 30, 1947.

P. 141—Depositories for FDIC (new):

(Act of September 21, 1950; U.S.C., title 12, sec. 1823)

Section 13(b) of the Federal Deposit Insurance Act provides as follows:

(b) The banking or checking accounts of the Corporation shall be kept with the Treasurer of the United States, or, with the approval of the Secretary of the Treasury, with a Federal Reserve bank, or with a bank designated as a depositary or fiscal agent of the United States: *Provided,* That the Secretary of the Treasury may waive the requirements of this subsection under such conditions as he may determine: *And provided further,* That this subsection shall not apply to the establishment and maintenance in any bank for temporary purposes of banking and checking accounts not in excess of $50,000 in any one bank, or to the establishment and maintenance in any bank of any banking and checking accounts to facilitate the payment of insured deposits, or the making of loans to, or the purchase of assets of, insured banks. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

P. 144—Availability of records to RFC (omit):

The Reconstruction Finance Corporation Act was revised June 30, 1947 and the new Act did not contain a provision covering this subject. Liquidation of the Corporation by June 30, 1954, was provided for by Act of July 30, 1953.

P. 146—Availability of records to FDIC (new):

(Act of September 21, 1950; U.S.C., title 12, sec. 1820)

Section 10(f) of the Federal Deposit Insurance Act provides as follows:

> (f) The Corporation shall have access to reports of examination made by, and reports of condition made to, the Comptroller of the Currency or any Federal Reserve bank, may accept any report made by or to any commission, board, or authority having supervision of a State nonmember bank (except a District bank), and may furnish to the Comptroller of the Currency, to any Federal Reserve bank, and to any such commission, board, or authority, reports of examinations made on behalf of, and reports of condition made to, the Corporation.

P. 147—Ineligibility of obligations of RFC for discount or purchase (omit):

The Reconstruction Finance Corporation Act was revised June 30, 1947 and the new Act did not contain a provision covering this subject. Liquidation of the Corporation by June 30, 1954 was provided for by Act of July 30, 1953.

P. 147—Paper of regional agricultural credit corporations:

(Amended June 30, 1947)

Subsection (e) of section 201 of the Act of July 21, 1932, was amended to read as follows:

> SEC. 201. * * *
>
> (e) * * * Such corporations are hereby authorized and empowered to make loans or advances to farmers and stockmen, the proceeds of which are to be used for an agricultural purpose (including crop production), or for the raising, breeding, fattening, or marketing of livestock, to charge such rates of interest or discount thereon as in their judgment are fair and equitable, subject to the approval of the Farm

Credit Administration, and to rediscount with the Farm Credit Administration and the various Federal reserve banks and Federal intermediate credit banks any paper that they acquire which is eligible for such purpose * * *

P. 149—Exemption from Labor Management Relations Act (new):

(Act of June 23, 1947; U.S.C., title 29, sec. 152)

With respect to the exemption of Federal Reserve Banks from the Labor Management Relations Act, 1947, subsection (2) of section 2 of such Act provides as follows:

SEC. 2. * * *

(2) The term "employer" includes any person acting as an agent of an employer, directly or indirectly, but shall not include the United States or any wholly owned Government corporation, or any Federal Reserve Bank, or any State or political subdivision thereof, or any corporation or association operating a hospital, if no part of the net earnings inures to the benefit of any private shareholder or individual, or any person subject to the Railway Labor Act, as amended from time to time, or any labor organization (other than when acting as an employer), or anyone acting in the capacity of officer or agent of such labor organization.

P. 149—Factors to be certified to FDIC (new):

(Act of September 21, 1950; U.S.C., title 12, secs. 1814, 1816)

Sections 4(b) and 6 of the Federal Deposit Insurance Act provide as follows:

SEC. 4. * * *

(b) Every national member bank which is authorized to commence or resume the business of banking, and which is engaged in the business of receiving deposits other than trust funds as herein defined, and every such national nonmember bank which becomes a member of the Federal Reserve System, and every State bank which is converted into a national member bank or which becomes a member of the Federal Reserve System, and which is engaged in the business of receiving deposits, other than trust funds as herein defined, shall be an insured bank from the time it is authorized to commence or

resume business or becomes a member of the Federal Reserve System. The certificate herein prescribed shall be issued to the Corporation by the Comptroller of the Currency in the case of such national member bank, or by the Board of Governors of the Federal Reserve System in the case of such State member bank: *Provided,* That in the case of an insured bank which is admitted to membership in the Federal Reserve System or an insured State bank which is converted into a national member bank, such certificate shall not be required, and the bank shall continue as an insured bank. Such certificate shall state that the bank is authorized to transact the business of banking in the case of a national member bank, or is a member of the Federal Reserve System in the case of a State member bank, and that consideration has been given to the factors enumerated in section 6. A State bank, resulting from the conversion of an insured national bank, shall continue as an insured bank. A State bank, resulting from the merger or consolidation of insured banks, or from the merger or consolidation of a noninsured bank or institution with an insured State bank, shall continue as an insured bank.

SEC. 6. The factors to be enumerated in the certificate required under section 4 and to be considered by the Board of Directors under section 5 shall be the following: The financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of this Act.

P. 149—Termination of membership upon termination of insurance (new):

(Act of September 21, 1950; U.S.C., title 12, sec. 1818)

Section 8(b) of the Federal Deposit Insurance Act provides as follows:

(b) Whenever the insured status of a State member bank shall be terminated by action of the Board of Directors, the Board of Governors of the Federal Reserve System shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of the Federal Reserve Act, and whenever the insured status of a national member bank shall be so terminated the Comptroller of the Currency shall appoint a receiver for the bank, which shall be the Corporation. Except as provided in subsection (b) of section 4, whenever a member bank shall cease to be a member of the Federal

Reserve System, its status as an insured bank shall, without notice or other action by the board of directors, terminate on the date the bank shall cease to be a member of the Federal Reserve System, with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under subsection (a) of this section.

P. 149—Approval of mergers, consolidations or absorptions (new):

(Act of September 21, 1950; U.S.C., title 12, sec. 1828)

Section 18(c) of the Federal Deposit Insurance Act provides as follows:

(c) Without prior written consent by the Corporation, no insured bank shall (1) merge or consolidate with any noninsured bank or institution or convert into a noninsured bank or institution or (2) assume liability to pay any deposits made in, or similar liabilities of, any noninsured bank or institution or (3) transfer assets to any noninsured bank or institution in consideration of the assumption of liabilities for any portion of the deposits made in such insured bank. No insured bank shall convert into an insured State bank if its capital stock, or its surplus will be less than the capital stock or surplus, respectively, of the converting bank at the time of the shareholders' meeting approving such conversion, without prior written consent by the Comptroller of the Currency if the resulting bank is to be a District bank, or by the Board of Governors of the Federal Reserve System if the resulting bank is to be a State member bank (except a District bank), or by the Corporation if the resulting bank is to be a State nonmember insured bank (except a District bank). No insured bank shall (i) merge or consolidate with an insured State bank under the charter of a State bank or (ii) assume liability to pay any deposits made in another insured bank, if the capital stock or surplus of the resulting or assuming bank will be less than the aggregate capital stock or aggregate surplus, respectively, of all the merging or consolidating banks or of all the parties to the assumption of liabilities, at the time of the shareholders' meetings which authorized the merger or consolidation or at the time of the assumption of liabilities, unless the Comptroller of the Currency shall give prior written consent if the assuming bank is to be a national bank or the assuming or resulting bank is to be a District bank; or unless the Board of Governors of the Federal Reserve System gives prior written consent if the assuming or resulting bank is to be a State member bank (except a District bank); or unless the Corporation gives prior written consent if the assuming or resulting

bank is to be a nonmember insured bank (except a District bank). No insured State nonmember bank (except a District bank) shall, without the prior consent of the Corporation, reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures.

P. 152—Interlocking directorates with other banks (Clayton Act):

(Amended June 23, 1938)

The 1st paragraph of section 11 of the Clayton Antitrust Act was amended by this Act, and by section 7 of the Reorganization Plan No. IV of June 30, 1940, to read as follows:

SEC. 11. That authority to enforce compliance with sections 2, 3, 7, and 8 of this Act by the persons respectively subject thereto is hereby vested: In the Interstate Commerce Commission where applicable to common carriers subject to the Interstate Commerce Act, as amended; in the Federal Communications Commission where applicable to common carriers engaged in wire or radio communication or radio transmission of energy; in the Civil Aeronautics Board where applicable to air carriers and foreign air carriers subject to the Civil Aeronautics Act of 1938; in the Board of Governors of the Federal Reserve System where applicable to banks, banking associations, and trust companies; and in the Federal Trade Commission where applicable to all other character of commerce, to be exercised as follows:

P. 164—National banks as depositaries:

(Amended August 18, 1950)

The 2nd paragraph of section 5153 of the Revised Statutes was amended to read as follows:

Any national banking association may, upon the deposit with it of any funds by any State or political subdivision thereof or any agency or other governmental instrumentality of one or more States or political subdivisions thereof, including any officer, employee, or agent thereof in his official capacity, give security for the safekeeping and prompt payment of the funds so deposited to the same extent and of the same kind as is authorized by the law of the State in which such association is located in the case of other banking institutions in the State.

Pp. 167–168—Depositories of proceeds of sale of Liberty Bonds:

(Amended August 27, 1949)

Section 8 of Second Liberty Bond Act was amended to read as follows:

SEC. 8. That the Secretary of the Treasury, in his discretion, is hereby authorized to deposit, in such incorporated banks and trust companies as he may designate, the proceeds, or any part thereof, arising from the sale of the bonds and certificates of indebtedness, Treasury bills and war-savings certificates authorized by this Act, and arising from the payment of internal revenue taxes, and such deposits shall bear such rate or rates of interest, and shall be secured in such manner, and shall be made upon and subject to such terms and conditions as the Secretary of the Treasury may from time to time prescribe: *Provided,* That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, as amended by the Federal Reserve Act, and the amendments thereof, with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositaries. The Secretary of the Treasury is hereby authorized to designate depositaries in foreign countries with which shall be deposited all public money which it may be necessary or desirable to have on deposit in such countries to provide for current disbursements to the military and naval forces of the United States and to the diplomatic and consular and other representatives of the United States in and about such countries until six months after the termination of the war between the United States and the Imperial German Government, and to prescribe the terms and conditions of such deposits.

Pp. 172–173—False certification of checks (omit part):

The last sentence of section 5208 of the Revised Statutes was repealed by Act of June 23, 1948, codifying criminal laws, but substance was incorporated in U.S.C., Title 18, section 1004 which is contained in the supplemental material to the Appendix.

Pp. 173–174—Embezzlement and abstraction of funds (omit):

Section 5209 of the Revised Statutes was repealed by Act of June 25, 1948, codifying criminal laws, but substance was incorporated in U.S.C., Title 18, sections 334, 656 and 1005 which are contained in the supplemental material to the Appendix.

Pp. 174–175—Robbery of banks (omit):

The Act of May 18, 1934, was repealed by Act of June 25, 1948, codifying criminal laws, but substance was incorporated in U.S.C., Title 18, sections 2113 and 3231, of which section 2113 is contained in the supplemental material to the Appendix.

Pp. 176–177—Dealings in investment securities:

(Amended June 29, 1949, July 15, 1949 and April 9, 1952)

Paragraph "Seventh" of section 5136 of the Revised Statutes was amended to read as follows:

> Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title. The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: *Provided,* That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on the date of enactment of the Banking Act of 1935. As used in this section the term "investment securities" shall mean marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term "investment securities" as may by regulation be prescribed by the Comptroller of the Currency. Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of

stock of any corporation. The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended, or issued by the Federal Home Loan Banks or the Home Owners' Loan Corporation, or obligations which are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States, or obligations of national mortgage associations, or such obligations of any local public agency (as defined in section 110 (h) of the Housing Act of 1949) as are secured by an agreement between the local public agency and the Housing and Home Finance Administrator in which the local public agency agrees to borrow from said Administrator, and said Administrator agrees to lend to said local public agency, prior to the maturity of such obligations (which obligations shall have a maturity of not more than eighteen months), monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity thereon, which monies under the terms of said agreement are required to be used for the purpose of paying the principal of and the interest on such obligations at their maturity, or such obligations of a public housing agency (as defined in the United States Housing Act of 1937, as amended) as are secured either (1) by an agreement between the public housing agency and the Public Housing Administration in which the public housing agency agrees to borrow from the Public Housing Administration, and the Public Housing Administration agrees to lend to the public housing agency, prior to the maturity of such obligations (which obligations shall have a maturity of not more than eighteen months), monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity thereon, which monies under the terms of said agreement are required to be used for the purpose of paying the principal of and the interest on such obligations at their maturity, or (2) by a pledge of annual contributions under an annual contributions contract between such public housing agency and the Public Housing Administration if such contract shall contain the covenant by the Public Housing Administration which is authorized by subsection (b) of section 22 of the United States Housing Act of 1937, as amended, and if the maximum

sum and the maximum period specified in such contract pursuant to said subsection 22 (b) shall not be less than the annual amount and the period for payment which are requisite to provide for the payment when due of all installments of principal and interest on such obligations: *Provided,* That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus. The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development or the Central Bank for Cooperatives which are at the time eligible for purchase by a national bank for its own account: *Provided,* That no association shall at any one time hold obligations issued by either of said banks as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount, with respect to each issuer, exceeding 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund.

P. 178—Branches of national banks:

(Amended July 15, 1952)

The last sentence of subsection (c) of section 5155 of the Revised Statutes was amended to read as follows:

Except as provided in the immediately preceding sentence, no such association shall establish a branch outside of the city, town, or village in which it is situated unless it has a combined capital stock and surplus equal to the combined amount of capital stock and surplus, if any, required by the law of the State in which such association is situated for the establishment of such branches by State banks, or, if the law of such State requires only a minimum capital stock for the establishment of such branches by State banks, unless such association has not less than an equal amount of capital stock.

P. 181—Limitation on loans to one person:

(Amended July 15, 1949)

Section 5200 of the Revised Statutes was amended by the addition of paragraph (11) which reads as follows:

(11) Obligations of a local public agency (as defined in section 110(h) of the Housing Act of 1949) or of a public housing agency (as defined in the United States Housing Act of 1937, as amended) which have a maturity of not more than eighteen months shall not be subject under this section to any limitation, if such obligations are secured by an agreement between the obligor agency and the Housing and Home Finance Administrator or the Public Housing Administration in which the agency agrees to borrow from the Administrator or Administration, and the Administrator or Administration agrees to lend to the agency, prior to the maturity of such obligations, monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity, which monies under the terms of said agreement are required to be used for that purpose.

P. 187—Liability of national bank shareholders:

(Amended May 18, 1953)

The following sentence was added to section 22 of the Banking Act of June 16, 1933:

In the case of each association which has not caused notice of such prospective termination of liability to be published prior to the effective date of this amendment, the Comptroller of the Currency shall cause such notice to be published in the manner provided in this section, and on the date six months subsequent to such publication by the Comptroller of the Currency such additional liability shall cease.

Pp. 189–190—Subscription to stock by RFC (omit):

Section 304 of the Act of March 9, 1933, was repealed by Act of June 30, 1947. Liquidation of the Corporation by June 30, 1954 was provided for by Act of July 30, 1953.

P. 191—Transfer of trust powers upon consolidation:

(Amended July 14, 1952)

The 2nd paragraph of section 3 of the Act of November 7, 1918 was deleted.

P. 191—Transfer of trust powers upon merger (new):

(Act of July 14, 1952; U.S.C., title 12, sec. 34b)

The Act of November 7, 1918 was amended by adding the following new section:

SEC. 4. (a) One or more national banking associations or one or more State banks, with the approval of the Comptroller, under an agreement not inconsistent with this Act, may merge into a national banking association located within the same State, under the charter of the receiving association.

* * * * *

(c) The corporate existence of the merging association or State bank shall be merged into that of the receiving association. All rights, franchises, and interests of the merging association or State bank in and to every type of property (real, personal, and mixed) and choses in action shall be transferred to and vested in the receiving association by virtue of such merger without any deed or other transfer. The receiving association, upon the merger and without any order or other action on the part of any court or otherwise, shall hold and enjoy all rights of property, franchises, and interests, including appointments, designations, and nominations, and all other rights and interests as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, and in every other fiduciary capacity, in the same manner and to the same extent as such rights, franchises, and interests were held or enjoyed by any merging association or State bank at the time of the merger, subject to the conditions hereinafter provided.

Where any merging association or State bank, at the time of the merger, was acting under appointment of any court as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity, the receiving association shall be subject to removal by a court of competent jurisdiction in the same manner and to the same extent as was the merging association or State bank prior to the merger. Nothing contained in this section shall be considered to impair in any manner the right of any court to remove a receiving association and to appoint in lieu thereof a substitute trustee, executor, or other fiduciary, except that such right shall not be exercised in such a manner as to discriminate against national banking associa-

tions, nor shall any receiving association be removed solely because of the fact that it is a national banking association.

* * * * *

P. 191—Terms defined (new):

(Act of July 14, 1952; U.S.C., title 12, sec. 34c)

The Act of November 7, 1918 was amended by adding the following new section:

SEC. 5. As used in this Act the term—

(1) "State bank" means any bank, banking association, trust company, savings bank (other than a mutual savings bank), or other banking institution which is engaged in the business of receiving deposits and which is incorporated under the laws of any State, or which is operating under the Code of Law for the District of Columbia (except a national banking association located in the District of Columbia);

(2) "State" means the several States, the several Territories, Puerto Rico, the Virgin Islands, and the District of Columbia;

(3) "Comptroller" means the Comptroller of the Currency; and

(4) "Receiving association" means the national banking association into which one or more national banking associations or one or more State banks, located within the same State, merge.

P. 217—Obligations of RFC (omit):

The Reconstruction Finance Corporation Act was revised June 30, 1947 and the new Act did not contain a provision covering this subject. Liquidation of the Corporation by June 30, 1943 was provided for by Act of July 30, 1953.

P. 241—National Advisory Council:

(Amended April 3, 1948, and October 10, 1951)

Subsection (a) of section 4 of the Bretton Woods Agreements Act was amended to read as follows:

SEC. 4. (a) In order to coordinate the policies and operations of the representatives of the United States on the Fund and the Bank and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange or monetary

transactions, there is hereby established the National Advisory Council on International Monetary and Financial Problems (hereinafter referred to as the "Council"), consisting of the Secretary of the Treasury, as Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman* of the Board of Directors of the Export–Import Bank of Washington, and during such period as the Mutual Security Agency shall continue to exist, the Director for Mutual Security.

*The functions of the Chairman of the Board of the Export–Import Bank of being a member of the Council was abolished June 30, 1953. See reorganization plan No. 5 of 1953 (18 FR 3741).

P. 247—Bretton Woods Agreements Act—Securities exempted:

(Amended June 29, 1949)

The Bretton Woods Agreements Act was amended by the addition of section 15 which reads as follows:

SEC. 15. (a) Any securities issued by International Bank for Reconstruction and Development (including any guaranty by the bank, whether or not limited in scope), and any securities guaranteed by the bank as to both principal and interest, shall be deemed to be exempted securities within the meaning of paragraph (a) (2) of section 3 of the Act of May 27, 1933, as amended (U.S.C., title 15, sec. 77c), and paragraph (a) (12) of section 3 of the Act of June 6, 1934, as amended (U.S.C., title 15, sec. 78c). The bank shall file with the Securities and Exchange Commission such annual and other reports with regard to such securities as the Commission shall determine to be appropriate in view of the special character of the bank and its operations and necessary in the public interest or for the protection of investors.

(b) The reports of the National Advisory Council provided for in section 4 (a) (6) of the Bretton Woods Agreements Act shall also cover and include the effectiveness of the provisions of section 15 (a) of this Act and the exemption for securities issued by the bank provided by section 8 of the National Bank Act in facilitating the operations of the bank and the extent to which the operations of the bank may assist in financing European recovery and the reconstruction and development of the economic resources of member countries of the bank and the recommendations of the Council as to any modifications it may deem desirable in the provisions of this Act.

Pp. 247–248—Financial transactions with defaulting foreign governments (omit):

The Act of April 13, 1934 was repealed by Act of June 25, 1948, codifying criminal laws, but substance thereof was incorporated in U.S.C., title 18, section 955.

P. 248—Assignment of Claims Act:

(Amended May 15, 1951)

Section 1 of the Assignment of Claims Act of 1940 was amended by striking out all after clause 3 of the proviso and inserting the following:

> 4. That in the event of any such assignment, the assignee thereof shall file written notice of the assignment together with a true copy of the instrument of assignment with (a) the contracting officer or the head of his department or agency; (b) the surety or sureties upon the bond or bonds, if any, in connection with such contract; and (c) the disbursing officer, if any, designated in such contract to make payment.
>
> Notwithstanding any law to the contrary governing the validity of assignments, any assignment pursuant to the Assignment of Claims Act of 1940, as amended, shall constitute a valid assignment for all purposes.
>
> In any case in which moneys due or to become due under any contract are or have been assigned pursuant to this section, no liability of any nature of the assignor to the United States or any department or agency thereof, whether arising from or independently of such contract, shall create or impose any liability on the part of the assignee to make restitution, refund, or repayment to the United States of any amount heretofore since July 1, 1950, or hereafter received under the assignment.
>
> Any contract of the Department of Defense, the General Services Administration, the Atomic Energy Commission, or any other department or agency of the United States designated by the President, except any such contract under which full payment has been made, may, in time of war or national emergency proclaimed by the President (including the national emergency proclaimed December 16, 1950) or by Act or joint resolution of the Congress and until such war or national emergency has been terminated in such manner, provide or be amended without consideration to provide that payments to be made to the assignee of any moneys due or to become due under such contract shall not be subject to reduction or set-off, and if such pro-

vision or one to the same general effect has been at any time heretofore or is hereafter included or inserted in any such contract, payments to be made thereafter to an assignee of any moneys due or to become due under such contract, whether during or after such war or emergency, shall not be subject to reduction or set-off for any liability of any nature of the assignor to the United States or any department or agency thereof which arises independently of such contract, or hereafter for any liability of the assignor on account of (1) renegotiation under any renegotiation statute or under any statutory renegotiation article in the contract, (2) fines, (3) penalties (which term does not include amounts which may be collected or withheld from the assignor in accordance with or for failure to comply with the terms of the contract), or (4) taxes, social security contributions, or the withholding or non-withholding of taxes or social security contributions, whether arising from or independently of such contract.

Except as herein otherwise provided, nothing in this Act, as amended, shall be deemed to affect or impair rights or obligations heretofore accrued.

P. 249—Guaranteed loans to veterans:

(Amended August 10, 1948, April 20, 1950, and July 1, 1953)

Subsection (b) of section 500 of the Servicemen's Readjustment Act was amended to read as follows:

SEC. 500. * * *

(b) Loans guaranteed under this title shall be payable under such terms and conditions as may be agreed upon by the parties thereto, subject to the conditions and limitations of this title and the regulations issued pursuant to section 504: *Provided,* That the liability under the guaranty within the limitations of this title shall decrease or increase pro rata with any decrease or increase of the amount of the unpaid portion of the obligation: *Provided further,* That loans guaranteed under this title shall bear interest at a rate not exceeding 4 per centum per annum and shall be payable in full in not more than thirty years, or in the case of loans on farm realty in not more than forty years: *And provided further,* That (1) the maturity on a non-real-estate loan shall not exceed ten years; (2) any loan for a term in excess of five years shall be amortized in accordance with established procedure; (3) except as provided in section 505 any real-estate loan, other than for repairs, alterations or improvements, shall be secured by a first

lien on the realty, and a non-real-estate loan, except as to working or other capital, merchandise, good-will and other intangible assets, shall be secured by personalty to the extent legal and practicable. *And provided further,* That the Administrator, with the approval of the Secretary of the Treasury, may prescribe by regulation from time to time such rate of interest, not in excess of 4½ per centum per annum, as he may find the loan market demands.

The 1st sentence of subsection (d) of section 500 of the Servicemen's Readjustment Act was amended to read as follows:

Loans guaranteed hereunder may be made (1) by any Federal land bank, national bank, State bank, private bank, building and loan association, insurance company, credit union, or mortgage and loan company, that is subject to examination and supervision by an agency of the United States or of any State or Territory, including the District of Columbia, or (2) by any State.

Pp. 252–255—Improper use of certain words (omit):

The Act of May 24, 1926, and section 5243 of the Revised Statutes were repealed by Act of June 25, 1948, codifying criminal laws, but substance was incorporated in U.S.C., Title 18, section 709, which is contained in the supplemental material to the Appendix.

P. 266—Defense Production Act of 1950 (new):

(Act of September 8, 1950, as amended June 30, 1953; U.S.C., title 50 app., secs. 2091, 2152, 2166)

Section 301 of the Defense Production Act of 1950 reads as follows:

SEC. 301. (a) In order to expedite production and deliveries or services under Government contracts, the President may authorize subject to such regulations as he may prescribe, the Department of the Army, the Department of the Navy, the Department of the Air Force, the Department of Commerce, and such other agencies of the United States engaged in procurement for the national defense as he may designate (hereinafter referred to as "guaranteeing agencies"), without regard to provisions of law relating to the making, performance, amendment, or modification of contracts, to guarantee in whole or in part any public or private financing institution (including any Federal Reserve bank), by commitment to purchase, agreement to share losses, or otherwise, against loss of principal or interest on any loan, discount, or advance, or on any commitment in connection therewith,

which may be made by such financing institution for the purpose of financing any contractor, subcontractor, or other person in connection with the performance of any contract or other operation deemed by the guaranteeing agency to be necessary to expedite production and deliveries or services under Government contracts for the procurement of materials or the performance of services for the national defense, or for the purpose of financing any contractor, subcontractor, or other person in connection with or in contemplation of the termination, in the interest of the United States, of any contract made for the national defense; but no small-business concern (as defined in section 714 (a) (1) of this Act) shall be held ineligible for the issuance of such a guaranty by reason of alternative sources of supply.

(b) Any Federal agency or any Federal Reserve bank, when designated by the President, is hereby authorized to act, on behalf of any guaranteeing agency, as fiscal agent of the United States in the making of such contracts of guarantee and in otherwise carrying out the purposes of this section. All such funds as may be necessary to enable any such fiscal agent to carry out any guarantee made by it on behalf of any guaranteeing agency shall be supplied and disbursed by or under authority from such guaranteeing agency. No such fiscal agent shall have any responsibility or accountability except as agent in taking any action pursuant to or under authority of the provisions of this section. Each such fiscal agent shall be reimbursed by each guaranteeing agency for all expenses and losses incurred by such fiscal agent in acting as agent on behalf of such guaranteeing agency, including among such expenses, notwithstanding any other provision of law, attorneys' fees and expenses of litigation.

(c) All actions and operations of such fiscal agents under authority of or pursuant to this section shall be subject to the supervision of the President, and to such regulations as he may prescribe; and the President is authorized to prescribe, either specifically or by maximum limits or otherwise, rates of interest, guarantee and commitment fees, and other charges which may be made in connection with loans, discounts, advances, or commitments guaranteed by the guaranteeing agencies through such fiscal agents, and to prescribe regulations governing the forms and procedures (which shall be uniform to the extent practicable) to be utilized in connection with such guarantees.

(d) Each guaranteeing agency is hereby authorized to use for the purposes of this section any funds which have heretofore been appropriated or allocated or which hereafter may be appropriated or allocated to it, or which are or may become available to it, for such purposes or for the purpose of meeting the necessities of the national defense.

Subsection (d) of section 702 of the Defense Production Act of 1950 reads as follows:

> (d) The term "national defense" means programs for military and atomic energy production or construction, military assistance to any foreign nation, stockpiling, and directly related activity.

Section 717 of the Defense Production Act of 1950 reads as follows:

> SEC. 717. (a) Title I (except section 104), title III, and title VII (except section 714) of this Act, and all authority conferred thereunder, shall terminate at the close of June 30, 1955. * * *
>
> (d) The termination of any section of this Act, or of any agency or corporation utilized under this Act, shall not affect the disbursement of funds under, or the carrying out of, any contract, guarantee, commitment or other obligation entered into pursuant to this Act prior to the date of such termination, or the taking of any action necessary to preserve or protect the interests of the United States in any amounts advanced or paid out in carrying on operations under this Act, or the taking of any action (including the making of new guarantees) deemed by a guaranteeing agency to be necessary to accomplish the orderly liquidation, adjustment or settlement of any loans guaranteed under this Act, including actions deemed necessary to avoid undue hardship to borrowers in reconverting to normal civilian production; and all of the authority granted to the President, guaranteeing agencies, and fiscal agents, under section 301 of this Act shall be applicable to actions taken pursuant to the authority contained in this subsection.

P. 266—Criminal offenses (new):

(Act of June 25, 1948, as amended September 21, 1950)

Numerous criminal provisions of law were repealed by this Act, but substance was incorporated in Title 18 of U. S. Code. Pertinent provisions of Title 18 are set forth below:

> SEC. 1. OFFENSES CLASSIFIED
>
> Notwithstanding any Act of Congress to the contrary:
>
> (1) Any offense punishable by death or imprisonment for a term exceeding one year is a felony.

(2) Any other offense is a misdemeanor.

(3) Any misdemeanor, the penalty for which does not exceed imprisonment for a period of six months or a fine of not more than $500, or both, is a petty offense.

SEC. 6. DEPARTMENT AND AGENCY DEFINED

As used in this title:

The term "department" means one of the executive departments enumerated in section 1 of Title 5, unless the context shows that such term was intended to describe the executive, legislative, or judicial branches of the government.

The term "agency" includes any department, independent establishment, commission, administration, authority, board or bureau of the United States or any corporation in which the United States has a proprietary interest, unless the context shows that such term was intended to be used in a more limited sense.

SEC. 217. OFFER OF LOAN OR GRATUITY TO BANK EXAMINER

Whoever, being an officer, director or employee of a bank which is a member of the Federal Reserve System or the deposits of which are insured by the Federal Deposit Insurance Corporation, or of any National Agricultural Credit Corporation, or of any land bank, national farm loan association or other institution subject to examination by a farm credit examiner, makes or grants any loan or gratuity, to any examiner or assistant examiner who examines or has authority to examine such bank, corporation, or institution, shall be fined not more than $5,000 or imprisoned not more than one year, or both; and may be fined a further sum equal to the money so loaned or gratuity given.

The provisions of this section and section 218 of this title shall apply to all public examiners and assistant examiners who examine member banks of the Federal Reserve System or insured banks, or National Agricultural Credit Corporations, whether appointed by the Comptroller of the Currency, by the Board of Governors of the Federal Reserve System, by a Federal Reserve Agent, by a Federal Reserve bank or by the Federal Deposit Insurance Corporation, or appointed or elected under the laws of any State; but shall not apply to private examiners or assistant examiners employed only by a clearinghouse association or by the directors of a bank.

SEC. 218. ACCEPTANCE OF LOAN OR GRATUITY BY BANK EXAMINER

Whoever, being an examiner or assistant examiner of member banks of the Federal Reserve System or banks the deposits of which are insured by the Federal Deposit Insurance Corporation, or a farm credit examiner or examiner of National Agricultural Credit Corporations, accepts a loan or gratuity from any bank, corporation, association or organization examined by him or from any person connected therewith, shall be fined not more than $5,000 or imprisoned not more than one year, or both; and may be fined a further sum equal to the money so loaned or gratuity given, and shall be disqualified from holding office as such examiner.

SEC. 219. OFFER FOR PROCUREMENT OF FEDERAL RESERVE BANK LOAN AND DISCOUNT OF COMMERCIAL PAPER

Whoever stipulates for or gives or receives, or consents or agrees to give or receive, any fee, commission, bonus, or thing of value for procuring or endeavoring to procure from any Federal Reserve bank any advance, loan, or extension of credit or discount or purchase of any obligation or commitment with respect thereto, either directly from such Federal Reserve bank or indirectly through any financing institution, unless such fee, commission, bonus, or thing of value and all material facts with respect to the arrangement or understanding therefor shall be disclosed in writing in the application or request for such advance, loan, extension of credit, discount, purchase, or commitment, shall be fined not more than $5,000 or imprisoned not more than one year, or both.

SEC. 220. RECEIPT OF COMMISSIONS OR GIFTS FOR PROCURING LOANS

Whoever, being an officer, director, employee, agent, or attorney of any bank, the deposits of which are insured by the Federal Deposit Insurance Corporation, of a Federal intermediate credit bank, or of a National Agricultural Credit Corporation, except as provided by law, stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value, from any person, firm, or corporation, for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation, from any such bank or corporation, any loan or extension or renewal of loan or sub-

stitution of security, or the purchase or discount or acceptance of any paper, note, draft, check, or bill of exchange by any such bank or corporation, shall be fined not more than $5,000 or imprisoned not more than one year or both.

SEC. 334. ISSUANCE OF FEDERAL RESERVE OR NATIONAL BANK NOTES

Whoever, being a Federal Reserve Agent, or an agent or employee of such Federal Reserve Agent, or of the Board of Governors of the Federal Reserve System, issues or puts in circulation any Federal Reserve notes, without complying with or in violation of the provisions of law regulating the issuance and circulation of such Federal Reserve notes; or

Whoever, being an officer acting under the provisions of chapter 2 of Title 12, countersigns or delivers to any national banking association, or to any other company or person, any circulating notes contemplated by that chapter except in strict accordance with its provisions—

Shall be fined not more than $5,000 or imprisoned not more than five years, or both.

SEC. 655. THEFT BY BANK EXAMINER

Whoever, being a bank examiner or assistant examiner, steals, or unlawfully takes, or unlawfully conceals any money, note, draft, bond, or security or any other property of value in the possession of any bank or banking institution which is a member of the Federal Reserve System or which is insured by the Federal Deposit Insurance Corporation, or from any safe deposit box in or adjacent to the premises of such bank, shall be fined not more than $5,000 or imprisoned not more than five years, or both; but if the amount taken or concealed does not exceed $100, he shall be fined not more than $1,000 or imprisoned not more than one year, or both; and shall be disqualified from holding office as a national bank examiner or Federal Deposit Insurance Corporation examiner.

This section shall apply to all public examiners and assistant examiners who examine member banks of the Federal Reserve System or banks the deposits of which are insured by the Federal Deposit Insurance Corporation, whether appointed by the Comptroller of the Currency, by the Board of Governors of the Federal Reserve System, by a Federal Reserve Agent, by a Federal Reserve bank, or by the Federal

Deposit Insurance Corporation, or appointed or elected under the laws of any State; but shall not apply to private examiners or assistant examiners employed only by a clearinghouse association or by the directors of a bank.

SEC. 656. THEFT, EMBEZZLEMENT, OR MISAPPLICATION BY BANK OFFICER OR EMPLOYEE

Whoever, being an officer, director, agent or employee of, or connected in any capacity with any Federal Reserve bank, member bank, national bank or insured bank, or a receiver of a national bank, or any agent or employee of the receiver, or a Federal Reserve Agent, or an agent or employee of a Federal Reserve Agent or of the Board of Governors of the Federal Reserve System, embezzles, abstracts, purloins or willfully misapplies any of the moneys, funds or credits of such bank or any moneys, funds, assets or securities intrusted to the custody or care of such bank, or to the custody or care of any such agent, officer, director, employee or receiver, shall be fined not more than $5,000 or imprisoned not more than five years, or both; but if the amount embezzled, abstracted, purloined or misapplied does not exceed $100, he shall be fined not more than $1,000 or imprisoned not more than one year, or both.

As used in this section, the term "national bank" is synonymous with "national banking association"; "member bank" means and includes any national bank, state bank, or bank and trust company which has become a member of one of the Federal Reserve banks; and "insured bank" includes any bank, banking association, trust company, savings bank, or other banking institution, the deposits of which are insured by the Federal Deposit Insurance Corporation.

SEC. 709. FALSE ADVERTISING OR MISUSE OF NAMES TO INDICATE FEDERAL AGENCY

Whoever, except as permitted by the laws of the United States, uses the words "national," "Federal," "United States," "reserve," or "Deposit Insurance" as part of the business or firm name of a person, corporation, partnership, business trust, association or other business entity engaged in the banking, loan, building and loan, brokerage, factorage, insurance, indemnity, savings or trust business; or

Whoever falsely advertises or represents, or publishes or displays any sign, symbol or advertisement reasonably calculated to convey

the impression that a nonmember bank, banking association, firm or partnership is a member of the Federal Reserve System; or

* * * * *

Shall be punished as follows: a corporation, partnership, business trust, association, or other business entity, by a fine of not more than $1,000; an officer or member thereof participating or knowingly acquiescing in such violation or any individual violating this section, by a fine of not more than $1,000 or imprisonment for not more than one year, or both.

This section shall not make unlawful the use of any name or title which was lawful on the date of enactment of this title.

A violation of this section may be enjoined at the suit of the United States Attorney, upon complaint by any duly authorized representative of any department or agency of the United States.

SEC. 1004. CERTIFICATION OF CHECKS

Whoever, being an officer, director, agent, or employee of any Federal Reserve bank or member bank of the Federal Reserve System, certifies a check before the amount thereof has been regularly deposited in the bank by the drawer thereof, or resorts to any device, or receives any fictitious obligation, directly or collaterally, in order to evade any of the provisions of law relating to certification of checks, shall be fined not more than $5,000 or imprisoned not more than five years, or both.

SEC. 1005. BANK ENTRIES, REPORTS AND TRANSACTIONS

Whoever, being an officer, director, agent or employee of any Federal Reserve bank, member bank, national bank or insured bank, without authority from the directors of such bank, issues or puts in circulation any notes of such bank; or

Whoever, without such authority, makes, draws, issues, puts forth, or assigns any certificate of deposit, draft, order, bill of exchange, acceptance, note, debenture, bond, or other obligation, or mortgage, judgment or decree; or

Whoever makes any false entry in any book, report, or statement of such bank with intent to injure or defraud such bank, or any other company, body politic or corporate, or any individual person, or to deceive any officer of such bank, or the Comptroller of the Currency, or the Federal Deposit Insurance Corporation, or any agent or examiner

appointed to examine the affairs of such bank, or the Board of Governors of the Federal Reserve System—

Shall be fined not more than $5,000 or imprisoned not more than five years, or both.

As used in this section, the term "national bank" is synonymous with "national banking association"; "member bank" means and includes any national bank, state bank, or bank or trust company, which has become a member of one of the Federal Reserve banks; and "insured bank" includes any state bank, banking association, trust company, savings bank, or other banking institution, the deposits of which are insured by the Federal Deposit Insurance Corporation.

SEC. 1014. LOAN AND CREDIT APPLICATIONS GENERALLY; RENEWALS AND DISCOUNTS; CROP INSURANCE

Whoever knowingly makes any false statement or report, or willfully overvalues any land, property or security, for the purpose of influencing in any way the action of * * * a Federal Reserve bank, upon any application, advance, discount, purchase, purchase agreement, repurchase agreement, commitment, or loan, or any change or extension of any of the same, by renewal, deferment of action or otherwise, or the acceptance, release, or substitution of security therefor, shall be fined not more than $5,000 or imprisoned not more than two years, or both.

SEC. 1906. DISCLOSURE OF INFORMATION BY BANK EXAMINER

Whoever, being an examiner, public or private, discloses the names of borrowers or the collateral for loans of any member bank of the Federal Reserve System, or bank insured by the Federal Deposit Insurance Corporation, examined by him, to other than the proper officers of such bank, without first having obtained the express permission in writing from the Comptroller of the Currency as to a national bank, the Board of Governors of the Federal Reserve System as to a State member bank, or the Federal Deposit Insurance Corporation as to any other insured bank, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or either House thereof, or any committee of Congress or either House duly authorized, shall be fined not more than $5,000 or imprisoned not more than one year, or both.

SEC. 1909. EXAMINER PERFORMING OTHER SERVICES

Whoever, being a national-bank examiner, Federal Deposit Insurance Corporation examiner, farm credit examiner, or an examiner of National Agricultural Credit Corporations, performs any other service, for compensation, for any bank or banking or loan association, or for any officer, director, or employee thereof, or for any person connected therewith in any capacity, shall be fined not more than $5,000 or imprisoned not more than one year, or both.

SEC. 2113. BANK ROBBERY AND INCIDENTAL CRIMES

(a) Whoever, by force and violence, or by intimidation, takes, or attempts to take, from the person or presence of another any property or money or any other thing of value belonging to, or in the care, custody, control, management, or possession of, any bank; or

Whoever enters or attempts to enter any bank, or any building used in whole or in part as a bank, with intent to commit in such bank or building, or part thereof, so used, any felony affecting such bank and in violation of any statute of the United States, or any larceny—

Shall be fined not more than $5,000 or imprisoned not more than twenty years, or both.

(b) Whoever takes and carries away, with intent to steal or purloin, any property or money or any other thing of value exceeding $100 belonging to, or in the care, custody, control, management, or possession of any bank, shall be fined not more than $5,000 or imprisoned not more than ten years, or both; or

Whoever takes and carries away, with intent to steal or purloin, any property or money or any other thing of value not exceeding $100 belonging to, or in the care, custody, control, management, or possession of any bank, shall be fined not more than $1,000 or imprisoned not more than one year, or both.

(c) Whoever receives, possesses, conceals, stores, barters, sells, or disposes of, any property or money or other thing of value knowing the same to have been taken from a bank in violation of subsection (b) of this section shall be subject to the punishment provided by said subsection (b) for the taker.

(d) Whoever, in committing, or in attempting to commit, any offense defined in subsections (a) and (b) of this section, assaults any person, or puts in jeopardy the life of any person by the use of a dangerous weapon or device, shall be fined not more than $10,000 or imprisoned not more than twenty-five years, or both.

(e) Whoever, in committing any offense defined in this section, or in avoiding or attempting to avoid apprehension for the commission of such offense, or in freeing himself or attempting to free himself from arrest or confinement for such offense, kills any person, or forces any person to accompany him without the consent of such person, shall be imprisoned not less than ten years, or punished by death if the verdict of the jury shall so direct.

(f) As used in this section the term "bank" means any member bank of the Federal Reserve System, and any bank, banking association, trust company, savings bank, a Federal Savings and Loan Association, or other banking institution organized or operating under the laws of the United States and any bank the deposits of which are insured by the Federal Deposit Insurance Corporation.

* * * * *

THE
FEDERAL RESERVE ACT

(APPROVED DECEMBER 23, 1913)

AS AMENDED TO NOVEMBER 1, 1946

With an Appendix

Containing provisions of certain other
Acts of Congress which affect
the Federal Reserve System

COMPILED UNDER THE DIRECTION OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
IN THE OFFICE OF ITS GENERAL COUNSEL

THE
FEDERAL RESERVE ACT

AS AMENDED

TO NOVEMBER 1, 1946

PREFACE

This edition of the Federal Reserve Act and related statutes has been compiled in the Office of the General Counsel of the Board of Governors of the Federal Reserve System, under the direction of the Board, to supersede and bring up to date a former edition which was published in 1935. The present edition incorporates all amendments to the Federal Reserve Act and contains in the Appendix provisions of other statutes affecting the Federal Reserve System which have been enacted by Congress up to November 1, 1946.

The style of the present edition follows generally that of the edition published in 1935. The paragraphs of each section of the Federal Reserve Act are numbered consecutively in order to facilitate easy reference; and each paragraph is preceded by a catch line indicative of its subject matter and is followed by an editorial note containing the legislative history of the paragraph, cross references to the United States Code, and other explanatory comments which may be pertinent. A similar arrangement is followed with respect to the statutory provisions published in the Appendix. In this connection, attention is called to the fact that paragraph numbers, catch lines and notes are not a part of the law and should not be regarded as affecting the construction of the law; and also that the captions to sections 1, 6, 8, 10(a), 10(b), 11, 12A, 12B, 13a, 13b, 17, 20, 22, 23, 23A, 24A, 25(b), 26, 27, 28, 29, and 30 of the Federal Reserve Act, were added editorially and likewise should not be regarded as a part of the law.

For convenient reference, there are inserted immediately before the Index four Tables of Statutes listing respectively (1) statutes amending the Federal Reserve Act, (2) statutes amended or referred to by the Federal Reserve Act, (3) statutory provisions published in the Appendix, and (4) sections of U. S. Code containing provisions of the Federal Reserve Act.

TABLE OF CONTENTS

FEDERAL RESERVE ACT

Approved December 23, 1913 (38 Stat. 251, ch. 6)

As amended to November 1, 1946. [For table of statutes amending the Federal Reserve Act, see p. 267.]

An Act To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

SECTION 1. SHORT TITLE AND DEFINITIONS

1. Short title

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

[U. S. C., title 12, sec. 226. Part of original Federal Reserve Act; not amended.]

2. Definition of "bank"

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

[U. S. C., title 12, sec. 221. Part of original Federal Reserve Act; not amended.]

3. Definitions of other terms

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Board of Governors of the Federal Reserve System; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

[U. S. C., title 12, sec. 221. Part of original Federal Reserve Act; not amended. For further definitions, see sec. 2 of Banking Act of 1933, approved June 16, 1933 (Appendix, p. 158). Sec. 203 (a) of the Banking Act of 1935, approved August 23, 1935 (49 Stat. 704), provided: "Hereafter the Federal Reserve Board shall be known as the 'Board of Governors of the Federal Reserve System', and the governor and vice governor of the Federal Reserve Board shall be known as the 'chairman' and the 'vice chairman', respectively, of the Board of Governors of the Federal Reserve System." Accordingly, the words "Federal Reserve Board", "governor" and "vice governor", wherever they formerly appeared in the Federal Reserve Act (or in other acts of Congress), have been changed in this edition to read "Board of Governors of the Federal Reserve System", "chairman" and "vice chairman", respectively, notwithstanding the fact that such change has not been made by specific amendment of the law.]

SECTION 2. FEDERAL RESERVE DISTRICTS

1. Establishment of reserve cities and districts

Sec. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Board of Governors of the Federal Reserve System when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Board of Governors of the Federal Reserve System, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

[Partly incorporated in U. S. C., title 12, secs. 222 and 223. Part of original Federal Reserve Act; not amended.]

2. Powers of organization committee

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

[Omitted from U. S. Code except part of last sentence which is incorporated in U. S. C., title 12, sec. 225. Part of original Federal Reserve Act; not amended.]

3. Subscription to stock by national banks

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be

organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Board of Governors of the Federal Reserve System, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System, said payments to be in gold or gold certificates.

[Partly incorporated in U. S. C., title 12, sec. 282. Part of original Federal Reserve Act; not amended. For provisions as to stock subscriptions by State banks and trust companies, see this act, sec. 9, pp. 17, 23.]

4. Liability of shareholders of reserve banks

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

[U. S. C., title 12, sec. 502. Part of original Federal Reserve Act; not amended.]

5. Failure of national bank to accept terms of Act

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Board of Governors of the Federal Reserve System.

[Omitted from U. S. Code. Part of original Federal Reserve Act; not amended.]

6. Penalty for violation of Act by national banks

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Board of Governors of the Federal

Reserve System, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

[U. S. C., title 12, sec. 501a. Part of original Federal Reserve Act; not amended.]

7. Effect of dissolution

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

[U. S. C., title 12, sec. 501a. Part of original Federal Reserve Act; not amended.]

8. Stock offered to public

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

[Omitted from U. S. Code. Part of original Federal Reserve Act; not amended.]

9. Limitation on amount to one subscriber

No individual, copartnersh p, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than $25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

[U. S. C., title 12, sec. 283. Part of original Federal Reserve Act; not amended.]

10. United States stock

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States

stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

[Partly incorporated in U. S. C., title 12, sec. 284. Part of original Federal Reserve Act; not amended.]

11. Voting rights

Stock not held by member banks shall not be entitled to voting power.

[U. S. C., title 12, sec. 285. Part of original Federal Reserve Act; not amended.]

12. Transfer of stock

The Board of Governors of the Federal Reserve System is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

[U. S. C., title 12, sec. 286. Part of original Federal Reserve Act; not amended.]

13. Minimum capital; status of reserve and central reserve cities

No Federal reserve bank shall commence business with a subscribed capital less than $4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of $100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

[Last sentence of this paragraph is omitted from U. S. Code; rest of paragraph is incorporated in U. S. C., title 12, secs. 224 and 281. Part of original Federal Reserve Act; not amended.]

SECTION 3. BRANCH OFFICES

1. Establishment of branches of reserve banks

Sec. 3. The Board of Governors of the Federal Reserve System may permit or require any Federal reserve bank to establish branch banks within the Federa reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, shall be

operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal reserve bank of the district, and the remaining directors by the Board of Governors of the Federal Reserve System. Directors of branch banks shall hold office during the pleasure of the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 521. As amended by Act of June 21, 1917 (40 Stat. 232.]

2. Discontinuance of branches

The Board of Governors of the Federal Reserve System may at any time require any Federal Reserve Bank to discontinue any branch of such Federal Reserve Bank established under this section. The Federal Reserve Bank shall thereupon proceed to wind up the business of such branch bank, subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe.

[U. S. C., title 12, sec. 521. As added by Act of February 25, 1927 (44 Stat. 1234.]

SECTION 4. FEDERAL RESERVE BANKS

1. Organization of reserve banks

Sec. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

[Omitted from U. S. Code. Part of original Federal Reserve Act; not amended.]

2. Organization certificate

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the

district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

[Omitted from U. S. Code. Part of original Federal Reserve Act; not amended.]

3. Acknowledgment and filing

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

[Omitted from U. S. Code. Part of original Federal Reserve Act; not amended.]

4. General corporate powers

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.

Second. To have succession after the approval of this Act until dissolved by Act of Congress or until forfeiture of franchise for violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors a president, vice presidents, and such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds for them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. The president shall be the chief executive officer of the bank and shall be appointed by the board of directors, with the approval of the Board of Governors of the Federal Reserve System, for a term of five years; and all other executive officers and all employees of the bank shall be directly responsible to him. The first vice president of the bank shall be appointed in the same manner and for the same term as the president, and shall, in the absence or disability of the president or during a vacancy in the office of president, serve as chief executive officer of the

bank. Whenever a vacancy shall occur in the office of the president or the first vice president, it shall be filled in the manner provided for original appointments; and the person so appointed shall hold office until the expiration of the term of his predecessor.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

[U. S. C., title 12, sec. 341. As amended by Act of February 25, 1927 (44 Stat. 1234), which amended subparagraph "Second"; and by Act of August 23, 1935 (49 Stat. 703), which amended subparagraph "Fifth" effective March 1, 1936. As to issuance of Federal Reserve bank notes and redemption of bonds securing such notes, see section 18, this act, p. 94, and note to paragraph 1 of that section.]

5. Authority to commence business

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

[U. S. C., title 12, sec. 341. Part of original Federal Reserve Act; not amended.]

6. Board of directors

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

[U. S. C., title 12, sec. 301. Part of original Federal Reserve Act; not amended.]

7. Duties of directors generally

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

[U. S. C., title 12, sec. 301. Part of original Federal Reserve Act; not amended.]

8. Administration of affairs; extension of credit

Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Board of Governors of the Federal Reserve System, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Board of Governors of the Federal Reserve System may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements, and the accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Board of Governors of the Federal Reserve System any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Board of Governors of the Federal Reserve System, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time.

[U. S. C., title 12, sec. 301. As amended by Act of June 16, 1933 (48 Stat. 163).]

9. Number and classes of directors

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

[U. S. C., title 12, sec. 302. Part of original Federal Reserve Act; not amended.]

10. Class A directors

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

[U. S. C., title 12, sec. 302. Part of original Federal Reserve Act; not amended.]

11. Class B directors

Class B shall consist of three members, who at the time of their e'ection shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

[U. S. C., title 12, sec. 302. Part of original Federal Reserve Act; not amended.]

12. Class C directors

Class C shall consist of three members who shall be designated by the Board of Governors of the Federal Reserve System. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Board of Governors of the Federal Reserve System shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

[U. S. C., title 12, sec. 302. Part of original Federal Reserve Act; not amended.]

13. Senator or Representative ineligible

No Senator or Representative in Congress shall be a member of the Board of Governors of the Federal Reserve System or an officer or a director of a Federal reserve bank.

[U. S. C., title 12, sec. 303. Part of original Federal Reserve Act; not amended.]

14. Class B directors as employees of banks

No director of class B shall be an officer, director, or employee of any bank.

[U. S. C., title 12, sec. 303. Part of original Federal Reserve Act; not amended.]

15. Class C directors as employees or stockholders of banks

No director of class C shall be an officer, director, employee, or stockholder of any bank.

[U. S. C., title 12, sec. 303. Part of original Federal Reserve Act; not amended.]

16. Nomination and election of class A and B directors

Directors of class A and class B shall be chosen in the following manner:

The Board of Governors of the Federal Reserve System shall classify the member banks of the d str'ct into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be permitted to nominate to the chairman of the board of directors of the Federal reserve bank of the district one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nomi-

nated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the elections of class A and class B directors: *Provided*, That whenever any two or more member banks within the same Federal reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate.

[U. S. C., title 12, sec. 304. As amended by Acts of September 26, 1918 (40 Stat. 968); June 16, 1933 (48 Stat. 163).]

17. Preferential ballot

Within fifteen days after receipt of the list of candidates the duly authorized officer of a member bank shall certify to the chairman his first, second, and other choices for director of class A and class B, respectively, upon a preferential ballot upon a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each such officer shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate. No officer or director of a member bank shall be eligible to serve as a class A director unless nominated and elected by banks which are members of the same group as the member bank of which he is an officer or director.

[U. S. C., title 12, sec. 304. As amended by Act of September 26, 1918 (40 Stat. 968).]

18. Candidates serving more than one member bank

Any person who is an officer or director of more than one member bank shall not be eligible for nomination as a class A director except by banks in the same group as the bank having the largest aggregate resources of any of those of which such person is an officer or director.

[U. S. C., title 12, sec. 304. As added by Act of September 26, 1918 (40 Stat. 968).]

19. Counting the ballots

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. The candidate then having a majority of the electors voting and the highest number of combined votes shall be declared elected. If no candidate have a majority of electors voting and the highest number of votes when

the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

[U. S. C., title 12, sec. 304. As amended by Act of June 26, 1930 (46 Stat. 815).]

20. Class C directors; chairman and Federal reserve agent; deputy chairman

Class C directors shall be appointed by the Board of Governors of the Federal Reserve System. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain, under regulations to be established by the Board of Governors of the Federal Reserve System, a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Board of Governors of the Federal Reserve System and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Board of Governors of the Federal Reserve System and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C shall be appointed by the Board of Governors of the Federal Reserve System as deputy chairman to exercise the powers of the chairman of the board when necessary. In case of the absence of the chairman and deputy chairman, the third class C director shall preside at meetings of the board.

[U. S. C., title 12, sec. 305. As amended by Act of June 21, 1917 (40 Stat. 232).]

21. Assistant Federal reserve agents

Subject to the approval of the Board of Governors of the Federal Reserve System, the Federal reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the Federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability. The Board of Governors of the Federal Reserve System shall require such bonds of the assistant Federal reserve agents as it may deem necessary for the protection of the United States. Assistants to the Federal reserve agent shall receive an annual compensation, to be fixed and paid in the same manner as that of the Federal reserve agent.

[U. S. C., title 12, sec. 306. As added by Act of June 21, 1917 (40 Stat. 232).]

22. Compensation and expenses of directors, officers, and employees

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amounts shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 307. Part of original Federal Reserve Act; not amended.]

23. Meetings of directors pending organization

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

[Omitted from U. S. Code. Part of original Federal Reserve Act; not amended.]

24. Terms of directors; vacancies

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

[U. S. C., title 12, sec. 308. Part of original Federal Reserve Act; not amended.]

SECTION 5. STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL

1. Amount of shares; increase and decrease of capital; surrender and cancelation of stock

Sec. 5. The capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks

owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Board of Governors of the Federal Reserve System. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When a member bank reduces its capital stock or surplus it shall surrender a proportionate amount of its holdings in the capital stock of said Federal Reserve bank. Any member bank which holds capital stock of a Federal Reserve bank in excess of the amount required on the basis of 6 per centum of its paid-up capital stock and surplus shall surrender such excess stock. When a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve bank and be released from its stock subscription not previously called. In any such case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of 1 per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve bank.

[U. S. C., title 12, sec. 287. As amended by Act of August 23, 1935 (49 Stat. 713).]

SECTION 6. INSOLVENCY OF MEMBER BANKS

1. Insolvency of member banks

Sec. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank.

[U. S. C., title 12, sec. 288. As amended by Act of April 23, 1930 (46 Stat. 250).]

2. National bank discontinuing banking operations

If any national bank which has not gone into liquidation as provided in section 5220 of the Revised Statutes (United States Code, title 12, section 181) and for which a receiver has not already been appointed for other lawful cause, shall discontinue its banking operations for a period of sixty days the Comptroller of the Currency may, if he deems it advisable, appoint a receiver for such bank. The stock held by the said national bank in the Federal reserve bank of its district shall thereupon be canceled and said national bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares canceled and one-half of 1 per centum a month from the period of the last dividend, if earned, not to exceed the book value thereof, less any liability of such national bank to the Federal reserve bank.

[U. S. C., title 12, sec. 288. As added by Act of April 23, 1930 (46 Stat. 250). The third and last paragraph of this section was stricken out by Act of August 23, 1935 (49 Stat. 713).]

SECTION 7. DIVISION OF EARNINGS

1. Dividends and surplus fund of reserve banks

Sec. 7. After all necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid into the surplus fund of the Federal reserve bank.

[U. S. C., title 12, sec. 289. As amended by Acts of March 3, 1919 (40 Stat. 1314); June 16, 1933 (48 Stat. 163).]

2. Disposition of surplus on dissolution or liquidation

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

[U. S. C., title 12, sec. 290. Part of original Federal Reserve Act; not amended.]

3. Exemption from taxation

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

[U. S. C., title 12, sec. 531. Part of original Federal Reserve Act; but in effect amended by section 6 of the Public Debt Act of March 28, 1942 (56 Stat. 190), which reads as follows:

"Sec. 6. Section 4 of the Public Debt Act of 1941 (Public, Numbered 7, Seventy-seventh Congress, first session), is hereby amended to read as follows:

" 'Sec. 4. (a) Interest upon obligations, and dividends, earnings, or other income from shares, certificates, stock, or other evidences of ownership, and gain from the sale or other disposition of such obligations and evidences of ownership issued on or after the effective date of the Public Debt Act of 1942 by the United States or any agency or instrumentality thereof shall not have any exemption, as such, * * *

" '(b) The provisions of this section shall, with respect to such obligations and evidences of ownership, be considered as amendatory of and supplementary to the respective Acts or parts of Acts authorizing the issuance of such obligations and evidences of ownership, as amended and supplemented.' "]

SECTION 8. CONVERSION OF STATE BANKS INTO NATIONAL BANKS

1. Conversion of State banks into national banks

Sec. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

[U. S. C., title 12, sec. 35. Part of original Federal Reserve Act; not amended.]

2. Organization of new bank; amount of shares; powers and duties

Provided, however, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the

directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

[U. S. C., title 12, sec. 35. Part of original Federal Reserve Act; not amended.]

3. Retention of assets by converting bank

The Comptroller of the Currency may, in his discretion and subject to such conditions as he may prescribe, permit such converting bank to retain and carry at a value determined by the Comptroller such of the assets of such converting bank as do not conform to the legal requirements relative to assets acquired and held by national banking associations.

[U. S. C., title 12, sec. 35. As added by Act of August 23, 1935 (49 Stat. 711).]

SECTION 9. STATE BANKS AS MEMBERS

1. Applications for membership by State banks

Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, including Morris Plan banks and other incorporated banking institutions engaged in similar business, desiring to become a member of the Federal Reserve System, may make application to the Board of Governors of the Federal Reserve System, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. For the purposes of membership of any such bank the terms "capital" and "capital stock" shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation. The Board of Governors of the Federal Reserve System, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a stockholder of such Federal reserve bank.

[U. S. C., title 12, sec. 321. As amended by Act of June 21, 1917 (40 Stat. 232) which completely revised this section; and by Acts of February 25, 1927 (44 Stat. 1229); June 16, 1933 (48 Stat. 164); June 16, 1934 (48 Stat. 971). For admission to membership of mutual savings banks, see p. 23, par. 15].

2. Branches of State member banks

Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated. *Provided, however,* That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks except that the approval of the Board of Governors of the Federal Reserve System, instead of the Comptroller of the Currency, shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated.

[U. S. C., title 12, sec. 321. As added by Act of February 25, 1927 (44 Stat. 1229); and amended by Acts of June 16, 1933 (48 Stat. 164); August 23, 1935 (49 Stat. 721). The act referred to in this paragraph was approved February 25, 1927. For provisions governing domestic branches of national banks, see sec. 5155, Revised Statutes (Appendix, p. 177); for provisions governing foreign branches, see sec. 25, this Act (p. 116).]

3. Financial condition, management and powers

In acting upon such applications the Board of Governors of the Federal Reserve System shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this Act.

[U. S. C., title 12, sec. 322. As added by Act of June 21, 1917 (40 Stat. 233), which completely revised this section.]

4. Payment of subscription

Whenever the Board of Governors of the Federal Reserve System shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Board of Governors of the Federal Reserve System, and stock issued to it shall be held subject to the provisions of this Act.

[U. S. C., title 12, sec. 323. As amended by Act of June 21, 1917 (40 Stat. 233), which completely revised this section.]

5. Provisions of law to be complied with; reports of condition

All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of

this Act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relate to the payment of unearned dividends. Such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalities prescribed by section fifty-two hundred and nine of the Revised Statutes, and shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal reserve bank on dates to be fixed by the Board of Governors of the Federal Reserve System. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of $100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal reserve bank by suit or otherwise. Such reports of condition shall be in such form and shall contain such information as the Board of Governors of the Federal Reserve System may require and shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe.

[U. S. C., title 12, sec. 324. As amended by Act of June 21, 1917 (40 Stat. 233), which completely revised this section; and by Act of August 23, 1935 (49 Stat. 713). For provisions covering loans on or purchase of their own stock by national banks, see sec. 5201, Revised Statutes (Appendix, p. 182); for provisions covering withdrawal of capital or payment of unearned dividends by national banks, see sec. 5204, Revised Statutes (Appendix, p. 186); for provisions relating to impairment of capital of national banks, see sec. 5205, Revised Statutes (Appendix, p. 186) and sec. 345 of Banking Act of 1935 (Appendix, p. 171); for text of sec. 5209, Revised Statutes, see Appendix, p. 173.]

6. Examinations

As a condition of membership such banks shall likewise be subject to examinations made by direction of the Board of Governors of the Federal Reserve System or of the Federal reserve bank by examiners selected or approved by the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 325. As added by Act of June 21, 1917 (40 Stat. 233), which completely revised this section.]

7. Acceptance of State examinations; expenses; reports of examinations

Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Board of Governors of the Federal Reserve System: *Provided, however,* That when it deems it necessary the board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, may, in the discretion of the Board of Governors of the Federal Reserve System, be assessed against the banks examined and, when so assessed, shall be

paid by the banks examined. Copies of the reports of such examinations may, in the discretion of the Board of Governors of the Federal Reserve System, be furnished to the State authorities having supervision of such banks, to officers, directors, or receivers of such banks, and to any other proper persons.

[U. S. C., title 12, sec. 326. As added by Act of June 21, 1917 (40 Stat. 233), which completely revised this section; and amended by Act of June 26, 1930 (46 Stat. 814).]

8. Forfeiture of membership

If at any time it shall appear to the Board of Governors of the Federal Reserve System that a member bank has failed to comply with the provisions of this section or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, or has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. The Board of Governors of the Federal Reserve System may restore membership upon due proof of compliance with the conditions imposed by this section.

[U. S. C., title 12, sec. 327. As amended by Act of June 21, 1917 (40 Stat. 233), which completely revised this section; and further amended by Act of April 23, 1930 (46 Stat. 251).]

9. Voluntary withdrawal from membership

Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Board of Governors of the Federal Reserve System, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: *Provided,* That the Board of Governors of the Federal Reserve System, in its discretion and subject to such conditions as it may prescribe, may waive such six months' notice in individual cases and may permit any such State bank or trust company to withdraw from membership in a Federal reserve bank prior to the expiration of six months from the date of the written notice of its intention to withdraw: *Provided, however,* That no Federal reserve bank shall, except under express authority of the Board of Governors of the Federal Reserve System, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the board. Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Board of Governors of the Federal Reserve System, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become

due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

[U. S. C., title 12, sec. 328. As added by Act of June 21, 1917 (40 Stat. 233), which completely revised this section, and amended by Act of April 17, 1930 (46 Stat. 170).]

10. Capital required for membership

No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act, as amended: *Provided,* That this paragraph shall not apply to State banks and trust companies organized prior to the date this paragraph as amended takes effect and situated in a place the population of which does not exceed three thousand inhabitants and having a capital of not less than $25,000, nor to any State bank or trust company which is so situated and which, while it is entitled to the benefits of insurance under section 12B of this Act, increases its capital to not less than $25,000.

[U. S. C., title 12, sec. 329. As amended by Act of June 21, 1917 (40 Stat. 234), which completely revised this section; and further amended by Acts of March 4, 1923 (42 Stat. 1478); June 16, 1933 (48 Stat. 185). This paragraph as amended by Act of June 16, 1933, became effective on that date. For provisions relating to minimum capital of national banks, see sec. 5138, Revised Statutes (Appendix, p. 183).]

11. Waiver of membership requirements as to insured banks

In order to facilitate the admission to membership in the Federal Reserve System of any State bank which is required under subsection (y) of section 12B of this Act to become a member of the Federal Reserve System in order to be an insured bank or continue to have any part of its deposits insured under such section 12B, the Board of Governors of the Federal Reserve System may waive in whole or in part the requirements of this section relating to the admission of such bank to membership: *Provided,* That, if such bank is admitted with a capital less than that required for the organization of a national bank in the same place and its capital and surplus are not, in the judgment of the Board of Governors of the Federal Reserve System, adequate in relation to its liabilities to depositors and other creditors, the said Board may, in its discretion, require such bank to increase its capital and surplus to such amount as the Board may deem necessary within such period prescribed by the Board as in its judgment shall be reasonable in view of all the circumstances: *Provided, however,* That no such bank shall be required

to increase its capital to an amount in excess of that required for the organization of a national bank in the same place.

[U. S. C., title 12, sec. 329a. As added by Act of August 23, 1935 (49 Stat. 704). The provision of section 12B(y) requiring membership in Federal Reserve System was repealed by Act of June 20, 1939 (53 Stat. 842).]

12. Laws to which subject

Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this Act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this Act. Subject to the provisions of this Act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks: *Provided, however*, That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association. The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank.

[U. S. C., title 12, sec. 330. As added by Act of June 21, 1917 (40 Stat. 234), which completely revised this section; and amended by Act of July 1, 1922 (42 Stat. 821). As to limitations on loans by national banks to one person, see sec. 5200, Revised Statutes (Appendix, p. 179).]

13. False certification of checks

It shall be unlawful for any officer, clerk, or agent of any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk, or agent in violation of this section may subject such bank to a forfeiture

of its membership in the Federal Reserve System upon hearing by the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 331. As added by Act of June 21, 1917 (40 Stat. 234), which completely revised this section. See also sec. 5208, Revised Statutes (Appendix, p. 172), for additional provisions covering false certification of checks by officers of Federal reserve banks and member banks.]

14. Government depositories and financial agents

All banks or trust companies incorporated by special law or organized under the general laws of any State, which are members of the Federal reserve system, when designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. The Secretary of the Treasury shall require of the banks and trust companies thus designated satisfactory security, by the deposit of United States bonds or otherwise, for the safe keeping and prompt payment of the public money deposited with them and for the faithful performance of their duties as financial agents of the Government.

[U. S. C., title 12, sec. 332. As added by Act of May 7, 1928 (45 Stat. 492). For provisions of other statutes as to deposit of Government funds in member banks, see Appendix, pp. 163–170.]

15. Admission to membership of mutual savings banks

Any mutual savings bank having no capital stock (including any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends), but having surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust companies, except that any such savings bank shall subscribe for capital stock of the Federal reserve bank in an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership. Thereafter such subscription shall be adjusted semiannually on the same percentage basis in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System. If any such mutual savings bank applying for membership is not permitted by the laws under which it was organized to purchase stock in a Federal reserve bank, it shall, upon admission to the system, deposit with the Federal reserve bank an amount equal to the amount which it would have been required to pay

in on account of a subscription to capital stock. Thereafter such deposit shall be adjusted semiannually in the same manner as subscriptions for stock. Such deposits shall be subject to the same conditions with respect to repayment as amounts paid upon subscriptions to capital stock by other member banks and the Federal reserve bank shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of stock of such Federal reserve bank. If the laws under which any such savings bank was organized be amended so as to authorize mutual savings banks to subscribe for Federal reserve bank stock, such savings bank shall thereupon subscribe for the appropriate amount of stock in the Federal reserve bank, and the deposit hereinbefore provided for in lieu of payment upon capital stock shall be applied upon such subscription. If the laws under which any such savings bank was organized be not amended at the next session of the legislature following the admission of such savings bank to membership so as to authorize mutual savings banks to purchase Federal reserve bank stock, or if such laws be so amended and such bank fail within six months thereafter to purchase such stock, all of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed elsewhere in this section with respect to State member banks and trust companies. Each such mutual savings bank shall comply with all the provisions of law applicable to State member banks and trust companies, with the regulations of the Board of Governors of the Federal Reserve System and with the conditions of membership prescribed for such savings bank at the time of admission to membership, except as otherwise hereinbefore provided with respect to capital stock.

[U. S. C., title 12, sec. 333. As added by Act of June 16, 1933 (48 Stat. 164). As to the amount of capital required for the organization of a national bank, see sec. 5138, Revised Statutes (Appendix, p. 183).]

16. Reports of affiliates

Each bank admitted to membership under this section shall obtain from each of its affiliates other than member banks and furnish to the Federal reserve bank of its district and to the Board of Governors of the Federal Reserve System not less than three reports during each year. Such reports shall be in such form as the Board of Governors of the Federal Reserve System may prescribe, shall be verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, and shall disclose the information hereinafter provided for as of dates identical with those fixed by the Board of Governors of the Federal Reserve System for reports of the condition of the affiliated member bank. Each such report of an affiliate shall be transmitted as herein provided at the

same time as the corresponding report of the affiliated member bank, except that the Board of Governors of the Federal Reserve System may, in its discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Board of Governors of the Federal Reserve System shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the bank under the same conditions as govern its own condition reports.

[U. S. C., title 12, sec. 334. As added by Act of June 16, 1933 (48 Stat. 165).]

17. Additional reports of affiliates

Any such affiliated member bank may be required to obtain from any such affiliate such additional reports as in the opinion of its Federal reserve bank or the Board of Governors of the Federal Reserve System may be necessary in order to obtain a full and complete knowledge of the condition of the affiliated member bank. Such additional reports shall be transmitted to the Federal reserve bank and the Board of Governors of the Federal Reserve System and shall be in such form as the Board of Governors of the Federal Reserve System may prescribe.

[U. S. C., title 12, sec. 334. As added by Act of June 16, 1933 (48 Stat. 165).]

18. Failure to obtain reports of affiliates

Any such affiliated member bank which fails to obtain from any of its affiliates and furnish any report provided for by the two preceding paragraphs of this section shall be subject to a penalty of $100 for each day during which such failure continues, which, by direction of the Board of Governors of the Federal Reserve System, may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located. For the purposes of this paragraph and the two preceding paragraphs of this section, the term "affiliate" shall include holding company affiliates as well as other affiliates.

[U. S. C., title 12, sec. 334. As added by Act of June 16, 1933 (48 Stat. 165). For definitions of "affiliate" and "holding company affiliate," see sec. 2 of the Banking Act of 1933, approved June 16, 1933 (Appendix, p. 158).]

19. Dealings in investment securities and stock

State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph "Seventh" of section 5136 of the Revised Statutes, as amended.

[U. S. C., title 12, sec. 335. As added by Act of June 16, 1933 (48 Stat. 165). For text of paragraph "Seventh" of sec. 5136, Revised Statutes, see Appendix, p. 176.]

20. Divorce of stock from stock of other corporations

After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any State member bank shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any State member bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank: *Provided*, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a State member bank.

[U. S. C., title 12, sec. 336. As added by Act of June 16, 1933 (48 Stat. 165); and amended by Act of August 23, 1935 (49 Stat. 710). The Banking Act of 1935, referred to in this paragraph, was approved August 23, 1935.]

21. Holding company affiliates

Each State member bank affiliated with a holding company affiliate shall obtain from such holding company affiliate, within such time as the Board of Governors of the Federal Reserve System shall prescribe, an agreement that such holding company affiliate shall be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes, as amended, in the case of holding company affiliates of national banks. A copy of each such agreement shall be filed with the Board of Governors of the Federal Reserve System. Upon the failure of a State member bank affiliated with a holding company affiliate to obtain such an agreement within the time so prescribed, the Board of Governors of the Federal Reserve System shall require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section. Whenever the Board of Governors of the Federal Reserve System shall have revoked the voting permit of any such holding company affiliate, the Board of Governors of the Federal Reserve System may, in its discretion, require any or all State member banks affiliated with such holding company affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section.

[U. S. C., title 12, sec. 337. As added by Act of June 16, 1933 (48 Stat. 166). For text of sec. 5144, Revised Statutes, see Appendix, p. 159.]

22. Examinations of affiliates

In connection with examinations of State member banks, examiners selected or approved by the Board of Governors of the Federal Reserve System shall make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such banks. The expense of examination of affiliates of any State member bank may, in the discretion of the Board of Governors of the Federal Reserve System, be assessed against such bank and, when so assessed, shall be paid by such bank. In the event of the refusal to give any information requested in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, or in the event of the refusal to pay any expense so assessed, the Board of Governors of the Federal Reserve System may, in its discretion, require any or all State member banks affiliated with such affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System, as provided in this section.

[U. S. C., title 12, sec. 338. As added by Act of June 16, 1933 (48 Stat. 166).]

SECTION 10. BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1. Appointment and qualification of members

Sec. 10. The Board of Governors of the Federal Reserve System (hereinafter referred to as the "Board") shall be composed of seven members, to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the Banking Act of 1935, for terms of fourteen years except as hereinafter provided, but each appointive member of the Federal Reserve Board in office on such date shall continue to serve as a member of the Board until February 1, 1936, and the Secretary of the Treasury and the Comptroller of the Currency shall continue to serve as members of the Board until February 1, 1936. In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. The members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of $15,000, payable monthly, together with actual necessary traveling expenses.

[U. S. C., title 12, sec. 241. As amended by Acts of June 3, 1922 (42 Stat. 620); August 23, 1935 (49 Stat. 704). Prior to the enactment of the Banking Act of 1935, approved August 23, 1935, the Board of Governors of the Federal Reserve System was known as the Federal Reserve Board. See note to par. 3 of sec. 1 (p. 1).]

2. Members ineligible to serve member banks; term of office: chairman and vice chairman

The members of the Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office on the date of enactment of the Banking Act of 1935, the President shall fix the term of the successor to such member at not to exceed fourteen years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one member in any two-year period, and thereafter each member shall hold office for a term of fourteen years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. Of the persons thus appointed, one shall be designated by the President as chairman and one as vice chairman of the Board, to serve as such for a term of four years. The chairman of the Board, subject to its supervision, shall be its active executive officer. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. Any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term of fourteen years.

[U. S. C., title 12, sec. 242. As amended by Acts of March 3, 1919 (40 Stat. 1315); June 3, 1922 (42 Stat. 620); June 16, 1933 (48 Stat. 166); August 23, 1935 (49 Stat. 704). The Banking Act of 1935, referred to in this paragraph, became effective August 23, 1935. Prior to the enactment of that Act, the chairman and vice chairman of the Board of Governors of the Federal Reserve System were known as the governor and vice governor of the Federal Reserve Board, respectively. See note to par. 3 of sec. 1 (p. 1).]

3. Assessments on Federal reserve banks

The Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and such assessments may include amounts sufficient to provide for the acquisition by the Board in its own name of such site or building in the District of Columbia as in its judgment alone shall be necessary for the purpose of providing suitable and adequate quarters for the performance of its functions. After approving such plans, estimates, and specifications as

it shall have caused to be prepared, the Board may, notwithstanding any other provision of law, cause to be constructed on the site so acquired by it a building suitable and adequate in its judgment for its purposes and proceed to take all such steps as it may deem necessary or appropriate in connection with the construction, equipment, and furnishing of such building. The Board may maintain, enlarge, or remodel any building so acquired or constructed and shall have sole control of such building and space therein.

[U. S. C., title 12, sec. 243. As reenacted without change by Act of June 3, 1922 (42 Stat. 621); and amended by Act of June 19, 1934 (48 Stat. 1108). By Act approved June 27, 1935 (49 Stat. 425), provision was made for the furnishing of steam from the contral heating plant to the Federal Reserve Board, now the Board of Governors of the Federal Reserve System.]

4. Principal offices; expenses; deposit of funds; members not to be officers or stockholders of banks

The principal offices of the Board shall be in the District of Columbia. At meetings of the Board the chairman shall preside, and, in his absence, the vice chairman shall preside. In the absence of the chairman and the vice chairman, the Board shall elect a member to act as chairman pro tempore. The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, whose employment, compensation, leave, and expenses shall be governed solely by the provisions of this Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith; and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys. No member of the Board of Governors of the Federal Reserve System shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Board of Governors of the Federal Reserve System he shall certify under oath that he has complied with this requirement, and such certification shall be filed with the secretary of the Board. Whenever a vacancy shall occur, other than by expiration of term, among the six members of the Board of Governors of the Federal Reserve System appointed by the President as above provided, a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of his predecessor.

[U. S. C., title 12, sec. 244. As amended by Acts of June 3, 1922 (42 Stat. 621); June 16, 1933 (48 Stat. 167); August 23, 1935 (49 Stat. 705). The reference to "the six members" of the Board of Governors is an apparent error in the law and should read "the seven members."]

5. Vacancies during recess of Senate

The President shall have power to fill all vacancies that may happen on the Board of Governors of the Federal Reserve System during the recess of the Senate by granting commissions which shall expire with the next session of the Senate.

[U. S. C., title 12, sec. 245. As amended by Act of June 3, 1922 (42 Stat. 621).]

6. Reservation of powers of Secretary of Treasury

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Board of Governors of the Federal Reserve System or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

[U. S. C., title 12, sec. 246. As reenacted without change by Act of June 3, 1922 (42 Stat. 621).]

7. Annual report

The Board of Governors of the Federal Reserve System shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

[U. S. C., title 12, sec. 247. As reenacted without change by Act of June 3, 1922 (42 Stat. 621).]

8. Issuance of national currency and Federal reserve notes

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows:

"SEC. 324. There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Board of Governors of the Federal Reserve System, of all Federal Reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

[U. S. C., title 12, sec. 1. As reenacted without change by Act of June 3, 1922 (42 Stat. 621).]

9. Branch Federal reserve bank buildings

"No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults,

permanent equipment, furnishings, and fixtures, is in excess of $250,000: *Provided*, That nothing herein shall apply to any building under construction prior to June 3, 1922."

[U. S. C., title 12, sec. 522. As added by Act of June 3, 1922 (42 Stat. 622); and amended by Act of February 6, 1923 (42 Stat. 1223).]

10. Record of open market and other policies

The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph.

[U. S. C., title 12, sec. 247a. As added by Act of August 23, 1935 (49 Stat. 705).]

SECTION 10 (a). EMERGENCY ADVANCES TO GROUPS OF MEMBER BANKS

1. Authority of reserve banks to make advances

Sec. 10 (a). Upon receiving the consent of not less than five members of the Board of Governors of the Federal Reserve System, any Federal reserve bank may make advances, in such amount as the board of directors of such Federal reserve bank may determine, to groups of five or more member banks within its district, a majority of them independently owned and controlled, upon their time or demand promissory notes, provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amounts of eligible and acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal reserve bank through rediscounts or advances other than as provided in section 10 (b). The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their

number and in such amount as they may agree upon, but before so doing they shall require such recipient banks to deposit with a suitable trustee, representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon. Any Federal reserve bank making such advance shall charge interest or discount thereon at a rate not less than 1 per centum above its discount rate in effect at the time of making such advance. No such note upon which advances are made by a Federal reserve bank under this section shall be eligible under section 16 of this Act as collateral security for Federal reserve notes.

[U. S. C., title 12, sec. 347a. As added by Act of February 27, 1932 (47 Stat. 56).]

2. Foreign obligations as security for advances

No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

[U. S. C., title 12, sec. 347a. As added by Act of February 27, 1932 (47 Stat. 56).]

3. Authority of member banks to obligate themselves

Member banks are authorized to obligate themselves in accordance with the provisions of this section.

[U. S. C., title 12, sec. 347a. As added by Act of February 27, 1932 (47 Stat. 56).]

SECTION 10 (b). ADVANCES TO INDIVIDUAL MEMBER BANKS

1. Advances to individual member banks

Sec. 10 (b). Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note.

[U. S. C., title 12, sec. 347b. As added by Act of February 27, 1932 (47 Stat. 56); and amended by Acts of February 3, 1933 (47 Stat. 794); March 9, 1933 (48 Stat. 7); August 23, 1935 (49 Stat. 705).]

SECTION 11. POWERS OF BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1. Authority of Board

Sec. 11. The Board of Governors of the Federal Reserve System shall be authorized and empowered:

[U. S. C., title 12, sec. 248. Part of original Federal Reserve Act; not amended.]

2. Examinations and reports

(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

[U. S. C., title 12, sec. 248 (a). Part of original Federal Reserve Act; not amended.]

3. Rediscounts by one reserve bank for another

(b) To permit, or, on the affirmative vote of at least five members of the Board of Governors of the Federal Reserve System to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 248 (b). Part of original Federal Reserve Act; not amended.]

4. Suspension of reserve requi ements

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the reserve held against Federal Reserve notes falls below 25 per centum, the Board of Governors of the Federal Reserve System shall establish a graduated tax of not more than 1 per centum per annum upon such deficiency until the reserves fall to 20 per centum, and when said reserve falls below 20 per centum, a tax at the rate increasingly of not less than $1\frac{1}{2}$ per centum per annum upon each $2\frac{1}{2}$ per centum or fraction thereof that such reserve falls below 20 per centum. The tax shall be paid by the Reserve bank, but the Reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 248 (c). As amended by Act of June 12, 1945 (59 Stat. 237). With respect to the tax on deficient reserves, see sec. 43 of Act approved May 12, 1933 (Appendix, p. 198).]

5. Issue and retirement of Federal reserve notes

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal

reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

[U. S. C., title 12, sec. 248 (d). Part of original Federal Reserve Act; not amended. For provisions governing the issue of Federal reserve notes, see sec. 16, this act, p. 87.]

6. Reclassification of reserve and central reserve cities

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

[U. S. C., title 12, sec. 248 (e). Part of original Federal Reserve Act; not amended. The reference to "section twenty" is an error in the law and should correctly refer to "section nineteen" (p. 98).]

7. Suspension or removal of officers and directors of reserve banks

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Board of Governors of the Federal Reserve System to the removed officer or director and to said bank.

[U. S. C., title 12, sec. 248 (f). Part of original Federal Reserve Act; not amended.]

8. Charging off losses of reserve banks

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

[U. S. C., title 12, sec. 248 (g). Part of original Federal Reserve Act; not amended.]

9. Suspension, liquidation, or reorganization of reserve banks

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

[U. S. C., title 12, sec. 248 (h). Part of original Federal Reserve Act; not amended.]

10. Rules and regulations

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

[U. S. C., title 12, sec. 248 (i). Part of original Federal Reserve Act; not amended.]

11. Supervision over reserve banks

(j) To exercise general supervision over said Federal reserve banks.

[U. S. C., title 12, sec. 248 (j). Part of original Federal Reserve Act; not amended.]

12. Trust powers of national banks

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

[U. S. C., title 12, sec. 248 (k). As amended by Act of September 26, 1918 (40 Stat. 968). As to transfer of trust powers of national banks upon consolidation, see sec. 3 of act of November 7, 1918 (Appendix, p. 190).]

13. When granting of trust powers not deemed in contravention of State law

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this Act.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 968).]

14. Segregation of assets; inspection of records by State authorities

National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. The State banking authorities may have access to reports of examination made by the Comptroller of the Currency insofar as such reports relate to the trust department of such bank, but nothing in this Act shall be construed as authorizing the State banking authorities to examine the books, records, and assets of such bank.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 969); and amended by Act of August 23, 1935 (49 Stat. 722).]

15. Deposits in trust department

No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of

exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Board of Goverors of the Federal Reserve System.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 969).]

16. Lien on securities set apart

In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 969).]

17. Deposit of securities with State authorities

Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 969).]

18. Fiduciary bonds

National banks in such cases shall not be required to execute the bond usually required of individuals if State corporations under similar circumstances are exempt from this requirement.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 969).]

19. Power of national banks to execute bonds

National banks shall have power to execute such bond when so required by the laws of the State.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 969).]

20. Oaths and affidavits

In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 969).]

21. Loan of trust funds to officer, director, or employee

It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers

conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than $5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 969).]

22. Capital and surplus required for trust powers

In passing upon applications for permission to exercise the powers enumerated in this subsection, the Board of Governors of the Federal Reserve System may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: *Provided,* That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.

[U. S. C., title 12, sec. 248 (k). As added by Act of September 26, 1918 (40 Stat. 969).]

23. Surrender of trust powers

Any national banking association desiring to surrender its right to exercise the powers granted under this subsection, in order to relieve itself from the necessity of complying with the requirements of this subsection, or to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, or for any other purpose, may file with the Board of Governors of the Federal Reserve System a certified copy of a resolution of its board of directors signifying such desire. Upon receipt of such a resolution, the Board of Governors of the Federal Reserve System, after satisfying itself that such bank has been relieved in accordance with State law of all duties as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics or other fiduciary, under court, private, or other appointments previously accepted under authority of this subsection, may, in its discretion, issue to such bank a certificate certifying that such bank is no longer authorized to exercise the powers granted by this subsection. Upon the issuance of such a certificate by the Board of Governors of the Federal Reserve System, such bank (1) shall no longer be subject to the provisions of this subsection or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise thereafter any of the

powers granted by this subsection without first applying for and obtaining a new permit to exercise such powers pursuant to the provisions of this subsection. The Board of Governors of the Federal Reserve System is authorized and empowered to promulgate such regulations as it may deem necessary to enforce compliance with the provisions of this subsection and the proper exercise of the powers granted therein.

[U. S. C., title 12, sec. 248 (k). As added by Act of June 26, 1930 (46 Stat. 814).]

24. Employees of Board of Governors of the Federal Reserve System

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

[U. S. C., title 12, sec. 248 (l). Part of original Federal Reserve Act; not amended.]

25. Loans by member banks on stock or bond collateral

(m) Upon the affirmative vote of not less than six of its members the Board of Governors of the Federal Reserve System shall have power to fix from time to time for each Federal reserve district the percentage of individual bank capital and surplus which may be represented by loans secured by stock or bond collateral made by member banks within such district, but no such loan shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank: *Provided*, That with respect to loans represented by obligations in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, such limitation of 10 per centum on loans to any person shall not apply, but State member banks shall be subject to the same limitations and conditions as are applicable in the case of national banks under paragraph (8) of section 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 84). Any percentage so fixed by the Board of Governors of the Federal Reserve System shall be subject to change from time to time upon ten days' notice, and it shall be the duty of the Board to establish such percentages

with a view to preventing the undue use of bank loans for the speculative carrying of securities. The Board of Governors of the Federal Reserve System shall have power to direct any member bank to refrain from further increase of its loans secured by stock or bond collateral for any period up to one year under penalty of suspension of all rediscount privileges at Federal reserve banks.

[U. S. C., title 12, sec. 248 (m). As added by Act of September 7, 1916 (39 Stat. 752); and amended by Acts of March 3, 1919 (40 Stat. 1315); February 27, 1921 (41 Stat. 1146); June 16, 1933 (48 Stat. 167); August 23, 1935 (49 Stat. 713).]

26. Recapture of gold

(n) Whenever in the judgment of the Secretary of the Treasury such action is necessary to protect the currency system of the United States, the Secretary of the Treasury, in his discretion, may require any or all individuals, partnerships, associations and corporations to pay and deliver to the Treasurer of the United States any or all gold coin, gold bullion, and gold certificates owned by such individuals, partnerships, associations and corporations. Upon receipt of such gold coin, gold bullion or gold certificates, the Secretary of the Treasury shall pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States. The Secretary of the Treasury shall pay all costs of the transportation of such gold bullion, gold certificates, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any individual, partnership, association, or corporation failing to comply with any requirement of the Secretary of the Treasury made under this subsection shall be subject to a penalty equal to twice the value of the gold or gold certificates in respect of which such failure occurred, and such penalty may be collected by the Secretary of the Treasury by suit or otherwise.

[U. S. C., title 12, sec. 248 (n). As added by Act of March 9, 1933 (48 Stat. 2).]

SECTION 12. FEDERAL ADVISORY COUNCIL

1. Creation, members, and meetings

Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Board of Governors of the Federal Reserve System. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Board of Governors of the Federal

Reserve System. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies, shall serve for the unexpired term.

[U. S. C., title 12, sec. 261. Part of original Federal Reserve Act; not amended.]

2. Powers

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Board of Governors of the Federal Reserve System on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

[U. S. C., title 12, sec. 262. Part of original Federal Reserve Act; not amended.]

SECTION 12A. FEDERAL OPEN MARKET COMMITTEE

1. Members and meetings

Sec. 12A. (a) There is hereby created a Federal Open Market Committee (hereinafter referred to as the "Committee"), which shall consist of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks to be selected as hereinafter provided. Such representatives shall be presidents or first vice presidents of Federal Reserve banks and, beginning with the election for the term commencing March 1, 1943, shall be elected annually as follows: One by the board of directors of the Federal Reserve Bank of New York, one by the boards of directors of the Federal Reserve Banks of Boston, Philadelphia, and Richmond, one by the boards of directors of the Federal Reserve Banks of Cleveland and Chicago, one by the boards of directors of the Federal Reserve Banks of Atlanta, Dallas, and St. Louis, and one by the boards of directors of the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco. In such elections each board of directors shall have one vote; and the details of such elections may be governed by regulations prescribed by the committee, which may be amended from time to time. An alternate to serve in the absence of each such representative shall likewise be a president or first vice president of a Federal Reserve bank and shall be elected annually in the same manner. The meetings of said Committee shall be held at

Washington, District of Columbia, at least four times each year upon the call of the chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee.

[U. S. C., title 12, sec. 263. As added by Act of June 16, 1933 (48 Stat. 168); completely revised by Act of August 23, 1935 (49 Stat. 705); and further amended by Act of July 7, 1942 (56 Stat. 647).]

2. Participation of Reserve banks; regulations of Committee

(b) No Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of this Act except in accordance with the direction of and regulations adopted by the Committee. The Committee shall consider, adopt, and transmit to the several Federal Reserve banks, regulations relating to the open-market transactions of such banks.

[U. S. C., title 12, sec. 263. As added by Act of June 16, 1933 (48 Stat. 168); and amended by Act of August 23, 1935 (49 Stat. 705).]

3. Governing principles

(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

[U. S. C., title 12, sec. 263. As added by Act of June 16, 1933 (48 Stat. 168); and reenacted without change by Act of August 23, 1935 (49 Stat. 705).]

SECTION 12B. INSURANCE OF BANK DEPOSITS

1. Creation of Federal Deposit Insurance Corporation

Sec. 12B. (a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the "Corporation") which shall insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section, and which shall have the powers hereinafter granted.

[U. S. C., title 12, sec. 264 (a). As added by Act of June 16, 1933 (48 Stat. 168); and amended by Act of August 23, 1935 (49 Stat. 684).]

2. Directors

(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than two of the members of such board of directors shall be members of the same political party. Each such appointive member shall hold office

for a term of six years and shall receive compensation at the rate of $10,000 per annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member. In the event of a vacancy in the office of the Comptroller of the Currency, and pending the appointment of his successor, or during the absence of the Comptroller from Washington, the Acting Comptroller of the Currency shall be a member of the board of directors in the place and stead of the Comptroller. In the event of a vacancy in the office of the chairman of the board of directors, and pending the appointment of his successor, the Comptroller of the Currency shall act as chairman. The Comptroller of the Currency shall be ineligible during the time he is in office and for two years thereafter to hold any office, position, or employment in any insured bank. The appointive members of the board of directors shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any insured bank, except that this restriction shall not apply to any appointive member who has served the full term for which he was appointed. No member of the board of directors shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the board of directors he shall certify under oath that he has complied with this requirement and such certification shall be filed with the secretary of the board of directors. No member of the board of directors serving on the board of directors on the effective date shall be subject to any of the provisions of the three preceding sentences until the expiration of his present term of office.

[U. S. C., title 12, sec. 264 (b). As added by Act of June 16, 1933 (48 Stat. 168); and amended by Act of August 23, 1935 (49 Stat. 684).]

3. Definitions of terms

(c) As used in this section—

(1) The term "State bank" means any bank, banking association, trust company, savings bank, or other banking institution which is engaged in the business of receiving deposits and which is incorporated under the laws of any State, Hawaii, Alaska, Puerto Rico, or the Virgin Islands, or which is operated under the Code of Law for the District of Columbia (except a national bank), and includes any unincorporated bank the deposits of which are insured on the effective date under the provisions of this section.

(2) The term "State member bank" means any State bank which is a member of the Federal Reserve System, and the term "State nonmember bank" means any State bank which is not a member of the Federal Reserve System.

(3) The term "District bank" means any State bank operating under the Code of Law for the District of Columbia.

(4) The term "national member bank" means any national bank located in any of the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is a member of the Federal Reserve System.

(5) The term "national nonmember bank" means any national bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is not a member of the Federal Reserve System.

(6) The term "mutual savings bank" means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers.

(7) The term "savings bank" means a bank (other than a mutual savings bank) which transacts its ordinary banking business strictly as a savings bank under State laws imposing special requirements on such banks governing the manner of investing their funds and of conducting their business: *Provided*, That the bank maintains, until maturity date or until withdrawn, all deposits made with it (other than funds held by it in a fiduciary capacity) as time savings deposits of the specific term type or of the type where the right is reserved to the bank to require written notice before permitting withdrawal: *Provided further*, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation with respect to the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except in cases where such withdrawal is permitted by law on the effective date from specifically designated deposit accounts totaling not more than 15 per centum of the bank's total deposits.

(8) The term "insured bank" means any bank the deposits of which are insured in accordance with the provisions of this section; and the term "noninsured bank" means any bank the deposits of which are not so insured.

(9) The term "new bank" means a new national banking association organized by the Corporation to assume the insured deposits of an insured bank closed on account of inability to meet the demands of its depositors and otherwise to perform temporarily the functions prescribed in this section.

(10) The term "receiver" includes a receiver, liquidating agent, conservator, commission, person, or other agency charged by law with the duty of winding up the affairs of a bank.

(11) The term "board of directors" means the board of directors of the Corporation.

(12) The term "deposit" means the unpaid balance of money or its equivalent received by a bank in the usual course of business and for

which it has given or is obligated to give credit to a commercial, checking, savings, time or thrift account, or which is evidenced by its certificate of deposit, and trust funds held by such bank whether retained or deposited in any department of such bank or deposited in another bank, together with such other obligations of a bank as the board of directors shall find and shall prescribe by its regulations to be deposit liabilities by general usage: *Provided*, That any obligation of a bank which is payable only at an office of the bank located outside the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, and the Virgin Islands, shall not be a deposit for any of the purposes of this section or be included as a part of total deposits or of an insured deposit: *Provided further*, That any insured bank having its principal place of business in any of the States of the United States or in the District of Columbia which maintains a branch in Hawaii, Alaska, Puerto Rico, or the Virgin Islands may elect to exclude from insurance under this section its deposit obligations which are payable only at such branch, and upon so electing the insured bank with respect to such branch shall comply with the provisions of this section applicable to the termination of insurance by nonmember banks: *Provided further*, That the bank may elect to restore the insurance to such deposits at any time its capital stock is unimpaired.

(13) The term "insured deposit" means the net amount due to any deposit or deposits in an insured bank (after deducting offsets) less any part thereof which is in excess of $5,000. Such net amount shall be determined according to such regulations as the board of directors may prescribe, and in determining the amount due to any depositor there shall be added together all deposits in the bank maintained in the same capacity and the same right for his benefit either in his own name or in the names of others, except trust funds which shall be insured as provided in paragraph (9) of subsection (h) of this section.

(14) The term "transferred deposit" means a deposit in a new bank or other insured bank made available to a depositor by the Corporation as payment of the insured deposit of such depositor in a closed bank, and assumed by such new bank or other insured bank.

(15) The term "branch" includes any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State of the United States or in Hawaii, Alaska, Puerto Rico, or the Virgin Islands at which deposits are received or checks paid or money lent.

(16) The term "effective date" means the date of enactment of the Banking Act of 1935.

[U. S. C., title 12, sec. 264 (c). As added by Act of August 23, 1935 (49 Stat. 686). The Banking Act of 1935, referred to in subpar. (16) of this subsection, was approved August 23, 1935.]

4. Capital stock

(d) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation in an equal amount, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call in whole or in part by the board of directors of the Corporation. Such stock shall be in addition to the amount of capital stock required to be subscribed for by Federal Reserve banks. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States. Every Federal Reserve bank shall subscribe to shares of stock in the Corporation to an amount equal to one-half of the surplus of such bank on January 1, 1933, and its subscriptions shall be accompanied by a certified check payable to the Corporation in an amount equal to one-half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice. The capital stock of the Corporation shall consist of the shares subscribed for prior to the effective date. Such stock shall be without nominal or par value, and shares issued prior to the effective date shall be exchanged and reissued at the rate of one share for each $100 paid into the Corporation for capital stock. The consideration received by the Corporation for the capital stock shall be allocated to capital and to surplus in such amounts as the board of directors shall prescribe. Such stock shall have no vote and shall not be entitled to the payment of dividends.

[U. S. C., title 12, sec. 264 (d). As added by Act of June 16, 1933 (48 Stat. 169); and amended by Act of August 23, 1935 (49 Stat. 686). For meaning of term "effective date", see subsec. (c) (16) of this section (p. 44, par. 3).]

5. Continuance of insurance of member banks

(e) (1) Every operating State or national member bank, including a bank incorporated since March 10, 1933, licensed on or before the effective date by the Secretary of the Treasury shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section.

[U. S. C., title 12, sec. 264 (e). As added by Act of August 23, 1935 (49 Stat. 687). For meaning of term "effective date", see subsec. (c) (16) of this section (p. 44, par. 3).]

6. Member banks entitled to insurance benefits

(2) After the effective date, every national member bank which is authorized to commence or resume the business of banking, and every

State bank which is converted into a national member bank or which becomes a member of the Federal Reserve System, shall be an insured bank from the time it is authorized to commence or resume business or becomes a member of the Federal Reserve System. The certificate herein prescribed shall be issued to the Corporation by the Comptroller of the Currency in the case of such national member bank, or by the Board of Governors of the Federal Reserve System in the case of such State member bank: *Provided*, That in the case of an insured bank which is admitted to membership in the Federal Reserve System or an insured State bank which is converted into a national member bank, such certificate shall not be required, and the bank shall continue as an insured bank. Such certificate shall state that the bank is authorized to transact the business of banking in the case of a national member bank, or is a member of the Federal Reserve System in the case of a State member bank, and that consideration has been given to the factors enumerated in subsection (g) of this section.

[U. S. C., title 12, sec. 264 (e). As added by Act of August 23, 1935 (49 Stat. 687). For meaning of term "effective date", see subsec. (c) (16) of this section (p. 44, par. 3).]

7. Continuance of insurance of nonmember banks

(f) (1) Every bank which is not a member of the Federal Reserve System which on June 30, 1935 was or thereafter became a member of the Temporary Federal Deposit Insurance Fund or of the Fund For Mutuals heretofore created pursuant to the provisions of this section, shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section: *Provided*, That any State nonmember bank which was admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals but which did not file on or before the effective date an October 1, 1934 certified statement and make the payments thereon required by law, shall cease to be an insured bank on August 31, 1935: *Provided further*, That no bank admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals prior to the effective date shall, after August 31, 1935, be an insured bank or have its deposits insured by the Corporation, if such bank shall have permanently discontinued its banking operations prior to the effective date.

[U. S. C., title 12, sec. 264 (f). As added by Act of August 23, 1935 (49 Stat. 687). For meaning of term "effective date", see subsec. (c) (16) of this section (p. 44, par. 3).]

8. Nonmember banks entitled to insurance benefits

(2) Subject to the provisions of this section, any national nonmember bank, upon application by the bank and certification by the Comptroller of the Currency in the manner prescribed in subsection (e) of this section, and any State nonmember bank, upon application to and examination

by the Corporation and approval by the board of directors, may become an insured bank. Before approving the application of any such State nonmember bank, the board of directors shall give consideration to the factors enumerated in subsection (g) of this section and shall determine, upon the basis of a thorough examination of such bank, that its assets in excess of its capital requirements are adequate to enable it to meet all its liabilities to depositors and other creditors as shown by the books of the bank.

[U. S. C., title 12, sec. 264 (f). As added by Act of August 23, 1935 (49 Stat. 687).]

9. Factors to be considered in insuring banks

(g) The factors to be enumerated in the certificate required under subsection (e) and to be considered by the board of directors under subsection (f) shall be the following: The financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of this section.

[U. S. C., title 12, sec. 264 (g). As added by Act of August 23, 1935 (49 Stat. 688).]

10. Assessments

(h) (1) The assessment rate shall be one-twelfth of 1 per centum per annum. The semiannual assessment for each insured bank shall be in the amount of the product of one-half the annual assessment rate multiplied by an assessment base which shall be the average for six months of the differences at the end of each calendar day between the total amount of liability of the bank for deposits (according to the definition of the term "deposit" in and pursuant to paragraph (12) of subsection (c) of this section, without any deduction for indebtedness of depositors) and the total of such uncollected items as are included in such deposits and credited subject to final payment: *Provided, however*, That the daily total of such uncollected items shall be determined according to regulations prescribed by the board of directors upon a consideration of the factors of general usage and ordinary time of availability, and for the purposes of such deduction no item shall be regarded as uncollected for longer periods than those prescribed by such regulations: *And provided further*, That until six months after the cessation of hostilities in the present war as determined by proclamation of the President or concurrent resolution of the Congress any balance payable to the United States by any insured bank, whether represented by a deposit account or otherwise, arising solely as a result of subscriptions made by or through such insured bank for United States Government securities issued under authority of the Second Liberty Bond Act, as amended,

shall be excluded from the definition of "deposit" for the purpose of determining the assessment base. Each insured bank shall, as a condition to the right to deduct any specific uncollected item in determining its assessment base, maintain such records as will readily permit verification of the correctness of the particular deduction claimed. The certified statements required to be filed with the Corporation under paragraphs (2), (3), and (4) of this subsection shall be in such form and set forth such supporting information as the board of directors shall prescribe. The assessment payments required from insured banks under paragraphs (2), (3), and (4) of this subsection shall be made in such manner and at such time or times as the board of directors shall prescribe, provided the time or times so prescribed shall not be later than sixty days after filing the certified statement setting forth the amount of the assessment. In the event that a separate Fund For Mutuals is established as provided in subsection (l), the board of directors from time to time may fix a lower assessment rate operative for such period as the board may determine which shall be applicable to insured mutual savings banks only, and the remainder of this paragraph shall not be applicable to such banks.

[U. S. C., title 12, sec. 264 (h). As added by Act of August 23, 1935 (49 Stat. 688); and amended by Act of April 13, 1943 (57 Stat. 65).]

11. Certified statements of deposit liabilities

(2) On or before the 15th day of July of each year, each insured bank shall file with the Corporation a certified statement under oath showing for the six months ending on the preceding June 30 the amount of the assessment base and the amount of the semiannual assessment due to the Corporation, determined in accordance with paragraph (1) of this subsection. Each insured bank shall pay to the Corporation the amount of the semiannual assessment it is required to certify. On or before the 15th day of January of each year after 1936 each insured bank shall file with the Corporation a similar certified statement for the six months ending on the preceding December 31 and shall pay to the Corporation the amount of the semiannual assessment it is required to certify.

[U. S. C., title 12, sec. 264 (h). As added by Act of August 23, 1935 (49 Stat. 688).]

12. Statements of banks insured under subsections (e) and (f)

(3) Each bank which becomes an insured bank according to the provisions of subsection (e) or (f) of this section shall, on or before the 15th day of November 1935, file with the Corporation a certified statement under oath showing the amount of the assessment due to the Corporation for the period ending December 31, 1935, which shall be an amount equal to the product of one-third the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1)

of this subsection, except that the assessment base shall be the average for the 31 days in the month of October 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified. Each such bank shall, on or before the 15th day of January 1936, file with the Corporation a certified statement under oath showing the amount of the semiannual assessment due to the Corporation for the period ending June 30, 1936, which shall be an amount equal to the product of one-half the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the days of the months of October, November and December of 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified.

[U. S. C., title 12, sec. 264 (h). As added by Act of August 23, 1935 (49 Stat. 688).]

13. Statements of banks becoming insured after effective date

(4) Each bank which becomes an insured bank after the effective date shall be relieved from complying with the provisions of paragraph (2) of this subsection until it has operated as an insured bank for a full semiannual period ending on June 30 or December 31 as the case may be. Each such bank, on or before the forty-fifth day after its first day of operation as an insured bank, shall file with the Corporation its first certified statement which shall be under oath and shall show the amount of the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the first thirty-one calendar days it operates as an insured bank. Each such certified statement shall also show as the amount of the first assessment due to the Corporation the prorated portion (for the period between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be) of an amount equal to the product of one-half the annual assessment rate multiplied by the base required to be set forth on its first certified statement. Each bank which becomes an insured bank after the effective date which has not operated as an insured bank for a full semiannual period ending on June 30 or December 31, as the case may be, shall, on or before the 15th day of the first month thereafter (except that banks becoming insured in June or December shall have thirty-one additional days) file with the Corporation its second certified statement under oath showing the amount of the assessment base and the amount of the semiannual assessment due to the Corporation. Such assessment base and amount shall be determined in accordance with paragraph (1) of this subsection, except that if the bank became an insured bank in the month of December or June the assessment base shall be the average for the first thirty-one

calendar days it operates as an insured bank, and except that if it became an insured bank in any other month than December or June the assessment base shall be the average for the days between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be. Each bank required to file a certified statement under this paragraph shall pay to the Corporation the amount of the assessment the bank is required to certify.

[U. S. C., title 12, sec. 264 (h). As added by Act of August 23, 1935 (49 Stat. 689). For meaning of term "effective date", see subsec. (c) (16) of this section (p. 44, par. 3).]

14. Credit given banks upon termination of Temporary Federal Deposit Insurance Fund and Fund For Mutuals

(5) Each bank which shall be and continue without application or approval an insured bank in accordance with the provisions of subsection (e) or (f) of this section, shall, in lieu of all right to refund (except as authorized in paragraph (3) of subsection (i)), be credited with any balance to which such bank shall become entitled upon the termination of the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals. The credit shall be applied by the Corporation toward the payment of the assessment next becoming due from such bank and upon succeeding assessments until the credit is exhausted.

[U. S. C., title 12, sec. 264 (h). As added by Act of August 23, 1935 (49 Stat. 689).]

15. Injunction to compel filing of certified statements

(6) Any insured bank which fails to file any certified statement required to be filed by it in connection with determining the amount of any assessment payable by the bank to the Corporation may be compelled to file such statement by mandatory injunction or other appropriate remedy in a suit brought for such purpose by the Corporation against the bank and any officer or officers thereof in any court of the United States of competent jurisdiction in the district or territory in which such bank is located.

[U. S. C., title 12, sec. 264 (h). As added by Act of August 23, 1935 (49 Stat. 690).]

16. Suits to recover assessments due

(7) The Corporation, in a suit brought at law or in equity in any court of competent jurisdiction, shall be entitled to recover from any insured bank the amount of any unpaid assessment lawfully payable by such insured bank to the Corporation, whether or not such bank shall have filed any such certified statement and whether or not suit shall have been brought to compel the bank to file any such statement.

[U. S. C., title 12, sec. 264 (h). As added by Act of August 23, 1935 (49 Stat. 690).]

17. Failure of national bank to file certified statements or pay assessments

(8) Should any national member bank or any insured national nonmember bank fail to file any certified statement required to be filed by such bank under any provision of this subsection, or fail to pay any assessment required to be paid by such bank under any provision of this section, and should the bank not correct such failure within thirty days after written notice has been given by the Corporation to an officer of the bank, citing this paragraph, and stating that the bank has failed to file or pay as required by law, all the rights, privileges, and franchises of the bank granted to it under the National Bank Act or under the provisions of this Act, as amended, shall be thereby forfeited. Whether or not the penalty provided in this paragraph has been incurred shall be determined and adjudged in the manner provided in the sixth paragraph of section 2 of this Act, as amended. The remedies provided in this paragraph and in the two preceding paragraphs shall not be construed as limiting any other remedies against any insured bank, but shall be in addition thereto.

[U. S. C., title 12, sec. 264 (h). As added by Act of August 23, 1935 (49 Stat. 690).]

18. Insurance of trust funds

(9) Trust funds held by an insured bank in a fiduciary capacity whether held in its trust or deposited in any other department or in another bank shall be insured in an amount not to exceed $5,000 for each trust estate, and when deposited by the fiduciary bank in another insured bank such trust funds shall be similarly insured to the fiduciary bank according to the trust estates represented. Notwithstanding any other provision of this section, such insurance shall be separate from and additional to that covering other deposits of the owners of such trust funds or the beneficiaries of such trust estates: *Provided*, That where the fiduciary bank deposits any of such trust funds in other insured banks, the amount so held by other insured banks on deposit shall not for the purpose of any certified statement required under paragraph (2), (3), or (4) of this subsection be considered to be a deposit liability of the fiduciary bank, but shall be considered to be a deposit liability of the bank in which such funds are so deposited by such fiduciary bank. The board of directors shall have power by regulation to prescribe the manner of reporting and of depositing such trust funds.

[U. S. C., title 12, sec. 264 (h). As added by Act of August 23, 1935 (49 Stat. 690).]

19. Termination of insurance of nonmember banks

(i) (1) Any insured bank (except a national member bank or State member bank) may, upon not less than ninety days' written notice to

the Corporation, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, terminate its status as an insured bank. Whenever the board of directors shall find that an insured bank or its directors or trustees have continued unsafe or unsound practices in conducting the business of such bank, or have knowingly or negligently permitted any of its officers or agents to violate any provision of any law or regulation to which the insured bank is subject, the board of directors shall first give to the Comptroller of the Currency in the case of a national bank or a District bank, to the authority having supervision of the bank in the case of a State bank, or to the Board of Governors of the Federal Reserve System in the case of a State member bank, a statement with respect to such practices or violations for the purpose of securing the correction thereof. Unless such correction shall be made within one hundred and twenty days or such shorter period of time as the Comptroller of the Currency, the State authority, or Board of Governors of the Federal Reserve System, as the case may be, shall require, the board of directors, if it shall determine to proceed further, shall give to the bank not less than thirty days' written notice of intention to terminate the status of the bank as an insured bank, and shall fix a time and place for a hearing before the board of directors or before a person designated by it to conduct such hearing, at which evidence may be produced, and upon such evidence the board of directors shall make written findings which shall be conclusive. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the termination of its status as an insured bank. If the board of directors shall find that any violation specified in such notice has been established, the board of directors may order that the insured status of the bank be terminated on a date subsequent to such finding and to the expiration of the time specified in such notice of intention. The Corporation may publish notice of such termination and the bank shall give notice of such termination to each of its depositors at his last address of record on the books of the bank, in such manner and at such time as the board of directors may find to be necessary and may order for the protection of depositors. After the termination of the insured status of any bank under the provisions of this paragraph, the insured deposits of each depositor in the bank on the date of such termination, less all subsequent withdrawals from any deposits of such depositor, shall continue for a period of two years to be insured, and the bank shall continue to pay to the Corporation assessments as in the case of an insured bank during such period. No additions to any such deposits and no new deposits in such bank made after the date of such termination shall be insured by the Corporation, and the bank shall not advertise or

hold itself out as having insured deposits unless in the same connection it shall also state with equal prominence that such additions to deposits and new deposits made after such date are not so insured. Such bank shall, in all other respects, be subject to the duties and obligations of an insured bank for the period of two years from the date of such termination, and in the event that such bank shall be closed on account of inability to meet the demands of its depositors within such period of two years, the Corporation shall have the same powers and rights with respect to such bank as in case of an insured bank.

[U. S. C., title 12, sec. 264 (i). As added by Act of August 23, 1935 (49 Stat. 690).]

20. Effect of termination of insurance of member banks

(2) Whenever the insured status of a State member bank shall be terminated by action of the board of directors, the Board of Governors of the Federal Reserve System shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act, and whenever the insured status of a national member bank shall be so terminated the Comptroller of the Currency shall appoint a receiver for the bank, which shall be the Corporation whenever the bank shall be unable to meet the demands of its depositors. Whenever a member bank shall cease to be a member of the Federal Reserve System, its status as an insured bank shall, without notice or other action by the board of directors, terminate on the date the bank shall cease to be a member of the Federal Reserve System, with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection.

[U. S. C., title 12, sec. 264 (i). As added by Act of August 23, 1935 (49 Stat. 691).]

21. Election of nonmember bank to terminate insurance

(3) If any nonmember bank which becomes an insured bank under the provisions of paragraph (1) of subsection (f) of this section shall elect, within thirty days after the effective date, not to continue as an insured bank, and shall within such period give written notice to the Corporation of its election, in accordance with regulations to be prescribed by the board of directors, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, it shall cease to be an insured bank and cease to be subject to the provisions of this section and the rights of the bank (including its right to any refund) shall be as provided by law existing prior to the effective date. The board of directors shall cause notice of termination of insurance to be given to the depositors of such bank by publication or otherwise as the board of directors may

determine, and the deposits in such bank shall continue to be insured for twenty days beyond such thirty day period.

[U. S. C., title 12, sec. 264 (i). As added by Act of August 23, 1935 (49 Stat. 692). For meaning of term "effective date", see subsec. (c) (16) of this section (p. 44, par. 3).]

22. Assumption of deposit liabilities by another bank

(4) Whenever the liabilities of an insured bank for deposits shall have been assumed by another insured bank or banks, the insured status of the bank whose liabilities are so assumed shall terminate on the date of receipt by the Corporation of satisfactory evidence of such assumption with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection: *Provided*, That if the bank whose liabilities are so assumed gives to its depositors notice of such assumption within thirty days after such assumption takes effect, by publication or by any reasonable means, in accordance with regulations to be prescribed by the board of directors, the insurance of its deposits shall terminate at the end of six months from the date such assumption takes effect, and such bank shall thereupon be relieved of all future obligations to the Corporation, including the obligation to pay future assessments.

[U. S. C., title 12, sec. 264 (i). As added by Act of August 23, 1935 (49 Stat. 692).]

23. Corporate powers

(j) Upon the date of enactment of the Banking Act of 1933, the Corporation shall become a body corporate and as such shall have power—

First. To adopt and use a corporate seal.

Second. To have succession until dissolved by an Act of Congress.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal. All suits of a civil nature at common law or in equity to which the Corporation shall be a party shall be deemed to arise under the laws of the United States: *Provided*, That any such suit to which the Corporation is a party in its capacity as receiver of a State bank and which involves only the rights or obligations of depositors, creditors, stockholders and such State bank under State law shall not be deemed to arise under the laws of the United States. No attachment or execution shall be issued against the Corporation or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court. The board of directors shall designate an agent upon whom service of process may be made in any State, Territory, or jurisdiction in which any insured bank is located.

Fifth. To appoint by its board of directors such officers and em-

ployees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

Sixth. To prescribe by its board of directors, bylaws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this section and such incidental powers as shall be necessary to carry out the powers so granted.

Eighth. To make examinations of and to require information and reports from banks, as provided in this section.

Ninth. To act as receiver.

Tenth. To prescribe by its board of directors such rules and regulations as it may deem necessary to carry out the provisions of this section.

[U. S. C., title 12, sec. 264 (j). As added by Act of June 16, 1933 (48 Stat. 172); and amended by Act of August 23, 1935 (49 Stat. 692). The Banking Act of 1933, referred to in this subsection, was approved June 16, 1933.]

24. Administration of affairs

(k) (1) The board of directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal Reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

[U. S. C., title 12, sec. 264 (k). As added by Act of June 16, 1933 (48 Stat. 172); and reenacted without change by Act of August 23, 1935 (49 Stat. 693).]

25. Examiners and claim agents

(2) The board of directors shall appoint examiners who shall have power, on behalf of the Corporation, to examine any insured State nonmember bank (except a District bank), any State nonmember bank making application to become an insured bank, and any closed insured

bank, whenever in the judgment of the board of directors an examination of the bank is necessary. Such examiners shall have like power to examine, with the written consent of the Comptroller of the Currency, any national bank or District bank, and, with the written consent of the Board of Governors of the Federal Reserve System, any State member bank. Each such examiner shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine and take and preserve the testimony of any of the officers and agents thereof, and shall make a full and detailed report of the condition of the bank to the Corporation. The board of directors in like manner shall appoint claim agents who shall have power to investigate and examine all claims for insured deposits and transferred deposits. Each claim agent shall have power to administer oaths and to examine under oath and take and preserve the testimony of any persons relating to such claims. The provisions of sections 184 to 186 (both inclusive) of the Revised Statutes (U. S. C., title 5, secs. 94 to 96) are hereby extended to examinations and investigations authorized by this paragraph.

[U. S. C., title 12, sec. 264 (k). As added by Act of August 23, 1935 (49 Stat. 693).]

26. Reports of condition of nonmember banks

(3) Each insured State nonmember bank (except a District bank) shall make to the Corporation reports of condition in such form and at such times as the board of directors may require. The board of directors may require such reports to be published in such manner, not inconsistent with any applicable law, as it may direct. Every such bank which fails to make or publish any such report within such time, not less than five days, as the board of directors may require, shall be subject to a penalty of not more than $100 for each day of such failure recoverable by the Corporation for its use.

[U. S. C., title 12, sec. 264 (k). As added by Act of August 23, 1935 (49 Stat. 693).]

27. Access to reports made to Comptroller of Currency or Federal Reserve banks

(4) The Corporation shall have access to reports of examinations made by, and reports of condition made to, the Comptroller of the Currency or any Federal Reserve bank, may accept any report made by or to any commission, board, or authority having supervision of a State nonmember bank (except a District bank), and may furnish to the Comptroller of the Currency, to any Federal Reserve bank, and to any such commission, board, or authority, reports of examinations made on behalf of, and reports of condition made to, the Corporation.

[U. S. C., title 12, sec. 264 (k). As added by Act of August 23, 1935 (49 Stat. 694).]

28. Insurance funds

(l) (1) The Temporary Federal Deposit Insurance Fund and the Fund For Mutuals heretofore created pursuant to the provisions of this section are hereby consolidated into a Permanent Insurance Fund for insuring deposits, and the assets therein shall be held by the Corporation for the uses and purposes of the Corporation: *Provided*, That the obligations to and rights of the Corporation, depositors, banks, and other persons arising out of any event or transaction prior to the effective date shall remain unimpaired. On and after the effective date, the Corporation shall insure the deposits of all insured banks as provided in this section: *Provided*, That the insurance shall apply only to deposits of insured banks which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business: *Provided further*, That if any insured bank shall, without the consent of the Corporation, release or modify restrictions on or deferments of deposits which had not been made available for withdrawal in the usual course of the banking business on or before the effective date, such deposits shall not be insured. The maximum amount of the insured deposit of any depositor shall be $5,000. The Corporation, in the discretion of the board of directors, may open on its books solely for the benefit of mutual savings banks and depositors therein a separate Fund For Mutuals. If such Fund is opened, all assessments upon mutual savings banks shall be paid into such Fund and the Permanent Insurance Fund of the Corporation shall cease to be liable for insurance losses sustained in mutual savings banks: *Provided*, That the capital assets of the Corporation shall be so liable and all expenses of operation of the Corporation shall be allocated between such Funds on an equitable basis.

[U. S. C., title 12, sec. 264 (l). As added by Act of August 23, 1935 (49 Stat. 694). For meaning of term "effective date", see subsec. (c) (16) of this section (p. 44, par. 3).]

29. When bank deemed closed for inability to meet demands of depositors

(2) For the purposes of this section, an insured bank shall be deemed to have been closed on account of inability to meet the demands of its depositors in any case in which it has been closed for the purpose of liquidation without adequate provision being made for payment of its depositors.

[U. S. C., title 12, sec. 264 (l). As added by Act of August 23, 1935 (49 Stat. 694).]

30. Appointment of Corporation as receiver for closed national or district banks

(3) Notwithstanding any other provision of law, whenever any insured national bank or insured District bank shall have been closed by action of its board of directors, or by the Comptroller of the Currency,

as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such closed bank, and no other person shall be appointed as receiver of such closed bank.

[U. S. C., title 12, sec. 264 (l). As added by Act of August 23, 1935 (49 Stat. 694).

31. Powers of Corporation as receiver of closed national or district banks

(4) It shall be the duty of the Corporation as such receiver to realize upon the assets of such closed bank, having due regard to the condition of credit in the locality; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided. The Corporation shall retain for its own account such portion of the amounts realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors, and it shall pay to depositors and other creditors the net amounts available for distribution to them. With respect to any such closed bank, the Corporation as such receiver shall have all the rights, powers, and privileges now possessed by or hereafter granted by law to a receiver of an insolvent national bank.

[U. S. C., title 12, sec. 264 (l). As added by Act of June 16, 1933 (48 Stat. 174); and amended by Act of August 23, 1935 (49 Stat. 694).]

32. Corporation as receiver for closed State banks

(5) Whenever any insured State bank (except a District bank) shall have been closed by action of its board of directors or by the authority having supervision of such bank, as the case may be, on account of inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment is tendered by the authority having supervision of such bank and is authorized or permitted by State law. With respect to any such insured State bank, the Corporation as such receiver shall possess all the rights, powers and privileges granted by State law to a receiver of a State bank.

[U. S. C., title 12, sec. 264 (l). As added by Act of June 16, 1933 (48 Stat. 174); and amended by Act of August 23, 1935 (49 Stat. 695).]

33. Payment of insured deposits

(6) Whenever an insured bank shall have been closed on account of inability to meet the demands of its depositors, payment of the insured deposits in such bank shall be made by the Corporation as soon as possible, subject to the provisions of paragraph (7) of this subsection, either (A) by making available to each depositor a transferred deposit in a new bank in the same community or in another insured bank in an amount equal to the insured deposit of such depositor and subject to

withdrawal on demand, or (B) in such other manner as the board of directors may prescribe: *Provided*, That the Corporation, in its discretion, may require proof of claims to be filed before paying the insured deposits, and that in any case where the Corporation is not satisfied as to the validity of a claim for an insured deposit, it may require the final determination of a court of competent jurisdiction before paying such claim.

[U. S. C., title 12, sec. 264 (l). As added by Act of August 23, 1935 (49 Stat. 695).]

34. Subrogation of Corporation to rights of depositors

(7) In the case of a closed national bank or District bank, the Corporation, upon the payment of any depositor as provided in paragraph (6) of this subsection, shall be subrogated to all rights of the depositor against the closed bank to the extent of such payment. In the case of any other closed insured bank, the Corporation shall not make any payment to any depositor until the right of the Corporation to be subrogated to the rights of such depositor on the same basis as provided in the case of a closed national bank under this section shall have been recognized either by express provision of State law, by allowance of claims by the authority having supervision of such bank, by assignment of claims by depositors, or by any other effective method. In the case of any closed insured bank, such subrogation shall include the right on the part of the Corporation to receive the same dividends from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to the depositor on a claim for the insured deposit, but such depositor shall retain his claim for any uninsured portion of his deposit: *Provided*, That, with respect to any bank which closes after the date this paragraph as amended takes effect, the Corporation shall waive, in favor only of any person against whom stockholders' individual liability may be asserted, any claim on account of such liability in excess of the liability, if any, to the bank or its creditors, for the amount unpaid upon his stock in such bank; but any such waiver shall be effected in such manner and on such terms and conditions as will not increase recoveries or dividends on account of claims to which the Corporation is not subrogated: *Provided further*, That the rights of depositors and other creditors of any State bank shall be determined in accordance with the applicable provisions of State law.

[U. S. C., title 12, sec. 264 (l). As added by Act of August 23, 1935 (49 Stat. 695); and amended by Act of May 25, 1938 (52 Stat. 442).]

35. When new bank to be organized to assume deposit liabilities

(8) As soon as possible after the closing of an insured bank, the Corporation, if it finds that it is advisable and in the interest of the depositors of the closed bank or the public, shall organize a new national

bank to assume the insured deposits of such closed bank and otherwise to perform temporarily the functions hereinafter provided for. The new bank shall have its place of business in the same community as the closed bank.

[U. S. C., title 12, sec. 264 (l). As added by Act of June 16, 1933 (48 Stat. 172); and amended by Act of August 23, 1935 (49 Stat. 695).]

36. Organization of new bank

(9) The articles of association and the organization certificate of the new bank shall be executed by representatives designated by the Corporation. No capital stock need be paid in by the Corporation. The new bank shall not have a board of directors, but shall be managed by an executive officer appointed by the board of directors of the Corporation who shall be subject to its directions. In all other respects the new bank shall be organized in accordance with the then existing provisions of law relating to the organization of national banking associations. The new bank may, with the approval of the Corporation, accept new deposits which shall be subject to withdrawal on demand and which, except where the new bank is the only bank in the community, shall not exceed $5,000 from any depositor. The new bank, without application to or approval by the Corporation, shall be an insured bank and shall maintain on deposit with the Federal Reserve bank of its district reserves in the amount required by law for member banks, but it shall not be required to subscribe for stock of the Federal Reserve bank. Funds of the new bank shall be kept on hand in cash, invested in obligations of the United States, or in obligations guaranteed as to principal and interest by the United States, or deposited with the Corporation, with a Federal Reserve bank, or, to the extent of the insurance coverage thereon, with an insured bank. The new bank, unless otherwise authorized by the Comptroller of the Currency, shall transact no business except that authorized by this section and as may be incidental to its organization. Notwithstanding any other provision of law the new bank, its franchise, property, and income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, muncipality, or local taxing authority.

[U. S. C., title 12, sec. 264 (l). As added by Act of June 16, 1933 (48 Stat. 173); and amended by Act of August 23, 1935 (49 Stat. 695).]

37. Availability of funds to new bank

(10) Upon the organization of a new bank, the Corporation shall promptly make available to it an amount equal to the estimated insured deposits of such closed bank plus the estimated amount of the expenses of operating the new bank, and shall determine as soon as possible the amount due each depositor for his insured deposit in the closed bank,

and the total expenses of operation of the new bank. Upon such determination, the amounts so estimated and made available shall be adjusted to conform to the amounts so determined. Earnings of the new bank shall be paid over or credited to the Corporation in such adjustment. If any new bank, during the period it continues its status as such, sustains any losses with respect to which it is not effectively protected except by reason of being an insured bank, the Corporation shall furnish to it additional funds in the amount of such losses. The new bank shall assume as transferred deposits the payment of the insured deposits of such closed bank to each of it[1] depositors. Of the amounts so made available, the Corporation shall transfer to the new bank, in cash, such sums as may be necessary to enable it to meet its expenses of operation and immediate cash demands on such transferred deposits, and the remainder of such amounts shall be subject to withdrawal by the new bank on demand.

[U. S. C., title 12, sec. 264 (l). As added by Act of August 23, 1935 (49 Stat. 696).]

38. Organization of new bank as national bank

(11) Whenever in the judgment of the board of directors it is desirable to do so, the Corporation shall cause capital stock of the new bank to be offered for sale on such terms and conditions as the board of directors shall deem advisable in an amount sufficient, in the opinion of the board of directors, to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 51), for the organization of a national bank in the place where such new bank is located. The stockholders of the closed insured bank shall be given the first opportunity to purchase any shares of common stock so offered. Upon proof that an adequate amount of capital stock in the new bank has been subscribed and paid for in cash, the Comptroller of the Currency shall require the articles of association and the organization certificate to be amended to conform to the requirements for the organization of a national bank, and thereafter, when the requirements of law with respect to the organization of a national bank have been complied with, he shall issue to the bank a certificate of authority to commence business, and thereupon the bank shall cease to have the status of a new bank, shall be managed by directors elected by its own shareholders and may exercise all the powers granted by law, and it shall be subject to all the provisions of law relating to national banks. Such bank shall thereafter be an insured national bank, without certification to or approval by the Corporation.

[U. S. C., title 12, sec. 264 (l). As added by Act of June 16, 1933 (48 Stat. 173); and amended by Act of August 23, 1935 (49 Stat. 696).]

[1] So in statute as enacted.

39. Transfer of business of new bank to another bank

(12) If the capital stock of the new bank is not offered for sale, or if an adequate amount of capital for such new bank is not subscribed and paid for, the board of directors may offer to transfer its business to any insured bank in the same community which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the board of directors may deem adequate; or the board of directors in its discretion may change the location of the new bank to the office of the Corporation or to some other place or may at any time wind up its affairs as herein provided. Unless the capital stock of the new bank is sold or its assets are taken over and its liabilities are assumed by an insured bank as above provided within two years from the date of its organization, the Corporation shall wind up the affairs of such bank, after giving such notice, if any, as the Comptroller of the Currency may require, and shall certify to the Comptroller of the Currency the termination of the new bank. Thereafter the Corporation shall be liable for the obligations of such bank and shall be the owner of its assets. The provisions of sections 5220 and 5221 of the Revised Statutes (U. S. C., title 12, secs. 181 and 182) shall not apply to such new banks.

[U. S. C., title 12, sec. 264 (l). As added by Act of June 16, 1933 (48 Stat. 174); and amended by Act of August 23, 1935 (49 Stat. 697).]

40. Powers and duties of Corporation as receiver

(m) (1) The Corporation as receiver of a closed national bank or District bank shall not be required to furnish bond and shall have the right to appoint an agent or agents to assist it in its duties as such receiver, and all fees, compensation, and expenses of liquidation and administration thereof shall be fixed by the Corporation, subject to the approval of the Comptroller of the Currency, and may be paid by it out of funds coming into its possession as such receiver. The Comptroller of the Currency is authorized and empowered to waive and relieve the Corporation from complying with any regulations of the Comptroller of the Currency with respect to receiverships where in his discretion such action is deemed advisable to simplify administration.

[U. S. C., title 12, sec. 264 (m). As added by Act of August 23, 1935 (49 Stat. 697).]

41. Payment of deposits as discharge of Corporation

(2) Payment of an insured deposit to any person by the Corporation shall discharge the Corporation, and payment of a transferred deposit to any person by the new bank or by an insured bank in which a transferred deposit has been made available shall discharge the Corporation and such new bank or other insured bank, to the same extent that payment to such person by the closed bank would have discharged it from liability for the insured deposit.

[U. S. C., title 12, sec. 264 (m). As added by Act of August 23, 1935 (49 Stat. 697).]

42. Recognition of claimants

(3) Except as otherwise prescribed by the board of directors, neither the Corporation nor such new bank or other insured bank shall be required to recognize as the owner of any portion of a deposit appearing on the records of the closed bank under a name other than that of the claimant, any person whose name or interest as such owner is not disclosed on the records of such closed bank as part owner of said deposit, if such recognition would increase the aggregate amount of the insured deposits in such closed bank.

[U. S. C., title 12, sec. 264 (m). As added by Act of August 23, 1935 (49 Stat. 697).]

43. Set-off of liabilities to bank

(4) The Corporation may withhold payment of such portion of the insured deposit of any depositor in a closed bank as may be required to provide for the payment of any liability of such depositor as a stockholder of the closed bank, or of any liability of such depositor to the closed bank or its receiver, which is not offset against a claim due from such bank, pending the determination and payment of such liability by such depositor or any other person liable therefor.

[U. S. C., title 12, sec. 264 (m). As added by Act of August 23, 1935 (49 Stat. 698).]

44. Failure to claim insured deposits

(5) If, after the Corporation shall have given at least three months' notice to the depositor by mailing a copy thereof to his last known address appearing on the records of the closed bank, any depositor in the closed bank shall fail to claim his insured deposit from the Corporation within eighteen months after the appointment of the receiver for the closed bank, or shall fail within such period to claim or arrange to continue the transferred deposit with the new bank or with the other insured bank which assumes liability therefor, all rights of the depositor against the Corporation with respect to the insured deposit, and against the new bank and such other insured bank with respect to the transferred deposit, shall be barred, and all rights of the depositor against the closed bank and its shareholders, or the receivership estate to which the Corporation may have become subrogated, shall thereupon revert to the depositor. The amount of any transferred deposits not claimed within such eighteen months' period, shall be refunded to the Corporation.

[U. S. C., title 12, sec. 264 (m). As added by Act of August 23, 1935 (49 Stat. 698).]

45. Investment of funds

(n) (1) Money of the Corporation not otherwise employed shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States, except that for temporary periods, in the discretion of the board of directors, funds of the

Corporation may be deposited in any Federal Reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

[U. S. C., title 12, sec. 264 (n). As added by Act of June 16, 1933 (48 Stat. 176); and amended by Act of August 23, 1935 (49 Stat. 698).]

46. Loans to closed member banks

(2) Nothing contained in this section shall be construed to prevent the Corporation from making loans to national banks closed by action of the Comptroller of the Currency, or by vote of their directors, or to State member banks closed by action of the appropriate State authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

[U. S. C., title 12, sec. 264 (n). As added by Act of June 16, 1933 (48 Stat. 176); and amended by Act of August 23, 1935 (49 Stat. 698).]

47. Purchase of assets by Corporation

(3) Receivers or liquidators of insured banks closed on account of inability to meet the demands of their depositors shall be entitled to offer the assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of insured State banks, or from the Comptroller of the Currency in the case of national banks or District banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U. S. C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment. The Corporation, in its discretion, may make loans on the security of or may purchase and liquidate or sell any part of the assets of an insured bank which is now or may hereafter be closed on account of inability to meet the demands of its depositors, but in any case in which the Corporation is acting as receiver of a closed insured bank, no such loan

or purchase shall be made without the approval of a court of competent jurisdiction.

[U. S. C., title 12, sec. 264 (n). As added by Act of June 16, 1933 (48 Stat. 176); and amended by Act of August 23, 1935 (49 Stat. 698).]

48. Loans to banks to avert losses

(4) Whenever in the judgment of the board of directors such action will reduce the risk or avert a threatened loss to the Corporation and will facilitate a merger or consolidation of an insured bank with another insured bank, or will facilitate the sale of the assets of an open or closed insured bank to and assumption of its liabilities by another insured bank, the Corporation may, upon such terms and conditions as it may determine, make loans secured in whole or in part by assets of an open or closed insured bank, which loans may be in subordination to the rights of depositors and other creditors, or the Corporation may purchase any such assets or may guarantee any other insured bank against loss by reason of its assuming the liabilities and purchasing the assets of an open or closed insured bank. Any insured national bank or District bank, or, with the approval of the Comptroller of the Currency, any receiver thereof, is authorized to contract for such sales or loans and to pledge any assets of the bank to secure such loans.

[U. S. C., title 12, sec. 264 (n). As added by Act of August 23, 1935 (49 Stat. 699); and amended by Acts of April 21, 1936 (49 Stat. 1237); June 16, 1938 (52 Stat. 707).]

49. Issue of obligations

(o) (1) The Corporation is authorized and empowered to issue and to have outstanding its notes, debentures, bonds, or other such obligations, in a par amount aggregating not more than three times the amount received by the Corporation in payment of its capital stock and in payment of the assessments upon insured banks for the year 1936. The notes, debentures, bonds, and other such obligations issued under this subsection shall be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and shall bear such rate or rates of interest, and shall mature at such time or times, as may be determined by the Corporation: *Provided*, That the Corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.

[U. S. C., title 12, sec. 264 (o). As added by Act of June 16, 1933 (48 Stat. 177); and amended by Act of August 23, 1935 (49 Stat. 699).]

50. Purchase and sale of obligations by Secretary of Treasury

(2) The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the Corporation to be issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include such purchases: *Provided*, That if the Reconstruction Finance Corporation fails for any reason to purchase any of the obligations of the Corporation as provided in subsection (b) of section 5e of the Reconstruction Finance Corporation Act, as amended, the Secretary of the Treasury is authorized and directed to purchase such obligations in an amount equal to the amount of such obligations the Reconstruction Finance Corporation so fails to purchase: *Provided further*, That the Secretary of the Treasury is authorized and directed, whenever in the judgment of the board of directors of the Corporation additional funds are required for insurance purposes, to purchase obligations of the Corporation in an additional amount of not to exceed $250,000,000 par value: *Provided further*, That the proceeds derived from the purchase by the Secretary of the Treasury of any such obligations shall be used by the Corporation solely in carrying out its functions with respect to such insurance. The Secretary of the Treasury may, at any time, sell any of the obligations of the Corporation acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public-debt transactions of the United States.

[U. S. C., title 12, sec. 264 (o). As added by Act of August 23, 1935 (49 Stat. 699).]

51. Exemption from taxation

(p) All notes, debentures, bonds, or other such obligations issued by the Corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as the other real property is taxed.

[U. S. C., title 12, sec. 264 (p). As added by Act of June 16, 1933 (48 Stat. 177); and amended by Act of August 23, 1935 (49 Stat. 700).]

52. Engraving notes, bonds, etc.

(q) In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plate, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.

[U. S. C., title 12, sec. 264 (q). As added by Act of June 16, 1933 (48 Stat. 177); and reenacted without change by Act of August 23, 1935 (49 Stat. 700).]

53. Annual report

(r) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

[U. S. C., title 12, sec. 264 (r). As added by Act of June 16, 1933 (48 Stat. 177); and reenacted without change by Act of August 23, 1935 (49 Stat. 700).]

54. False statements

(s) Whoever, for the purpose of obtaining any loan from the Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Corporation to purchase any assets, or for the purpose of obtaining the payment of any insured deposit or transferred deposit or the allowance, approval, or payment of any claim, or for the purpose of influencing in any way the action of the Corporation under this section, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

[U. S. C., title 12, sec. 264 (s). As added by Act of June 16, 1933 (48 Stat. 177); and amended by Act of August 23, 1935 (49 Stat. 700).]

55. Forgery and counterfeiting

(t) Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued by the Corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation or coupon issued or purporting to have been issued by the

Corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious obligation or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

[U. S. C., title 12, sec. 264 (t). As added by Act of June 16, 1933 (48 Stat. 178); and reenacted without change by Act of August 23, 1935 (49 Stat. 709).]

56. Embezzlements and false entries

(u) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged, or otherwise entrusted to it, or (2) with intent to defraud the Corporation or any other body, politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or without being duly authorized draws any order or issues, puts forth, or assigns any note, debenture, bond, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

[U. S. C., title 12, sec. 264 (u). As added by Act of June 16, 1933 (48 Stat. 178); and reenacted without change by Act of August 23, 1935 (49 Stat. 701).]

57. False advertising

(v) (1) No individual, association, partnership, or corporation shall use the words "Federal Deposit Insurance Corporation", or a combination of any three of these four words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall advertise or otherwise represent falsely by any device whatsoever that his or its deposit liabilities are insured or in anywise guaranteed by the Federal Deposit Insurance Corporation or by the United States or any instrumentality thereof; and no insured bank shall advertise or otherwise represent falsely by any device whatsoever the extent to which or the manner in which its deposit liabilities are insured by the Federal Deposit Insurance Corporation. Every individual, partnership, association, or corporation violating this subsection shall be punished by a fine of not exceeding $1,000, or by imprisonment not exceeding one year, or both.

[U. S. C., title 12, sec. 264 (v). As added by Act of June 16, 1933 (48 Stat. 178); and amended by Act of August 23, 1935 (49 Stat. 701). For other provisions covering improper advertising, see sec. 5243 of the Revised Statutes (Appendix, p. 254) and Act approved May 24, 1926 (Appendix, p. 252).]

58. Display of sign indicating insurance

(2) Every insured bank shall display at each place of business maintained by it a sign or signs, and shall include in advertisements relating to deposits a statement to the effect that its deposits are insured by the Corporation. The board of directors shall prescribe by regulation the forms of such signs and the manner of display and the substance of such statements and the manner of use. For each day an insured bank continues to violate any provision of this paragraph or any lawful provision of said regulations, it shall be subject to a penalty of not more than $100, recoverable by the Corporation for its use.

[U. S. C., title 12, sec. 264 (v). As added by Act of June 16, 1934 (48 Stat. 970); and amended by Act of August 23, 1935 (49 Stat. 701).]

59. Payment of dividends or interest by insured banks

(3) No insured bank shall pay any dividends on its capital stock or interest on its capital notes or debentures (of[1] such interest is required to be paid only out of net profits) while it remains in default in the payment of any assessment due to the Corporation; and any director or officer of any insured bank who participates in the declaration or payment of any such dividend shall, upon conviction, be fined not more than $1,000, or imprisoned not more than one year, or both: *Provided*, That if such default is due to a dispute between the insured bank and the Corporation over the amount of such assessment, this paragraph shall not apply, if such bank shall deposit security satisfactory to the Corporation for payment upon final determination of the issue.

[U. S. C., title 12, sec. 264 (v). As added by Act of August 23, 1935 (49 Stat. 701).]

60. Consolidation of insured and noninsured banks

(4) Unless, in addition to compliance with other provisions of law, it shall have the prior written consent of the Corporation, no insured bank shall enter into any consolidation or merger with any noninsured bank, or assume liability to pay any deposits made in any noninsured bank, or transfer assets to any noninsured bank in consideration of the assumption of liability for any portion of the deposits made in such insured bank, and no insured State nonmember bank (except a District bank) without such consent shall reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures.

[U. S. C., title 12, sec. 264 (v). As added by Act of August 23, 1935 (49 Stat. 701).]

61. Establishment of branches by State nonmember banks

(5) No State nonmember insured bank (except a District bank) shall establish and operate any new branch after thirty days after the effective

[1] So in statute as enacted.

date unless it shall have the prior written consent of the Corporation, and no branch of any State nonmember insured bank shall be moved from one location to another after thirty days after the effective date without such consent. The factors to be considered in granting or withholding the consent of the Corporation under this paragraph shall be those enumerated in subsection (g) of this section.

[U. S. C., title 12, sec. 264 (v). As added by Act of August 23, 1935 (49 Stat. 702). For meaning of term "effective date," see subsec. (c) (16) of this section (p. 44, par. 3).]

62. Burglary insurance

(6) The Corporation may require any insured bank to provide protection and indemnity against burglary, defalcation, and other similar insurable losses. Whenever any insured bank refuses to comply with any such requirement the Corporation may contract for such protection and indemnity and add the cost thereof to the assessment otherwise payable by such bank

[U. S. C., title 12, sec. 264 (v). As added by Act of August 23, 1935 (49 Stat. 702).]

63. Publication of reports of examinations of insured State banks

(7) Whenever any insured bank (except a national bank or a District bank), after written notice of the recommendations of the Corporation based on a report of examination of such bank by an examiner of the Corporation, shall fail to comply with such recommendations within one hundred and twenty days after such notice, the Corporation shall have the power, and is hereby authorized, to publish only such part of such report of examination as relates to any recommendation not complied with: *Provided*, That notice of intention to make such publication shall be given to the bank at least ninety days before such publication is made.

[U. S. C., title 12, sec. 264 (v). As added by Act of August 23, 1935 (49 Stat. 702).]

64. Interest on, and payment of, deposits of nonmember banks

(8) The board of directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose it may define the term "demand deposits"; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of this Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System. The board of directors shall from time to time limit by regulation the rates of interest or dividends which may be paid by insured nonmember banks on time and savings deposits, but such regulations shall be consistent with the contractual obligations of such banks to their depositors. For the purpose of fixing such rates of interest or dividends, the board of directors shall by regulation prescribe different rates for such payment on time and savings

deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. The board of directors shall by regulation define what constitutes time and savings deposits in an insured nonmember bank. Such regulations shall prohibit any insured nonmember bank from paying any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the board of directors, and from waiving any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement. For each violation of any provision of this paragraph or any lawful provision of such regulations relating to the payment of interest or dividends on deposits or to withdrawal of deposits, the offending bank shall be subject to a penalty or[1] not more than $100, recoverable by the Corporation for its use.

[U. S. C., title 12, sec. 264 (v). As added by Act of August 23, 1935 (49 Stat. 702).]

65. Criminal provisions applicable

(w) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), insofar as applicable, are extended to apply to contracts or agreements with the Corporation under this section, which for the purposes hereof shall be held to include loans, advances, extensions, and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of assets, and all contracts and agreements pertaining to the same.

[U. S. C., title 12, sec. 264 (w). As added by Act of June 16, 1933 (48 Stat. 178); and reenacted without change by Act of August 23, 1935 (49 Stat. 703).]

66. Secret Service

(x) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

[U. S. C., title 12, sec. 264 (x). As added by Act of June 16, 1933 (48 Stat. 178); and reenacted without change by Act of August 23, 1935 (49 Stat. 703).]

67. Nondiscrimination

(y) It is not the purpose of this section to discriminate, in any manner, against State nonmember, and in favor of, national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this section. No bank shall be dis-

[1] So in statute as enacted.

criminated against because its capital stock is less than the amount required for eligibility for admission into the Federal Reserve System.

[U. S. C., title 12, sec. 264 (y). As added by Act of June 16, 1933 (48 Stat. 180); and amended by Acts of August 23, 1935 (49 Stat. 703); and June 20, 1939 (53 Stat. 842).]

68. Separability of insurance provisions

(z) The provisions of this section limiting the insurance of the deposits of any depositor to a maximum less than the full amount shall be independent and separable from each and all of the provisions of this section.

[U. S. C., title 12, sec. 264 (z). As added by Act of August 23, 1935 (49 Stat. 703).]

SECTION 13. POWERS OF FEDERAL RESERVE BANKS

1. Receipt of deposits and collections

Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this Act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Board of Governors of the Federal Reserve System, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

[U. S. C., title 12, sec. 342. As amended by Act of September 7, 1916 (39 Stat. 752), which completely revised this section; and by Act of June 21, 1917 (40 Stat. 234). With respect to the receipt by reserve banks of checks and drafts on deposit, see also sec. 16, this Act, p. 92, par. 14.]

2. Discount of commercial, agricultural, and industrial paper

Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its

own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Federal Reserve System to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount, and the notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than 90 days, exclusive of grace.

[U. S. C., title 12, sec. 343. As amended by Act of September 7, 1916 (39 Stat. 752), which completely revised this section; and by Act of March 4, 1923 (42 Stat. 1478). As used in this paragraph the phrase "bonds and notes of the Government of the United States" includes Treasury bills or certificates of indebtedness. See Act of June 17, 1933, amending sec. 5 of Second Liberty Bond Act of September 24, 1917 (Appendix, p. 214). As to eligibility for discount under this paragraph of notes representing loans to finance building construction, see sec. 24, this Act, p. 115, par. 2.]

3. Discounts for individuals, partnerships, and corporations

In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal Reserve bank: *Provided*, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Federal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.

[U. S. C., title 12, sec. 343. As added by Act of July 21, 1932 (47 Stat. 715); and amended by Act of August 23, 1935 (49 Stat. 714).]

4. Discount or purchase of sight drafts

Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, any Federal reserve bank may discount or purchase bills of exchange payable at sight or on demand which grow out of the domestic shipment or the exportation of nonperishable, readily marketable agricultural and other staples and are secured by bills of lading or other shipping documents conveying or securing title to such staples: *Provided*, That all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: *Pro vided further*, That no such bill shall in any event be held by or for the account of a Federal reserve bank for a period in excess of ninety days. In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the discount after payment of such bills to conform to the actual life thereof.

[U. S. C., title 12, sec. 344. As added by Act of March 4, 1923 (42 Stat. 1479); and amended by Act of May 29, 1928 (45 Stat. 975).]

5. Limitation on discount of paper of one borrower

The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation is liable as maker, acceptor, indorser, drawer, or guarantor, rediscounted for any member bank, shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national banking association under the terms of section 5200 of the Revised Statutes, as amended: *Provided, however*, That nothing in this paragraph shall be construed to change the character or class of paper now eligible for rediscount by Federal reserve banks.

[U. S. C., title 12, sec. 345. As reenacted without change by Act of March 3, 1915 (38 Stat. 958); and amended by Act of September 7, 1916 (39 Stat. 752), which completely revised this section; and by Act of April 12, 1930 (46 Stat. 162). For text of sec. 5200, Revised Statutes, referred to in this paragraph, see Appendix, p. 179.]

6. Discount of acceptances

Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than 90 days' sight, exclusive of days of grace, and which are indorsed by at least one member bank: *Provided*, That such acceptances if drawn for an agricultural purpose and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with a ma-

turity at the time of discount of not more than six months' sight exclusive of days of grace.

[U. S. C., title 12, sec. 346. As amended by Act of March 3, 1915 (38 Stat. 958); by Act of September 7, 1916 (39 Stat. 752), which completely revised this section; and by Act of March 4, 1923 (42 Stat. 1479).]

7. Acceptances by member banks

Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: *Provided, however*, That the Board of Governors of the Federal Reserve System, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: *Provided further*, That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus.

[U. S. C., title 12, sec. 372. As amended by Act of March 3, 1915 (38 Stat. 958); by Act of September 7, 1916 (39 Stat. 752), which completely revised this section; and by Act of June 21, 1917 (40 Stat. 235).

8. Advances to member banks on promissory notes

Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13 (a) of this Act, or by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act, or by the deposit or pledge of bonds issued under the provisions of

subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates to be established by such Federal reserve banks, such rates to be subject to the review and determination of the Board of Governors of the Federal Reserve System. If any member bank to which any such advance has been made shall, during the life or continuance of such advance, and despite an official warning of the reserve bank of the district or of the Board of Governors of the Federal Reserve System to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the reserve bank of the district under the provisions of this paragraph for such period as the Board of Governors of the Federal Reserve System shall determine: *Provided*, That no temporary carrying or clearance loans made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph.

[U. S. C., title 12, sec. 347. As added by Act of September 7, 1916 (39 Stat. 753) which comp'etely revised this section; and amended by Acts of May 19, 1932 (47 Stat. 160); May 12, 1933 (48 Stat. 46); June 16, 1933 (48 Stat. 160); January 31, 1934 (48 Stat. 348); April 27, 1934 (48 Stat. 646).]

9 Aggregate liabilities of national banks

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

Sixth. Liabilities incurred under the provisions of the Reconstruction Finance Corporation Act.

Seventh. Liabilities created by the indorsement of accepted bills of exchange payable abroad actually owned by the indorsing bank and discounted at home or abroad.

Eighth. Liabilities incurred under the provisions of section 202 of Title II of the Federal Farm Loan Act, approved July 17, 1916, as amended by the Agricultural Credits Act of 1923.

Ninth. Liabilities incurred on account of loans made with the express approval of the Comptroller of the Currency under paragraph (9) of Section 5200 of the Revised Statutes, as amended.

Tenth. Liabilities incurred under the provisions of section 13b of the Federal Reserve Act.

[U. S. C., title 12, sec. 82. As reenacted without change by Act of September 7, 1916 (39 Stat. 753), which completely revised this section; and amended as follows: The paragraph was in effect amended by sec. 202 (b) of the Federal Farm Loan Act of July 17, 1916, as amended by the Agricultural Credits Act of 1923 (Appendix, p. 149). Subparagraphs sixth, seventh, eighth, ninth, and tenth were added to sec. 5202 by Act of April 5, 1918 (40 Stat. 512), as amended by Act of January 22, 1932 (47 Stat. 8); and by Acts of October 22, 1919 (41 Stat. 297), February 25, 1927 (44 Stat. 1231), May 20, 1933 (48 Stat. 73), and June 19, 1934 (48 Stat. 1107), respectively.]

10. Regulation by Board of Governors of discounts, purchases and sales

The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 361. As amended by Act of September 7, 1916 (39 Stat. 753), which completely revised this section.]

11. National banks as insurance agents or real estate loan brokers

That in addition to the powers now vested by law in national banking associations organized under the laws of the United States any such association located and doing business in any place the population of which does not exceed five thousand inhabitants, as shown by the last preceding decennial census, may, under such rules and regulations as may be prescribed by the Comptroller of the Currency, act as the agent for any fire, life, or other insurance company authorized by the authorities of the State in which said bank is located to do business in said State, by soliciting and selling insurance and collecting premiums on policies issued by such company; and may receive for services so rendered such fees or commissions as may be agreed upon between the said association and the insurance company for which it may act as agent; and may also act as the broker or agent for others in making or procuring loans on real estate located within one hundred miles of the place in which said bank may be located, receiving for such services a reasonable fee or commis-

sion: *Provided, however*, That no such bank shall in any case guarantee either the principal or interest of any such loans or assume or guarantee the payment of any premium on insurance policies issued through its agency by its principal: *And provided further*, That the bank shall not guarantee the truth of any statement made by an assured in filing his application for insurance.

[U. S. C., title 12, sec. 92. As added by Act of September 7, 1916 (39 Stat. 753), which completely revised this section.]

12. Bankers' acceptances to create dollar exchange

Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Board of Governors of the Federal Reserve System by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal reserve banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Board of Governors of the Federal Reserve System: *Provided, however*, That no member bank shall accept such drafts or bills of exchange referred to[1] this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security: *Provided further*, That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

[U. S. C., title 12, sec. 373. As added by Act of September 7, 1916 (39 Stat. 754), which completely revised this section.]

13. Advances to individuals on direct obligations of United States

Subject to such limitations, restrictions and regulations as the Board of Governors of the Federal Reserve System may prescribe, any Federal reserve bank may make advances to any individual, partnership or corporation on the promissory notes of such individual, partnership or corporation secured by direct obligations of the United States. Such advances shall be made for periods not exceeding 90 days and shall bear interest at rates fixed from time to time by the Federal reserve bank, subject to the review and determination of the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 347c. As added by Act of March 9, 1933 (48 Stat. 7).]

[1] So in statute as enacted.

SECTION 13a. DISCOUNT OF AGRICULTURAL PAPER

1. Authority of Federal reserve banks to discount agricultural paper

Sec. 13a. Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity, at the time of discount, exclusive of days of grace, not exceeding nine months, and such notes, drafts, and bills of exchange may be offered as collateral security for the issuance of Federal reserve notes under the provisions of section 16 of this Act: *Provided*, That notes, drafts, and bills of exchange with maturities in excess of six months shall not be eligible as a basis for the issuance of Federal reserve notes unless secured by warehouse receipts or other such negotiable documents conveying or securing title to readily marketable staple agricultural products or by chattel mortgage upon live stock which is being fattened for market.

[U. S. C., title 12, sec. 348. As added by Act March 4, 1923 (42 Stat. 1479).]

2. Rediscounts for, and discount of notes payable to, Federal Intermediate Credit Banks

That any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, rediscount such notes, drafts, and bills for any Federal Intermediate Credit Bank, except that no Federal reserve bank shall rediscount for a Federal Intermediate Credit Bank any such note or obligation which bears the indorsement of a nonmember State bank or trust company which is eligible for membership in the Federal reserve system, in accordance with section 9 of this Act. Any Federal reserve bank may also, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes payable to and bearing the indorsement of any Federal intermediate credit bank, covering loans or advances made by such bank pursuant to the provisions of section 202 (a) of Title II of the Federal Farm Loan Act, as amended (U. S. C., title 12, ch. 8, sec. 1031), which have maturities at the time of discount of not more than nine months, exclusive of days of grace, and which are secured by notes, drafts, or bills of exchange eligible for rediscount by Federal Reserve banks.

[U. S. C., title 12, sec. 349. As added by Act of March 4, 1923 (42 Stat. 1480); and amended by Act of May 19, 1932 (47 Stat. 160). For sec. 202 (a) of title II of Federal Farm Loan Act, see Appendix, p. 148.]

3. Purchase and sale of debentures of Federal Intermediate Credit Banks

Any Federal reserve bank may also buy and sell debentures and other such obligations issued by a Federal Intermediate Credit Bank or by a National Agricultural Credit Corporation, but only to the same extent as and subject to the same limitations as those upon which it may buy and sell bonds issued under Title I of the Federal Farm Loan Act.

[U. S. C., title 12, sec. 350. As added by Act of March 4, 1923 (42 Stat. 1480).]

4. Paper of cooperative marketing associations

Notes, drafts, bills of exchange or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or are to be advanced by such association to any members thereof for an agricultural purpose, or have been or are to be used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or if such proceeds have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members: *Provided*, That the express enumeration in this paragraph of certain classes of paper of cooperative marketing associations as eligible for rediscount shall not be construed as rendering ineligible any other class of paper of such associations which is now eligible for rediscount.

[U. S. C., title 12, sec. 351. As added by Act of March 4, 1923 (42 Stat. 1480).]

5. Limitations

The Board of Governors of the Federal Reserve System may, by regulation, limit to a percentage of the assets of a Federal reserve bank the amount of notes, drafts, acceptances, or bills having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, bills, or acceptances having a maturity in excess of six months, but not exceeding nine months, which may be rediscounted by such bank.

[U. S. C., title 12, sec. 352. As added by Act of March 4, 1923 (42 Stat. 1480).]

SECTION 13b. LOANS AND DISCOUNTS FOR INDUSTRIAL PURPOSES

1. Direct loans to industrial or commercial businesses

Sec. 13b. (a) In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established industrial or

commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the Federal Reserve bank, pursuant to authority granted by the Board of Governors of the Federal Reserve System, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, for the purpose of providing it with working capital, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding five years.

[U. S. C., title 12, sec. 352a (a). As added by Act of June 19, 1934 (48 Stat. 1105).]

2. Discount and purchase of obligations entered into to obtain working capital

(b) Each Federal Reserve bank shall also have power to discount for, or purchase from, any bank, trust company, mortgage company, credit corporation for industry, or other financing institution operating in its district, obligations having maturities not exceeding five years, entered into for the purpose of obtaining working capital for any such established industrial or commercial business; to make loans or advances direct to any such financing institution on the security of such obligations; and to make commitments with regard to such discount or purchase of obligations or with respect to such loans or advances on the security thereof, including commitments made in advance of the actual undertaking of such obligations. Each such financing institution shall obligate itself to the satisfaction of the Federal Reserve bank for at least 20 per centum of any loss which may be sustained by such bank upon any of the obligations acquired from such financing institution, the existence and amount of any such loss to be determined in accordance with regulations of the Board of Governors of the Federal Reserve System: *Provided*, That in lieu of such obligation against loss any such financing institution may advance at least 20 per centum of such working capital for any established industrial or commercial business without obligating itself to the Federal Reserve bank against loss on the amount advanced by the Federal Reserve bank: *Provided, however*, That such advances by the financing institution and the Federal Reserve bank shall be considered as one advance, and repayment shall be made pro rata under such regulations as the Board of Governors of the Federal Reserve System may prescribe.

[U. S. C., title 12, sec. 352a (b). As added by Act of June 19, 1934 (48 Stat. 1105).]

3. Limitation upon amount of loans, advances, etc.

(c) The aggregate amount of loans, advances, and commitments of the Federal Reserve banks outstanding under this section at any one time, plus the amount of purchases and discounts under this section held at the same time, shall not exceed the combined surplus of the Federal Reserve banks as of July 1, 1934, plus all amounts paid to the Federal Reserve banks by the Secretary of the Treasury under sub-

section (c) of this section, and all operations of the Federal Reserve banks under this section shall be subject to such regulations as the Board of Governors of the Federal Reserve System may prescribe.

[U. S. C., title 12, sec. 352a (c). As added by Act of June 19, 1934 (48 Stat. 1106).]

4. Industrial advisory committees

(d) For the purpose of aiding the Federal Reserve banks in carrying out the provisions of this section, there is hereby established in each Federal Reserve district an industrial advisory committee, to be appointed by the Federal Reserve bank subject to the approval and regulations of the Board of Governors of the Federal Reserve System, and to be composed of not less than three nor more than five members as determined by the Board of Governors of the Federal Reserve System. Each member of such committee shall be actively engaged in some industrial pursuit within the Federal Reserve district in which the committee is established, and each such member shall serve without compensation but shall be entitled to receive from the Federal Reserve bank of such district his necessary expenses while engaged in the business of the committee, or a per diem allowance in lieu thereof to be fixed by the Board of Governors of the Federal Reserve System. Each application for any such loan, advance, purchase, discount, or commitment shall be submitted to the appropriate committee and, after an examination by it of the business with respect to which the application is made, the application shall be transmitted to the Federal Reserve bank, together with the recommendation of the committee.

[U. S. C., title 12, sec. 352a (d). As added by Act of June 19, 1934 (48 Stat. 1106).]

5. Advances by Treasury to Federal Reserve banks

(e) In order to enable the Federal Reserve banks to make the loans, discounts, advances, purchases, and commitments provided for in this section, the Secretary of the Treasury, on and after June 19, 1934, is authorized, under such rules and regulations as he shall prescribe, to pay to each Federal Reserve bank not to exceed such portion of the sum of $139,299,557 as may be represented by the amount paid by each Federal Reserve bank for stock of the Federal Deposit Insurance Corporation, upon the execution by each Federal Reserve bank of its agreement (to be endorsed on the certificate of such stock) to hold such stock unencumbered and to pay to the United States all dividends, all payments on liquidation, and all other proceeds of such stock, for which dividends, payments, and proceeds the United States shall be secured by such stock itself up to the total amount paid to each Federal Reserve bank by the Secretary of the Treasury under this section. Each Federal Reserve bank, in addition, shall agree that, in the event such dividends, payments, and other proceeds in any calendar year do not aggregate 2

per centum of the total payment made by the Secretary of the Treasury, under this section, it will pay to the United States in such year such further amount, if any, up to 2 per centum of the said total payment, as shall be covered by the net earnings of the bank for that year derived from the use of the sum so paid by the Secretary of the Treasury, and that for said amount so due the United States shall have a first claim against such earnings and stock, and further that it will continue such payments until the final liquidation of said stock by the Federal Deposit Insurance Corporation. The sum so paid to each Federal Reserve bank by the Secretary of the Treasury shall become a part of the surplus fund of such Federal Reserve bank within the meaning of this section. All amounts required to be expended by the Secretary of the Treasury in order to carry out the provisions of this section shall be paid out of the miscellaneous receipts of the Treasury created by the increment resulting from the reduction of the weight of the gold dollar under the President's proclamation of January 31, 1934; and there is hereby appropriated, out of such receipts, such sum as shall be required for such purpose.

[U. S. C., title 12, sec. 352a (e). As added by Act of June 19, 1934 (48 Stat. 1106); and amended by Act of August 23, 1935 (49 Stat. 714). The Presidential proclamation referred to in this paragraph, reducing the weight of the gold dollar, was promulgated under authority of sec. 43 (b) of Act of May 12, 1933 (Appendix, p. 199).]

SECTION 14. OPEN-MARKET OPERATIONS

1. Purchase and sale of cable transfers, bankers' acceptances and bills of exchange

Sec. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

[U. S. C., title 12, sec. 353. Part of original Federal Reserve Act; not amended.]

2. Dealings in, and loans on, gold

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

[U. S. C., title 12, sec. 354. Part of original Federal Reserve Act; not amended. In connection with this paragraph, see provisions of Gold Reserve Act of 1934 (Appendix, p. 202).]

3. Purchase and sale of obligations of United States, States, counties, etc.

(b) To buy and sell, at home or abroad, bonds and notes of the United States, bonds of the Federal Farm Mortgage Corporation having maturities from date of purchase of not exceeding six months, bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of not exceeding six months, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System: *Provided*, That any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities either in the open market or directly from or to the United States; but all such purchases and sales shall be made in accordance with the provisions of section 12A of this Act and the aggregate amount of such obligations acquired directly from the United States which is held at any one time by the twelve Federal Reserve banks shall not exceed $5,000,000,000.

[U. S. C., title 12, sec. 355. As amended by Acts of January 31, 1934 (48 Stat. 348); April 27, 1934 (48 Stat. 646); August 23, 1935 (49 Stat. 706); and March 27, 1942 (56 Stat. 180). The proviso in this paragraph was amended to read as above set forth by Title IV of the Second War Powers Act of March 27, 1942; but under section 1501 of that Act it was provided that this amendment "shall remain in force only until December 31, 1944, or until such earlier time as the Congress by concurrent resolution, or the President, may designate"; and the termination date was extended until December 31, 1945 by Act of December 20, 1944 (58 Stat. 827), and further extended until June 30, 1946 by Act of December 28, 1945 (59 Stat. 658) and until March 31, 1947, by Act of June 29, 1946 (Pub. No. 475, 79th Cong.). Accordingly, after March 31, 1947, unless again extended or unless an earlier termination date is designated by Congress or by the President, this proviso will read as it read prior to March 27, 1942, as follows:

"*Provided*, That any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities but only in the open market";

For provisions with respect to obligations guaranteed by United States, see Appendix, p. 215.]

4. Purchase and sale of bills of exchange

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

[U. S. C., title 12, sec. 356. Part of original Federal Reserve Act; not amended.]

5. Rates of discount

(d) To establish from time to time, subject to review and determination of the Board of Governors of the Federal Reserve System, rates of discount to be charged by the Federal reserve bank for each class of

paper, which shall be fixed with a view of accommodating commerce and business; but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board;

[U. S. C., title 12, sec. 357. As amended by Acts of April 13, 1920 (41 Stat. 550); March 4, 1923 (42 Stat. 1480); August 23, 1935 (49 Stat. 706).]

6. Foreign correspondents and agencies

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Board of Governors of the Federal Reserve System and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Board of Governors of the Federal Reserve System, to open and maintain banking accounts for such foreign correspondents or agencies, or for foreign banks or bankers, or for foreign states as defined in section 25 (b) of this Act. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Board of Governors of the Federal Reserve System, any other Federal reserve bank may, with the consent and approval of the Board of Governors of the Federal Reserve System, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board;

[U. S. C., title 12, sec. 358. As amended by Acts of September 7, 1916 (39 Stat. 754); June 21, 1917 (40 Stat. 235); April 7, 1941 (55 Stat. 131).]

7. Purchase and sale of acceptances of Federal Intermediate Credit Banks

(f) To purchase and sell in the open market, either from or to domestic banks, firms, corporations, or individuals, acceptances of Federal Intermediate Credit Banks and of National Agricultural Credit Corporations, whenever the Board of Governors of the Federal Reserve System shall declare that the public interest so requires.

[U. S. C., title 12, sec. 359. As added by Act of March 4, 1923 (42 Stat. 1480).

8. Relationships and transactions with foreign banks and bankers

(g) The Board of Governors of the Federal Reserve System shall exercise special supervision over all relationships and transactions of any

kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the Board may prescribe. No officer or other representative of any Federal reserve bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Board of Governors of the Federal Reserve System. The Board of Governors of the Federal Reserve System shall have the right, in its discretion, to be represented in any conference or negotiations by such representative or representatives as the Board may designate. A full report of all conferences or negotiations, and all understandings or agreements arrived at or transactions agreed upon, and all other material facts appertaining to such conferences or negotiations, shall be filed with the Board of Governors of the Federal Reserve System in writing by a duly authorized officer of each Federal reserve bank which shall have participated in such conferences or negotiations.

[U. S. C., title 12, sec. 348a. As added by Act of June 16, 1933 (48 Stat. 181).]

SECTION 15. GOVERNMENT DEPOSITS

1. Federal reserve banks as depositaries and fiscal agents of United States

Sec. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

[U. S. C., title 12, sec. 391. Part of original Federal Reserve Act; not specifically amended, but in effect amended by Act of May 29, 1920 (Appendix, p. 138). In the Treasury Department Appropriation Act for the fiscal year 1946, it was provided that, from the amount appropriated for administering the public debt, "the Federal Reserve Banks and their branches may be reimbursed for expenditures made by them as fiscal agents of the United States on account of public-debt transactions for the account of the Secretary of the Treasury." (See Act of April 24, 1945, Pub. No. 38, 79th Cong.).]

2. Nonmember banks as depositaries of United States

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: *Provided, however*, That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

[U. S. C., title 12, sec. 392. Part of original Federal Reserve Act; not specifically amended, but amended in effect by the following statutes permitting the deposit of Government funds in nonmember banks: Under section 10 of the Act of June 11, 1942, all insured banks designated for the purpose by the Secretary of the Treasury may be depositories of public moneys of the United States (see Appendix, p. 163); under the Liberty Bond Acts, the proceeds of sales of Liberty bonds may be deposited in nonmember banks (see Appendix, p. 167); and under the Postal Savings Act, as amended, postal savings funds may be deposited in nonmember banks (see Appendix, p. 165). As to designation of State member banks as depositories of public money, see section 9 of the Federal Reserve Act (p. 23); and as to designation of national banks as depositories of public money, see section 5153 of the Revised Statutes (Appendix, p. 164).]

3. Depositories and fiscal agents of Federal Intermediate Credit Banks

The Federal reserve banks are hereby authorized to act as depositories for and fiscal agents of any National Agricultural Credit Corporation or Federal Intermediate Credit Bank.

[U. S. C., title 12, sec. 393. As added by Act of March 4, 1923 (42 Stat. 1480).]

SECTION 16. NOTE ISSUES

1. Issuance of Federal reserve notes; nature of obligation; where redeemable

Sec. 16. Federal reserve notes, to be issued at the discretion of the Board of Governors of the Federal Reserve System for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank.

[U. S. C., title 12, sec. 411. As amended by Act of January 30, 1934 (48 Stat. 337). For redemption of Federal reserve notes which cannot be identified as to bank of issue, see Act of June 13, 1933 (Appendix, p. 212).]

2. Application for notes by Federal Reserve banks

Any Federal Reserve bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates, or direct obligations of the United States. In no event shall such collateral security be less than the amount of Federal Reserve notes applied

for. The Federal Reserve agent shall each day notify the Board of Governors of the Federal Reserve System of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Board of Governors of the Federal Reserve System may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it.

[U. S. C., title 12, sec. 412. As amended by Acts of September 7, 1916 (39 Stat. 754); June 21, 1917 (40 Stat. 236); February 27, 1932 (47 Stat. 57); February 3, 1933 (47 Stat. 794); January 30, 1934 (48 Stat. 338); March 6, 1934 (48 Stat. 398); March 1, 1937 (50 Stat. 23); June 30, 1939 (53 Stat. 991); June 30 1941 (55 Stat. 395); May 25, 1943 (57 Stat. 85); June 12, 1945 (59 Stat. 237).]

3. Reserves against deposits and notes; redemption of notes; exchange for gold certificates

Every Federal Reserve bank shall maintain reserves in gold certificates of not less than 25 per centum against its deposits and reserves in gold certificates of not less than 25 per centum against its Federal Reserve notes in actual circulation: *Provided, however*, That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation. Notes so paid out shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Board of Governors of the Federal Reserve System to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank, they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued or, upon direction of such Federal reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned

to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

[U. S. C., title 12, sec. 413. As amended by Acts of June 21, 1917 (40 Stat. 236); January 30, 1934 (48 Stat. 338); June 12, 1945 (59 Stat. 237).]

4. Maintenance of redemption fund; granting right to issue notes

The Board of Governors of the Federal Reserve System shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than 5 per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the 25 per centum reserve hereinbefore required to be maintained against Federal Reserve notes in actual circulation. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Board of Governors of the Federal Reserve System shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of the notes issued to it and shall pay such rate of interest as may be established by the Board of Governors of the Federal Reserve System on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

[U. S. C., title 12, sec. 414. As amended by Acts of June 21, 1917 (40 Stat. 237); January 30, 1934 (48 Stat. 338); June 12, 1945 (59 Stat. 237).]

5. Deposit to reduce liability for outstanding notes

Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

[U. S. C., title 12, sec. 415. As amended by Acts of June 21, 1917 (40 Stat. 237); January 30, 1934 (48 Stat. 339).]

6. Transfer of gold certificates to Treasury

The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Board of Governors of the Federal Reserve System shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent.

[U. S. C., title 12, sec. 415. As amended by Acts of June 21, 1917 (40 Stat. 237); January 30, 1934 (48 Stat. 339).]

7. Substitution of collateral; retirement of Federal reserve notes

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes issued to it and shall at the same time substitute therefor other collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Board of Governors of the Federal Reserve System. Any Federal reserve bank may retire any of its Federal reserve notes by depositing them with the Federal reserve agent or with the Treasurer of the United States, and such Federal reserve bank shall thereupon be entitled to receive back the collateral deposited with the Federal reserve agent for the security of such notes. Federal reserve banks shall not be required to maintain the reserve or the redemption fund heretofore provided for against Federal reserve notes which have been retired. Federal reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue.

[U. S. C., title 12, sec. 416. As amended by Act of June 21, 1917 (40 Stat. 237).]

8. Custody of reserve notes, gold certificates, and lawful money

All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safekeeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Board of Gov-

ernors of the Federal Reserve System, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.

[U. S. C., title 12, sec. 417. As added by Act of June 21, 1917 (40 Stat. 238); and amended by Act of January 30, 1934 (48 Stat. 339).]

9. Engraving of plates; denominations and form of notes

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of $5, $10, $20, $50, $100, $500, $1000, $5000, $10,000 as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

[U. S. C., title 12, sec. 418. As amended by Act of September 26, 1918 (40 Stat. 970).]

10. Custody of unissued notes

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

[U. S. C., title 12, sec. 419. Part of original Federal Reserve Act; not amended. As to discontinuance of subtreasuries, see Appendix, p. 133.]

11. Custody of plates and dies; expenses of issue and retirement of notes

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Board of Governors of the Federal Reserve System shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

[U. S. C., title 12, sec. 420. Part of original Federal Reserve Act; not amended.]

12. Examinations of plates, dies, etc.

The examination of plates, dies, bed pieces, and so forth, and regulations relating to such examination of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-

four Revised Statutes, is hereby extended to include notes herein provided for.

[U. S. C., title 12, sec. 421. Part of original Federal Reserve Act; not amended.]

13. Appropriation for engraving, etc.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however*, That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

[U. S. C., title 12, sec. 422. Part of original Federal Reserve Act. While not specifically amended, this paragraph is in effect amended by subsec. (a) of sec. 1 of the Permanent Appropriation Repeal Act of 1934, approved June 26, 1934 (48 Stat. 1224), which provides: "That effective July 1, 1934, such portions of any acts as provide permanent or continuing appropriations from the general fund of the Treasury to be disbursed under the appropriation accounts appearing on the books of the Government, and listed in subsection (b) of this section, are hereby repealed, and any unobligated balances under such accounts as of June 30, 1935, shall be covered into the surplus fund of the Treasury." Among the appropriation accounts listed in subsec. (b) is that for the preparation and issue of Federal reserve notes.]

14. Checks and drafts to be received on deposit at par

Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Board of Governors of the Federal Reserve System shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

[U. S. C., title 12, sec. 360. Part of original Federal Reserve Act; not amended. See also sec. 13, this act, p. 72, par. 1.]

15. Transfer of funds among Federal Reserve banks

The Board of Governors of the Federal Reserve System shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

[U. S. C., title 12, sec. 248 (o). Part of original Federal Reserve Act; not amended.]

16. Settlement fund

The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Board of Governors of the Federal Reserve System. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Board of Governors of the Federal Reserve System by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Board of Governors of the Federal Reserve System and shall be payable in gold certificates on the order of the Board of Governors of the Federal Reserve System to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Board of Governors of the Federal Reserve System in making such payments shall be signed by the chairman or vice chairman, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

[U. S. C., title 12, sec. 467. As added by Act of June 21, 1917 (40 Stat. 238); and amended by Act of January 30, 1934 (48 Stat. 339). Prior to enactment of the Banking Act of 1935, approved August 23, 1935, the chairman and vice chairman of the Board of Governors of the Federal Reserve System were known as the governor and vice governor of the Federal Reserve Board, respectively. See note to par. 3 of sec. 1 (p. 1).]

17. Expenses

The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall

be paid by the Board of Governors of the Federal Reserve System and included in its assessments against the several Federal reserve banks.

[U. S. C., title 12, sec. 467. As added by Act of June 21, 1917 (40 Stat. 238).]

18. Deposits under section 16 as reserve

Deposits made under this section standing to the credit of any Federal Reserve bank with the Board of Governors of the Federal Reserve System shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits.

[U. S. C., title 12, sec. 467. As added by Act of June 21, 1917 (40 Stat. 238); and amended by Act of January 30, 1934 (48 Stat. 340).]

19. Preservation of provisions of Act of March 14, 1900

Nothing in this section shall be construed as amending section six of the Act of March fourteenth, nineteen hundred, as amended by the Acts of March fourth, nineteen hundred and seven, March second, nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of this section be construed to apply to the deposits made or to the receipts or certificates issued under those Acts.

[U. S. C., title 12, sec. 467. As added by Act of June 21, 1917 (40 Stat. 239).]

SECTION 17. DEPOSIT OF BONDS BY NATIONAL BANKS

1. Repeal of provisions requiring national banks to deposit bonds with United States Treasurer

Sec. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking association now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed.

[U. S. C., title 12, sec. 101a (note). As amended by Act of June 21, 1917 (40 Stat. 239).]

SECTION 18. REFUNDING BONDS

1. Application to sell bonds securing circulation

Sec. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank

desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

[U. S. C., title 12, sec. 441. Part of original Federal Reserve Act; not amended. On March 11, 1935, the Secretary of the Treasury called for redemption on July 1, 1935, and August 1, 1935, respectively, the only bonds of the United States bearing the circulating privilege after July 22, 1935, namely, the 2% Consols of 1930 and the 2% Panama Canal Loan bonds of 1916-36 and 1918-38.]

2. Purchase of bonds by Federal reserve banks

The Treasurer shall, at the end of each quarterly period, furnish the Board of Governors of the Federal Reserve System with a list of such applications, and the Board of Governors of the Federal Reserve System may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Board of Governors of the Federal Reserve System may direct the purchase to be made: *Provided*, That Federal reserve banks shall not be permitted to purchase an amount to exceed $25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

[U. S. C., title 12, sec. 442. Part of original Federal Reserve Act; not amended.]

3. Allotment of bonds to be purchased

Provided further, That the Board of Governors of the Federal Reserve System shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

[U. S. C., title 12, sec. 442. Part of original Federal Reserve Act; not amended.]

4. Transfer and payment

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

[U. S. C., title 12, sec. 443. Part of original Federal Reserve Act; not amended.]

5. Federal reserve bank notes

The Federal reserve banks purchasing such bonds shall be permitted

to take out an amount of circulating notes equal to the par value of such bonds.

[U. S. C., title 12, sec. 444. Part of original Federal Reserve Act; not amended.]

6. Collateral for notes; form and tenor; redemption; etc.

[In effect repealed; see note below.] Upon the deposit with the Treasurer of the United States, (a) of any direct obligations of the United States or (b) of any notes, drafts, bills of exchange, or bankers' acceptances acquired under the provisions of this Act, any Federal reserve bank making such deposit in the manner prescribed by the Secretary of the Treasury shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, duly registered and countersigned. When such circulating notes are issued against the security of obligations of the United States, the amount of such circulating notes shall be equal to the face value of the direct obligations of the United States so deposited as security; and, when issued against the security of notes, drafts, bills of exchange and bankers' acceptances acquired under the provisions of this Act, the amount thereof shall be equal to not more than 90 per cent of the estimated value of such notes, drafts, bills of exchange and bankers' acceptances so deposited as security. Such notes shall be the obligations of the Federal reserve bank procuring the same, shall be in form prescribed by the Secretary of the Treasury, shall be receivable at par in all parts of the United States for the same purposes as are national bank notes, and shall be redeemable in lawful money of the United States on presentation at the United States Treasury or at the bank of issue. The Secretary of the Treasury is authorized and empowered to prescribe regulations governing the issuance, redemption, replacement, retirement and destruction of such circulating notes and the release and substitution of security therefor. Such circulating notes shall be subject to the same tax as is provided by law for the circulating notes of national banks secured by 2 per cent bonds of the United States. No such circulating notes shall be issued under this paragraph after the President has declared by proclamation that the emergency recognized by the President by proclamation of March 6, 1933, has terminated, unless such circulating notes are secured by deposits of bonds of the United States bearing the circulation privilege. When required to do so by the Secretary of the Treasury, each Federal reserve agent shall act as agent of the Treasurer of the United States or of the Comptroller of the Currency, or both, for the performance of any of the functions which the Treasurer or the Comptroller may be called upon to perform in carrying out the provisions of this paragraph. Appropriations available for distinctive paper and printing United States currency or national bank currency are hereby made available for the production of the circulating notes of Federal reserve banks herein provided; but the United

States shall be reimbursed by the Federal reserve bank to which such notes are issued for all expenses necessarily incurred in connection with the procuring of such notes and all other expenses incidental to their issue, redemption, replacement, retirement and destruction.

[U. S. C., title 12, sec. 445. As amended by Acts of March 9, 1933 (48 Stat. 6); June 12, 1945 (59 Stat. 238). This paragraph was in effect repealed by section 3 of the Act of June 12, 1945, which provided:

"All power and authority with respect to the issuance of circulating notes, known as Federal Reserve bank notes, pursuant to the sixth paragraph of section 18 of the Federal Reserve Act, as amended by section 401 of the Act approved March 9, 1933 (48 Stat. 1, 6), shall cease and terminate on the date of enactment of this Act."

As to redemption of Federal Reserve bank notes which cannot be identified as to bank of issue, see Act approved June 13, 1933 (Appendix, p. 212).]

7. Exchange of 2 percent gold bonds for 1-year gold notes and 30-year 3 percent gold bonds

Upon application of any Federal reserve bank, approved by the Board of Governors of the Federal Reserve System, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided*, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

[U. S. C., title 12, sec. 446. Part of original Federal Reserve Act; not amended.]

8. Issue of 1-year Treasury notes and 30-year 3 percent gold bonds

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United

States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

[U. S. C., title 12, sec. 447. Part of original Federal Reserve Act; not amended.]

9. Exchange of 3 percent bonds for 1-year notes

Upon application of any Federal reserve bank, approved by the Board of Governors of the Federal Reserve System, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

[U. S. C., title 12, sec. 448. Part of original Federal Reserve Act; not amended.]

SECTION 19. BANK RESERVES

1. Definitions of terms

Sec. 19. The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms "demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits", and "trust funds", to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: *Provided*, That, within the meaning of the provisions of this section regarding the reserves required of member banks, the term "time deposits" shall include "savings deposits".

[U. S. C., title 12, sec. 461. As amended by Act of June 21, 1917 (40 Stat. 239), which completely revised this section; and by Act of August 23, 1935 (49 Stat. 714).]

2. Amount of reserves required

Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

[U. S. C., title 12, sec. 462. As amended by Act of June 21, 1917 (40 Stat. 239), which completely revised this section.]

3. Banks not in reserve or central reserve cities

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its

district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

[U. S. C., title 12, sec. 462. As amended by Act of June 21, 1917 (40 Stat. 239), which completely revised this section.]

4. Reserve city banks

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however*, That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, hold and maintain the reserve balances specified in paragraph (a) hereof.

[U. S. C., title 12, sec. 462. As amended by Act of August 15, 1914 (38 Stat. 691); by Act of June 21, 1917 (40 Stat. 239), which completely revised this section; and by Act of September 26, 1918 (40 Stat. 970).]

5. Central reserve city banks

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however*, That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof.

[U. S. C., title 12, sec. 462. As amended by Act of August 15, 1914 (38 Stat. 691); by Act of June 21, 1917 (40 Stat. 239), which completely revised this section; and by Act of September 26, 1918 (40 Stat. 970).]

6. Change of reserve requirements

Notwithstanding the other provisions of this section, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both (1) by member banks in central reserve cities or (2) by member banks in reserve cities or (3) by member banks not in reserve or central reserve cities or (4) by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any

such change shall not be less than the amount of the reserves required by law to be maintained by such bank on the date of enactment of the Banking Act of 1935 nor more than twice such amount.

[U. S. C., title 12, sec. 462b. As added by Act of May 12, 1933 (48 Stat. 54); amended by Acts of August 23, 1935 (49 Stat. 706); July 7, 1942 (56 Stat. 648).]

7. Member banks making security loans for others

No member bank shall act as the medium or agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in stocks, bonds, and other investment securities. Every violation of this provision by any member bank shall be punishable by a fine of not more than $100 per day during the continuance of such violation; and such fine may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located.

[U. S. C., title 12, sec. 374a. As added by Act of June 16, 1933 (48 Stat. 181).]

8. Deposits with, and discounts for, nonmember banks

No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, secs. 374, 463. As reenacted without change by Act of August 15, 1914 (38 Stat. 692); and amended by Act of June 21, 1917 (40 Stat. 239), which completely revised this section.]

9. Checking against and withdrawal of reserve balance

The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Board of Governors of the Federal Reserve System, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities.

[U. S. C., title 12, sec. 464. As reenacted without change by Act of August 15, 1914 (38 Stat. 692); and amended by Act of June 21, 1917 (40 Stat. 239), which completely revised this section; and further amended by Act of July 7, 1942 (56 Stat. 648).]

10. Deductions in computing reserves

In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of

these terms as defined by the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 465. As amended by Act of August 15, 1914 (38 Stat. 692); by Act of June 21, 1917 (40 Stat. 240), which completely revised this section; and by Act of August 23, 1935 (49 Stat. 714).]

11. Banks in Alaska, dependencies, and insular possessions as member banks; reserves

National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Board of Governors of the Federal Reserve System, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act.

[U. S. C., title 12, sec. 466. As reenacted without change by Act of August 15, 1914 (38 Stat. 692); and amended by Act of June 21, 1917 (40 Stat. 240), which completely revised this section.]

12. Interest on demand deposits

No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public

instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

[U. S. C., title 12, sec. 371a. As added by Act of June 16, 1933 (48 Stat. 181); and amended by Act of August 23, 1935 (49 Stat. 714). The Banking Act of 1935, referred to in this paragraph, was approved August 23, 1935.]

13. Interest on, and payment of, time and savings deposits

The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

[U. S. C., title 12, sec. 371b. As added by Act of June 16, 1933 (48 Stat. 182); and amended by Act of August 23, 1935 (49 Stat. 714).]

14. Reserves against deposits of public moneys

Notwithstanding the provisions of the First Liberty Bond Act, as amended, the Second Liberty Bond Act, as amended, and the Third Liberty Bond Act, as amended, member banks shall be required to maintain the same reserves against deposits of public moneys by the United States as they are required by this section to maintain against other deposits: *Provided*, That until six months after the cessation of hostilities in the present war as determined by proclamation of the President or concurrent resolution of the Congress no deposit payable to the United States by any member bank arising solely as the result of subscriptions made by or through such member bank for United States Government securities issued under authority of the Second Liberty Bond Act, as amended, shall be subject to the reserve requirements of this section.

[U. S. C., title 12, sec. 462a-1. As added by Act of August 23, 1935 (49 Stat. 715); amended by Act of April 13, 1943 (57 Stat. 65), which added the proviso. For provisions of the Liberty Bond Acts, referred to in this paragraph, see Appendix, p. 167.]

SECTION 20. NATIONAL BANK NOTES REDEMPTION FUND AS RESERVE

1. Fund for redemption of national bank notes not to be counted as reserve

Sec. 20. So much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes", as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

[U. S. C., title 12, sec. 121. Part of original Federal Reserve Act; not amended.]

SECTION 21. BANK EXAMINATIONS

1. Amendment of section 5240, Revised Statutes

Sec. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

[The provisions of sec. 5240, Revised Statutes, as amended by this section, are incorporated in U. S. C., title 12, secs. 481-486. Part of original Federal Reserve Act; not amended.]

2. Examinations of member banks and affiliates of national banks

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Board of Governors of the Federal Reserve System may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency: *Provided,* That in making the examination of any national bank the examiners shall include such an examination of the affairs of all its affiliates other than member banks as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank; and in the event of the refusal to give any information re-

quired in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, all the rights, privileges, and franchises of the bank shall be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended (U. S. C., title 12, secs. 141, 222–225, 281–286, and 502). The Comptroller of the Currency shall have power, and he is hereby authorized, to publish the report of his examination of any national banking association or affiliate which shall not within one hundred and twenty days after notification of the recommendations or suggestions of the Comptroller, based on said examination, have complied with the same to his satisfaction. Ninety days' notice prior to such publicity shall be given to the bank or affiliate.

[U. S. C., title 12, sec. 481. As amended by Act of June 16, 1933 (48 Stat. 192). Sec. 9 of the Federal Reserve Act (p. 22, par. 12) exempts State member banks from examinations by Comptroller of Currency.]

3. Powers in examining affiliates; expenses of examinations

The examiner making the examination of any affiliate of a national bank shall have power to make a thorough examination of all the affairs of the affiliate, and in doing so he shall have power to administer oaths and to examine any of the officers, directors, employees, and agents thereof under oath and to make a report of his findings to the Comptroller of the Currency. The expense of examinations of such affiliates may be assessed by the Comptroller of the Currency upon the affiliates examined in proportion to assets or resources held by the affiliates upon the dates of examination of the various affiliates. If any such affiliate shall refuse to pay such expenses or shall fail to do so within sixty days after the date of such assessment, then such expenses may be assessed against the affiliated national bank and, when so assessed, shall be paid by such national bank: *Provided, however*, That, if the affiliation is with two or more national banks, such expenses may be assessed against, and collected from, any or all of such national banks in such proportions as the Comptroller of the Currency may prescribe. The examiners and assistant examiners making the examinations of national banking associations and affiliates thereof herein provided for and the chief examiners, reviewing examiners and other persons whose services may be required in connection with such examinations or the reports thereof, shall be employed by the Comptroller of the Currency with the approval of the Secretary of the Treasury; the employment and compensation of examiners, chief examiners, reviewing examiners, assistant examiners, and of the other employees of the office of the Comptroller of the Currency whose compensation, including retirement annuities to be fixed by the Comptroller of the Currency, is and shall be paid from assessments on banks or affiliates thereof shall be without regard to the provisions of other laws applicable to officers or employees of the United

States. The funds derived from such assessments may be deposited by the Comptroller of the Currency in accordance with the provisions of section 5234 of the Revised Statutes (U. S. C., title 12, sec. 192) and shall not be construed to be Government funds or appropriated monies; and the Comptroller of the Currency is authorized and empowered to prescribe regulations governing the computation and assessment of the expenses of examinations herein provided for and the collection of such assessments from the banks and/or affiliates examined. If any affiliate of a national bank shall refuse to permit an examiner to make an examination of the affiliate or shall refuse to give any information required in the course of any such examination, the national bank with which it is affiliated shall be subject to a penalty of not more than $100 for each day that any such refusal shall continue. Such penalty may be assessed by the Comptroller of the Currency and collected in the same manner as expenses of examinations.

[U. S. C., title 12, sec. 481. As added by Act of June 16, 1933 (48 Stat. 192); and amended by Act of August 23, 1935 (49 Stat. 722).]

4. Salaries of examiners; assessments to defray expenses

The Comptroller of the Currency shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

[U. S. C., title 12, sec. 482. As amended by Act of August 23, 1935 (49 Stat. 722).]

5. Special examinations by reserve banks

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Board of Governors of the Federal Reserve System, provide for special examination of member banks within its district. The expense of such examinations may, in the discretion of the Board of Governors of the Federal Reserve System, be assessed against the banks examined, and, when so assessed, shall be paid by the banks examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Board of Governors of the Federal Reserve System such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

[U. S. C., title 12, sec. 483. As amended by Act of June 26, 1930 (46 Stat. 814).]

6. Visitatorial powers

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

[U. S. C., title 12, sec. 484. Part of original Federal Reserve Act; not amended.]

7. Examinations of Federal reserve banks

The Board of Governors of the Federal Reserve System shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Board of Governors of the Federal Reserve System shall order a special examination and report of the condition of any Federal reserve bank.

[U. S. C., title 12, sec. 485. Part of original Federal Reserve Act; not amended.]

8. Expenses of examining trust departments of national banks

In addition to the expense of examination to be assessed by the Comptroller of the Currency as heretofore provided, all national banks exercising fiduciary powers under the provisions of section 11 (k) of the Federal Reserve Act, as amended (U. S. C., title 12, ch. 3, sec. 248 (k)), and all banks or trust companies exercising fiduciary powers in the District of Columbia shall be assessed by the Comptroller of the Currency for the examinations of such fiduciary powers, a fee in proportion to the amount of individual trust assets under administration and the total bonds and/or notes outstanding under corporate bond and/or note issues for which the banks or trust companies are acting as trustees upon the dates of examination of the various banks or trust companies.

[U. S. C., title 12, sec. 482. As added by Act of July 2, 1932 (47 Stat. 568).]

9. Waiver of reports and examinations of affiliates

Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Board of Governors of the Federal Reserve System or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank.

[U. S. C., title 12, sec. 486. As added by Act of August 23, 1935 (49 Stat. 715).]

SECTION 22. OFFENSES OF EXAMINERS, MEMBER BANKS, OFFICERS, AND DIRECTORS

1. Loans and gratuities to bank examiners

Sec. 22. (a) No member bank and no insured bank as defined in subsection (c) of section 12B of this Act and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner or assistant examiner, who examines or has authority to examine such bank. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned or gratuity given.

[U. S. C., title 12, sec. 593. As amended by Act of September 26, 1918 (40 Stat. 970), which completely revised this section; and by Acts of February 25, 1927 (44 Stat. 1232); August 23, 1935 (49 Stat. 715).]

2. Acceptance of loan or gratuity

Any examiner or assistant examiner who shall accept a loan or gratuity from any bank examined by him, or from an officer, director, or employee thereof or who shall steal, or unlawfully take, or unlawfully conceal any money, note, draft, bond, or security or any other property of value in the possession of any member bank or insured bank or from any safe deposit box in or adjacent to the premises of such bank, shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any district court of the United States, be imprisoned for not exceeding one year, or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned, gratuity given, or property stolen, and shall forever thereafter be disqualified from holding office as a national bank examiner or Federal Deposit Insurance Corporation examiner.

[U. S. C., title 12, sec. 593. As amended by Act of September 26, 1918 (40 Stat. 970), which completely revised this section; and by Acts of February 25, 1927 (44 Stat. 1232); August 23, 1935 (49 Stat. 715).]

3. Examiners subject to provisions

The provisions of this subsection shall apply to all public examiners and assistant examiners who examine member banks of the Federal Reserve System or insured banks, whether appointed by the Comptroller of the Currency, by the Board of Governors of the Federal Reserve System, by a Federal Reserve agent, by a Federal Reserve bank, or by the Federal Deposit Insurance Corporation, or appointed or elected under the laws of any State; but shall not apply to private examiners or

assistant examiners employed only by a clearing-house association or by the directors of a bank.

[U. S. C., title 12, sec. 593. As added by Act of August 23, 1935 (49 Stat. 715).]

4. Examiners not to accept employment from banks

(b) No national bank examiner and no Federal Deposit Insurance Corporation examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

[U. S. C., title 12, sec. 594. As reenacted without change by Act of September 26, 1918 (40 Stat. 970), which completely revised this section; amended by Act of August 23, 1935 (49 Stat. 716).]

5. Disclosure of information by examiners forbidden

No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank or insured bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency as to a national bank, the Board of Governors of the Federal Reserve System as to a State member bank, or the Federal Deposit Insurance Corporation as to any other insured bank, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress, or of either House duly authorized. Any bank examiner violating the provisions of this subsection shall be imprisoned not more than one year or fined not more than $5,000, or both.

[U. S. C., title 12, sec. 594. As amended by Act of September 26, 1918 (40 Stat. 970), which completely revised this section; and by Act of August 23, 1935 (49 Stat. 716).]

6. Commissions and fees for procuring loans, etc.

(c) Except as herein provided, any officer, director, employee, or attorney of a member bank who stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value from any person, firm, or corporation, for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation, any loan from or the purchase or discount of any paper, note, draft, check, or bill of exchange by such member bank shall be deemed guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than $5,000, or both.

[U. S. C., title 12, sec. 595. As amended by Act of June 21, 1917 (40 Stat. 240); and by Act of September 26, 1918 (40 Stat. 971), which completely revised this section.]

7. Purchases by member banks from their directors

(d) Any member bank may contract for, or purchase from, any of its directors or from any firm of which any of its directors is a member,

any securities or other property, when (and not otherwise) such purchase is made in the regular course of business upon terms not less favorable to the bank than those offered to others, or when such purchase is authorized by a majority of the board of directors not interested in the sale of such securities or property, such authority to be evidenced by the affirmative vote or written assent of such directors: *Provided, however*, That when any director, or firm of which any director is a member, acting for or on behalf of others, sells securities or other property to a member bank, the Board of Governors of the Federal Reserve System by regulation may, in any or all cases, require a full disclosure to be made, on forms to be prescribed by it, of all commissions or other considerations received, and whenever such director or firm, acting in his or its own behalf, sells securities or other property to the bank the Board of Governors of the Federal Reserve System by regulation, may require a full disclosure of all profit realized from such sale.

[U. S. C., title 12, sec. 375. As added by Act of September 26, 1918 (40 Stat. 971), which completely revised this section.]

8. Sales by member banks to their directors

Any member bank may sell securities or other property to any of its directors, or to a firm of which any of its directors is a member, in the regular course of business on terms not more favorable to such director or firm than those offered to others, or when such sale is authorized by a majority of the board of directors of a member bank to be evidenced by their affirmative vote or written assent: *Provided, however*, That nothing in this subsection contained shall be construed as authorizing member banks to purchase or sell securities or other property which such banks are not otherwise authorized by law to purchase or sell.

[U. S. C., title 12, sec. 375. As added by Act of September 26, 1918 (40 Stat. 971), which completely revised this section.]

9. Interest on deposits of directors, officers, and employees

(e) No member bank shall pay to any director, officer, attorney, or employee a greater rate of interest on the deposits of such director, officer, attorney, or employee than that paid to other depositors on similar deposits with such member bank.

[U. S. C., title 12, sec. 376. As added by Act of June 21, 1917 (40 Stat. 240); and amended by Act of September 26, 1918 (40 Stat. 971), which completely revised this section.]

10. Liability for damages resulting from violations

(f) If the directors or officers of any member bank shall knowingly violate or permit any of the agents, officers, or directors of any member bank to violate any of the provisions of this section or regulations of the board made under authority thereof, every director and officer partici-

pating in or assenting to such violation shall be held liable in his personal and individual capacity for all damages which the member bank, its shareholders, or any other persons shall have sustained in consequence of such violation.

[U. S. C., title 12, sec. 503. As added by Act of September 26, 1918 (40 Stat. 971), which completely revised this section.]

11. Loans to executive officers by member banks

(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: *Provided*, That loans made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from June 16, 1939, where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank, and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank: *Provided further*, That with the prior approval of a majority of the entire board of directors, any member bank may extend credit to any executive officer thereof, and such officer may become indebted thereto, in an amount not exceeding $2,500. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibition of this subsection. Nothing contained in this subsection shall prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of such bank any loan or other asset which shall have been previously acquired by such bank in good faith or from incurring any indebtedness to such bank for the purpose of protecting such bank against loss or giving financial assistance to it. The Board of Governors of the Federal Reserve System is authorized to define the term "executive officer", to determine what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit, for the purposes of this subsection, and to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of this subsection in accordance with its purposes and to prevent evasions of such provisions. Any executive officer

of a member bank accepting a loan or extension of credit which is in violation of the provisions of this subsection shall be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933: *Provided*, That for each day that a loan or extension of credit made in violation of this subsection exists, it shall be deemed to be a continuation of such violation within the meaning of said section 30.

[U. S. C., title 12, sec. 375a. As added by Act of June 16, 1933 (48 Stat. 182); amended by Public Resolution approved June 14, 1935 (49 Stat. 375); and by Acts of August 23, 1935 (49 Stat. 716); April 25, 1938 (52 Stat. 223); June 20, 1939 (53 Stat. 842).]

12. False statements or overvaluations of security

(h) Whoever makes any material statement, knowing it to be false, or whoever willfully overvalues any security, for the purpose of influencing in any way the action of a Federal Reserve bank upon any application, commitment, advance, discount, purchase, or loan, or any extension thereof by renewal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, shall be punished by a fine of not more than $5,000 or by imprisonment for not more than two years, or both.

[U. S. C., title 12, sec. 596. As added by Act of June 19, 1934 (48 Stat. 1107).]

13. Embezzlements, false entries, etc.

(i) Whoever, being connected in any capacity with a Federal Reserve bank (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise entrusted to it, or (2) with intent to defraud any Federal Reserve bank, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiner, makes any false entry in any book, report, or statement of or to a Federal Reserve bank, or, without being duly authorized, draws any order or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft, mortgage, judgment, or decree shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

[U. S. C., title 12, sec. 597. As added by Act of June 19, 1934 (48 Stat. 1107).]

14. Criminal provisions applicable

(j) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States, insofar as applicable, are extended to apply to contracts or agreements of any Federal Reserve bank under this Act, which, for the purposes hereof, shall be held to include advances, loans, discounts, purchase, and repurchase agreements; extensions and renewals thereof; and acceptances, releases, and substitutions of security therefor.

[U. S. C., title 12, sec. 598. As added by Act of June 19, 1934 (48 Stat. 1107).]

15. Written disclosure of fees

(k) It shall be unlawful for any person to stipulate for or give or receive, or consent or agree to give or receive, any fee, commission, bonus, or thing of value for procuring or endeavoring to procure from any Federal Reserve bank any advance, loan, or extension of credit or discount or purchase of any obligation or commitment with respect thereto, either directly from such Federal Reserve bank or indirectly through any financing institution unless such fee, commission, bonus, or thing of value and all material facts with respect to the arrangement or understanding therefor shall be disclosed in writing in the application or request for such advance, loan, extension of credit, discount, purchase, or commitment. Any violation of the provisions of this paragraph shall be punishable by imprisonment for not more than one year or by a fine of not exceeding $5,000, or both. If a director, officer, employee, or agent of any Federal Reserve bank shall knowingly violate this paragraph, he shall be held liable in his personal and individual capacity for any loss or damage sustained by such Federal Reserve bank in consequence of such violation.

[U. S. C., title 12, sec. 599. As added by Act of June 19, 1934 (48 Stat. 1108).]

SECTION 23. LIABILITY OF SHAREHOLDERS OF NATIONAL BANKS

1. Liability of shareholders of national banks

Sec. 23. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

[U. S. C., title 12, sec. 64. Part of original Federal Reserve Act; not specifically amended. However, this section was in effect amended by sec. 22 of the Banking Act of 1933, approved June 16, 1933, as amended by the Banking Act of 1935, approved August 23, 1935 (Appendix, p. 187).]

SECTION 23A. RELATIONS WITH AFFILIATES

1. Loans to affiliates and investments in, or loans on, their obligations

Sec. 23A. No member bank shall (1) make any loan or any extension of credit to, or purchase securities under repurchase agreement from,

any of its affiliates, or (2) invest any of its funds in the capital stock, bonds, debentures, or other such obligations of any such affiliate, or (3) accept the capital stock, bonds, debentures, or other such obligations of any such affiliate as collateral security for advances made to any person, partnership, association, or corporation, if, in the case of any such affiliate, the aggregate amount of such loans, extensions of credit, repurchase agreements, investments, and advances against such collateral security will exceed 10 per centum of the capital stock and surplus of such member bank, or if, in the case of all such affiliates, the aggregate amount of such loans, extensions of credits, repurchase agreements, investments, and advances against such collateral security will exceed 20 per centum of the capital stock and surplus of such member bank.

[U. S. C., title 12, sec. 371c. As added by Act of June 16, 1933 (48 Stat. 183).]

2. Security for loans to affiliates

Within the foregoing limitations, each loan or extension of credit of any kind or character to an affiliate shall be secured by collateral in the form of stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan or extension of credit of at least 20 per centum more than the amount of the loan or extension of credit, or of at least 10 per centum more than the amount of the loan or extension of credit if it is secured by obligations of any State, or of any political subdivision or agency thereof: *Provided*, That the provisions of this paragraph shall not apply to loans or extensions of credit secured by obligations of the United States Government, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation, or by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks. A loan or extension of credit to a director* officer, clerk, or other employee or any representative of any such affiliate shall be deemed a loan to the affiliate to the extent that the proceeds of such loan are used for the benefit of, or transferred to, the affiliate.

[U. S. C., title 12, sec. 371c. As added by Act of June 16, 1933 (48 Stat. 183).]

3. Affiliates to which section applicable

For the purpose of this section, the term "affiliate" shall include holding-company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged on June 16, 1934, in holding the bank premises of the member bank with which it is affiliated or in maintaining and operating properties acquired for banking purposes prior to such date; (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or

* Comma omitted in statute as enacted.

livestock loan company; (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (4) organized under section 25 (a) of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (5) engaged solely in holding obligations of the United States or obligations fully guaranteed by the United States as to principal and interest, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation; (6) where the affiliate relationship has arisen out of a bona fide debt contracted prior to the date of the creation of such relationship; or (7) where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor, administrator, trustee, receiver, agent, depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations. The provisions of this section shall likewise not apply to indebtedness of any affiliate for unpaid balances due a bank on assets purchased from such bank or to loans secured by, or extensions of credit against, obligations of the United States or obligations fully guaranteed by the United States as to principal and interest.

[U. S. C., title 12, sec. 371c. As added by Act of June 16, 1933 (48 Stat. 183); and amended by Act of August 23, 1935 (49 Stat. 717).]

SECTION 24. LOANS ON FARM LANDS*

1. Real-estate loans by national banks

Sec. 24. Any national banking association may make real-estate loans secured by first liens upon improved real estate, including improved farm land and improved business and residential properties. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate, and any national banking association may purchase any obligation so secured when the entire amount of such obligation is sold to the association. The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised

* This caption was included in the law as enacted, but does not completely cover the contents of the section.

value of the real estate offered as security and no such loan shall be made for a longer term than five years; except that (1) any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than ten years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of Titles II and VI of the National Housing Act or by the Secretary of Agriculture pursuant to title I of the Bankhead-Jones Farm Tenant Act. No such association shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus the amount of its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater. Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such association is located.

[U. S. C., title 12, sec. 371. As amended by Acts of September 7, 1916 (39 Stat. 754); February 25, 1927 (44 Stat. 1232); June 27, 1934 (48 Stat. 1263); August 23, 1935 (49 Stat. 706); March 28, 1941 (55 Stat. 62); August 14, 1946 (Pub. No. 731, 79th Cong.). Real-estate loans to veterans guaranteed under the Act of December 28, 1945, were exempted by that Act from the limitations on real-estate loans by national banks provided in the third sentence of the above paragraph (see Appendix, p. 249). Notwithstanding any other law or regulation, national banks are authorized by section 19(b) of the District of Columbia Redevelopment Act of 1945, approved August 2, 1946, to make loans to redevelopment corporations to finance the improvement of any project area as provided in such Act (Pub. No. 592, 79th Cong.). Sec. 19 of the Federal Reserve Act authorizes the Board of Governors of the Federal Reserve System to limit the rate of interest which member banks may pay on time deposits. See p. 102, par. 13.]

2. Loans for building construction

Loans made to finance the construction of residential or farm buildings and having maturities of not to exceed six months, whether or not secured by a mortgage or similar lien on the real estate upon which the residential or farm building is being constructed, shall not be considered as loans secured by real estate within the meaning of this section but shall be classed as ordinary commercial loans: *Provided*, That no national banking association shall invest in, or be liable on, any such loans in an aggregate amount in excess of 50 per centum of its actually paid-in and unimpaired capital. Notes representing such loans shall be eligible for discount as commercial paper within the terms of the second para-

graph of section 13 of the Federal Reserve Act, as amended, if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building entered into by an individual, partnership, association, or corporation acceptable to the discounting bank.

[U. S. C., title 12, sec. 371. As added by Act of June 27, 1934 (48 Stat. 1263).]

3. Industrial loans excepted from provisions

Loans made to established industrial or commercial businesses (a) which are in whole or in part discounted or purchased or loaned against as security by a Federal Reserve bank under the provisions of section 13b of this Act, (b) for any part of which a commitment shall have been made by a Federal Reserve bank under the provisions of said section, (c) in the making of which a Federal Reserve bank participates under the provisions of said section, or (d) in which the Reconstruction Finance Corporation cooperates or purchases a participation under the provisions of section 5d of the Reconstruction Finance Corporation Act, shall not be subject to the restrictions or limitations of this section upon loans secured by real estate.

[U. S. C., title 12, sec. 371. As added by Act of August 23, 1935 (49 Stat. 717).]

SECTION 24A. INVESTMENTS IN BANK PREMISES

1. Limitation on investments in, or loans on, bank premises

Sec. 24A. Hereafter no national bank, without the approval of the Comptroller of the Currency, and no State member bank, without the approval of the Board of Governors of the Federal Reserve System, shall (1) invest in bank premises, or in the stock, bonds, debentures, or other such obligations of any corporation holding the premises of such bank or (2) make loans to or upon the security of the stock of any such corporation, if the aggregate of all such investments and loans will exceed the amount of the capital stock of such bank.

[U. S. C., title 12, sec. 371d. As added by Act of June 16, 1933 (48 Stat. 183).]

SECTION 25. FOREIGN BRANCHES

1. Capital and surplus required to exercise powers

Sec. 25. Any national banking association possessing a capital and surplus of $1,000,000 or more may file application with the Board of Governors of the Federal Reserve System for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, either or both of the following powers:

[U. S. C., title 12, sec. 601. As amended by Act of September 7, 1916 (39 Stat. 755), which completely revised this section.]

2. Establishment of foreign branches

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

[U. S. C., title 12, sec. 601. As amended by Act of September 7, 1916 (39 Stat. 755), which completely revised this section.]

3. Purchase of stock in corporations engaged in foreign banking

Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

[U. S. C., title 12, sec. 601. As added by act of September 7, 1916 (39 Stat. 755), which completely revised this section.]

4. Right of national banks to invest in foreign banking corporations until January 1, 1921

Until January 1, 1921, any national banking association, without regard to the amount of its capital and surplus, may file application with the Board of Governors of the Federal Reserve System for permission, upon such conditions and under such regulations as may be prescribed by said board, to invest an amount not exceeding in the aggregate 5 per centum of its paid-in capital and surplus in the stock of one or more corporations chartered or incorporated under the laws of the United States or of any State thereof and, regardless of its location, principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares, or merchandise from the United States or any of its dependencies or insular possessions to any foreign country: *Provided, however*, That in no event shall the total investments authorized by this section by any one national bank exceed 10 per centum of its capital and surplus.

[U. S. C., title 12, sec. 601. As added by Act of September 17, 1919 (41 Stat. 285). This paragraph, by its terms, is now obsolete.]

5. Application for permission to exercise powers

Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking or financial operations proposed are to be carried on. The Board of Governors of the Federal Reserve System shall have power

to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

[U. S. C., title 12, sec. 601. As amended by Act of September 7, 1916 (39 Stat. 755), which completely revised this section; and by Act of September 17, 1919 (41 Stat. 286).]

6. Examinations and reports of condition

Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described above shall be required to furnish information concerning the condition of such banks or corporations to the Board of Governors of the Federal Reserve System upon demand, and the Board of Governors of the Federal Reserve System may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

[U. S. C., title 12, sec. 602. As amended by Act of September 7, 1916 (39 Stat. 755), which completely revised this section; and by Act of September 17, 1919 (41 Stat. 286).]

7. Agreement to restrict operations

Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Board of Governors of the Federal Reserve System to restrict its operations or conduct its business in such manner or under such limitations and restrictions as the said board may prescribe for the place or places wherein such business is to be conducted. If at any time the Board of Governors of the Federal Reserve System shall ascertain that the regulations prescribed by it are not being complied with, said board is hereby authorized and empowered to institute an investigation of the matter and to send for persons and papers, subpoena witnesses, and administer oaths in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Board of Governors of the Federal Reserve System, such national banks may be required to dispose of stock holdings in the said corporation upon reasonable notice.

[U. S. C., title 12, sec. 603. Added by Act of September 7, 1916 (39 Stat. 755), which completely revised this section.]

8. Accounts of foreign branches

Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

[U. S. C., title 12, sec. 604. As amended by Act of September 7, 1916 (39 Stat. 756), which completely revised this section.]

SECTION 25 (a). BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS

1. Organization

Sec. 25 (a). Corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required by the Secretary of the Treasury as fiscal agents of the United States, may be formed by any number of natural persons, not less in any case than five: *Provided*, That nothing in this section shall be construed to deny the right of the Secretary of the Treasury to use any corporation organized under this section as depositaries in Panama and the Panama Canal Zone, or in the Philippine Islands and other insular possessions and dependencies of the United States.

[U. S. C., title 12, sec. 611. As added by Act of December 24, 1919 (41 Stat. 378); and amended by Act of February 27, 1921 (41 Stat. 1145).]

2. Articles of association

Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

[U. S. C., title 12, sec. 612. As added by Act of December 24, 1919 (41 Stat. 378).]

3. Execution of articles of association; contents of organization certificate

Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the Board of Governors of the Federal Reserve System and shall be filed and preserved in its office. The persons

signing the said articles of association shall, under their hands, make an organization certificate which shall specifically state:

First. The name assumed by such corporation, which shall be subject to the approval of the Board of Governors of the Federal Reserve System.

Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.

Fourth. The amount of its capital stock and the number of shares into which the same shall be divided.

Fifth. The names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same, and all other persons, firms, companies, and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this section.

[U. S. C., title 12, sec. 613. As added by Act of December 24, 1919 (41 Stat. 379).]

4. Filing organization certificate; issuance of permit

The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be forwarded to the Board of Governors of the Federal Reserve System to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate, and after the Board of Governors of the Federal Reserve System has approved the same and issued a permit to begin business, the association shall become and be a body corporate, and as such and in the name designated therein shall have power to adopt and use a corporate seal, which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors, all of whom shall be citizens of the United States; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Board of Governors of the Federal Reserve System regu-

lating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

[U. S. C., title 12, sec. 614. As added by Act of December 24, 1919 (41 Stat. 379).]

5. Powers; regulations of Board of Governors of the Federal Reserve System

Each corporation so organized shall have power, under such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe:

[U. S. C., title 12, sec. 615. As added by Act of December 24, 1919 (41 Stat. 379).]

6. Banking powers

(a) To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell, with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Board of Governors of the Federal Reserve System may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Board of Governors of the Federal Reserve System may prescribe, but in no event having liabilities outstanding thereon at any one time exceeding ten times its capital stock and surplus; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Board of Governors of the Federal Reserve System, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Board of Governors of the Federal Reserve System, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts

as the Board of Governors of the Federal Reserve System may prescribe, but in no event less than 10 per centum of its deposits.

[U. S. C., title 12, sec. 615. As added by Act of December 24, 1919 (41 Stat. 379).]

7. Branches

(b) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies, and in the dependencies or insular possessions of the United States, at such places as may be approved by the Board of Governors of the Federal Reserve System and under such rules and regulations as it may prescribe, including countries or dependencies not specified in the original organization certificate.

[U. S. C., title 12, sec. 615. As added by Act of December 24, 1919 (41 Stat. 380).]

8. Ownership of stock in other corporations

(c) With the consent of the Board of Governors of the Federal Reserve System to purchase and hold stock or other certificates of ownership in any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency, or insular possession of the United States but not engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States, and not transacting any business in the United States except such as in the judgment of the Board of Governors of the Federal Reserve System may be incidental to its international or foreign business: *Provided, however*, That, except with the approval of the Board of Governors of the Federal Reserve System, no corporation organized hereunder shall invest in any one corporation an amount in excess of 10 per centum of its own capital and surplus, except in a corporation engaged in the business of banking, when 15 per centum of its capital and surplus may be so invested: *Provided further*, That no corporation organized hereunder shall purchase, own, or hold stock or certificates of ownership in any other corporation organized hereunder or under the laws of any State which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing corporation.

[U. S. C., title 12, sec. 615. As added by Act of December 24, 1919 (41 Stat. 380).]

9. Purchase of stock to prevent loss on debt previously contracted

Nothing contained herein shall prevent corporations organized hereunder from purchasing and holding stock in any corporation where such purchase shall be necessary to prevent a loss upon a debt previously contracted in good faith; and stock so purchased or acquired in corporations organized under this section shall within six months from such

purchase be sold or disposed of at public or private sale unless the time to so dispose of same is extended by the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 615. As added by Act of December 24, 1919 (41 Stat. 380).]

10. Restrictions on business in United States

No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Board of Governors of the Federal Reserve System, shall be incidental to its international or foreign business: *And provided further*, That except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Board of Governors of the Federal Reserve System to commence business as a corporation organized under the provisions of this section.

[U. S. C., title 12, sec. 616. As added by Act of December 24, 1919 (41 Stat. 381).]

11. Corporation trading in commodities or attempting to control prices

No corporation organized under this section shall engage in commerce or trade in commodities except as specifically provided in this section, nor shall it either directly or indirectly control or fix or attempt to control or fix the price of any such commodities. The charter of any corporation violating this provision shall be subject to forfeiture in the manner hereinafter provided in this section. It shall be unlawful for any director, officer, agent, or employee of any such corporation to use or to conspire to use the credit, the funds, or the power of the corporation to fix or control the price of any such commodities, and any such person violating this provision shall be liable to a fine of not less than $1,000 and not exceeding $5,000 or imprisonment not less than one year and not exceeding five years, or both, in the discretion of the court.

[U. S. C., title 12, sec. 617. As added by Act of December 24, 1919 (41 Stat. 381).]

12. Capital stock

No corporation shall be organized under the provisions of this section with a capital stock of less than $2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business, and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in: *Provided, however*, That whenever $2,000,000 of the capital stock of any corporation is paid in the remainder of the corporation's capital stock or any unpaid part of such remainder may, with the con-

sent of the Board of Governors of the Federal Reserve System and subject to such regulations and conditions as it may prescribe, be paid in upon call from the board of directors; such unpaid subscriptions, however, to be included in the maximum of 10 per centum of the national bank's capital and surplus which a national bank is permitted under the provisions of this Act to hold in stock of corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended: *Provided further*, That no such corporation shall have liabilities outstanding at any one time upon its debentures, bonds, and promissory notes in excess of ten times its paid-in capital and surplus. The capital stock of any such corporation may be increased at any time, with the approval of the Board of Governors of the Federal Reserve System, by a vote of two-thirds of its shareholders or by unanimous consent in writing of the shareholders without a meeting and without a formal vote, but any such increase of capital shall be fully paid in within ninety days after such approval; and may be reduced in like manner, provided that in no event shall it be less than $2,000,000. No corporation, except as herein provided, shall during the time it shall continue its operations, withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended shall not exceed 10 per centum of the subscribing bank's capital and surplus.

[U. S. C., title 12, sec. 618. As added by Act of December 24, 1919 (41 Stat. 381); and amended by Act of June 14, 1921 (42 Stat. 28).]

13. Citizenship of stockholders

A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States.

[U. S. C., title 12, sec. 619. As added by Act of December 24, 1919 (41 Stat. 381); and amended by Act of August 23, 1935 (49 Stat. 717).]

14. Members of Board of Governors of the Federal Reserve System as directors, officers, or stockholders

No member of the Board of Governors of the Federal Reserve System shall be an officer or director of any corporation organized under the provisions of this section, or of any corporation engaged in similar business organized under the laws of any State, nor hold stock in any such

corporation, and before entering upon his duties as a member of the Board of Governors of the Federal Reserve System he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement.

[U. S. C., title 12, sec. 620. As added by Act of December 24, 1919 (41 Stat. 382).]

15. Shareholders' liability; corporation not to become member of Federal reserve bank

Shareholders in any corporation organized under the provisions of this section shall be liable for the amount of their unpaid stock subscriptions. No such corporation shall become a member of any Federal reserve bank.

[U. S. C., title 12, sec. 621. As added by Act of December 24, 1919 (41 Stat. 382).]

16. Forfeiture of charter for violation of law

Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges, and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Board of Governors of the Federal Reserve System or the Attorney General. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders, or officers for any liability or penalty previously incurred.

[U. S. C., title 12, sec. 622. As added by Act of December 24, 1919 (41 Stat. 382).]

17. Voluntary liquidation

Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

[U. S. C., title 12, sec. 623. As added by Act of December 24, 1919 (41 Stat. 382).]

18. Insolvency; appointment of receiver

Whenever the Board of Governors of the Federal Reserve System shall become satisfied of the insolvency of any such corporation, it may appoint a receiver who shall take possession of all of the property and assets of the corporation and exercise the same rights, privileges, powers, and authority with respect thereto as are now exercised by receivers of na-

tional banks appointed by the Comptroller of the Currency of the United States: *Provided, however*, That the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

[U. S. C., title 12, sec. 624. As added by Act of December 24, 1919 (41 Stat. 382).]

19. Stockholders' meetings; records; reports; examinations

Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the Board of Governors of the Federal Reserve System. Every such corporation shall make reports to the Board of Governors of the Federal Reserve System at such times and in such form as it may require; and shall be subject to examination once a year and at such other times as may be deemed necessary by the Board of Governors of the Federal Reserve System by examiners appointed by the Board of Governors of the Federal Reserve System, the cost of such examinations, including the compensation of the examiners, to be fixed by the Board of Governors of the Federal Reserve System and to be paid by the corporation examined.

[U. S. C., title 12, sec. 625. As added by Act of December 24, 1919 (41 Stat. 382).]

20. Dividends and surplus fund

The directors of any corporation organized under the provisions of this section may, semiannually, declare a dividend of so much of the net profits of the corporation as they shall judge expedient; but each corporation shall, before the declaration of a dividend, carry one-tenth of its net profits of the preceding half year to its surplus fund until the same shall amount to 20 per centum of its capital stock.

[U. S. C., title 12, sec. 626. As added by Act of December 24, 1919 (41 Stat. 383).]

21. Taxation

Any corporation organized under the provisions of this section shall be subject to tax by the State within which its home office is located in the same manner and to the same extent as other corporations organized under the laws of that State which are transacting a similar character of business. The shares of stock in such corporation shall also be subject to tax as the personal property of the owners or holders thereof in the same manner and to the same extent as the shares of stock in similar State corporations.

[U. S. C., title 12, sec. 627. As added by Act of December 24, 1919 (41 Stat. 383).]

22. Extension of corporate existence

Any corporation organized under the provisions of this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Board of Governors of the Federal Reserve System for its approval to extend the period of its corporate existence for a term of not more than twenty years, and upon certified approval of the Board of Governors of the Federal Reserve System such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited by some violation of law.

[U. S. C., title 12, sec. 628. As added by Act of December 24, 1919 (41 Stat. 383).]

23. Conversion of State corporation into Federal corporation

Any bank or banking institution, principally engaged in foreign business, incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a corporation under the provisions of this section may, by the vote of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, with the approval of the Board of Governors of the Federal Reserve System, be converted into a Federal corporation of the kind authorized by this section with any name approved by the Board of Governors of the Federal Reserve System: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of at least two-thirds of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a Federal corporation. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a Federal corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected or appointed in accordance with the provisions of this section. When the Board of Governors of the Federal Reserve System has given to such corporation a certificate that the provisions of this section have been complied with, such corporation and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same

duties, liabilities, and regulations, in all respects, as shall have been prescribed by this section for corporations originally organized hereunder.

[U. S. C., title 12, sec. 629. As added by Act of December 24, 1919 (41 Stat. 383).]

24. Criminal offenses of officers and employees

Every officer, director, clerk, employee, or agent of any corporation organized under this section who embezzles, abstracts, or willfully misapplies any of the moneys, funds, credits, securities, evidences of indebtedness or assets of any character of such corporation; or who, without authority from the directors, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, debenture, draft, bill of exchange, mortgage, judgment, or decree; or who makes any false entry in any book, report, or statement of such corporation with intent, in either case, to injure or defraud such corporation or any other company, body politic or corporate, or any individual person, or to deceive any officer of such corporation, the Board of Governors of the Federal Reserve System, or any agent or examiner appointed to examine the affairs of any such corporation; and every receiver of any such corporation and every clerk or employee of such receiver who shall embezzle, abstract, or willfully misapply or wrongfully convert to his own use any moneys, funds, credits, or assets of any character which may come into his possession or under his control in the execution of his trust or the performance of the duties of his employment; and every such receiver or clerk or employee of such receiver who shall, with intent to injure or defraud any person, body politic or corporate, or to deceive or mislead the Board of Governors of the Federal Reserve System, or any agent or examiner appointed to examine the affairs of such receiver, shall make any false entry in any book, report, or record of any matter connected with the duties of such receiver; and every person who with like intent aids or abets any officer, director, clerk, employee, or agent of any corporation organized under this section, or receiver or clerk or employee of such receiver as aforesaid in any violation of this section, shall upon conviction thereof be imprisoned for not less than two years nor more than ten years, and may also be fined not more than $5,000, in the discretion of the court.

[U. S. C., title 12, sec. 630. As added by Act of December 24, 1919 (41 Stat. 384).]

25. Representation that United States is liable for obligations

Whoever being connected in any capacity with any corporation organized under this section represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon, issued or incurred by any corporation organized hereunder, or that the United States incurs any liability in respect of any act or omis-

sion of the corporation, shall be punished by a fine of not more than $10,000 and by imprisonment for not more than five years.

[U. S. C., title 12, sec. 631. As added by Act of December 24, 1919 (41 Stat. 384).]

SECTION 25 (b). JURISDICTION OF SUITS

1. Suits arising out of foreign banking business

Sec. 25 (b). Notwithstanding any other provision of law all suits of a civil nature at common law or in equity to which any corporation organized under the laws of the United States shall be a party, arising out of transactions involving international or foreign banking, or banking in a dependency or insular possession of the United States, or out of other international or foreign financial operations, either directly or through the agency, ownership, or control of branches or local institutions in dependencies or insular possessions of the United States or in foreign countries, shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any defendant in any such suit may, at any time before the trial thereof, remove such suits from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. Such removal shall not cause undue delay in the trial of such case and a case so removed shall have a place on the calendar of the United States court to which it is removed relative to that which it held on the State court from which it was removed.

[U. S. C., title 12, sec. 632. As added by Act of June 16, 1933 (48 Stat. 184).]

2. Suits involving Federal reserve banks

Notwithstanding any other provision of law, all suits of a civil nature at common law or in equity to which any Federal Reserve bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any Federal Reserve bank which is a defendant in any such suit may, at any time before the trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. No attachment or execution shall be issued against any Federal Reserve bank or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court.

[U. S. C , title 12, sec. 632. As added by Act of June 16, 1933 (48 Stat. 184).]

3. Federal Reserve banks receiving property of foreign States and central banks

Whenever (1) any Federal Reserve bank has received any property from or for the account of a foreign state which is recognized by the Government of the United States, or from or for the account of a central bank of any such foreign state, and holds such property in the name of such foreign state or such central bank; (2) a representative of such foreign state who is recognized by the Secretary of State as being the accredited representative of such foreign state to the Government of the United States has certified to the Secretary of State the name of a person as having authority to receive, control, or dispose of such property; and (3) the authority of such person to act with respect to such property is accepted and recognized by the Secretary of State, and so certified by the Secretary of State to the Federal Reserve bank, the payment, transfer, delivery, or other disposal of such property by such Federal Reserve bank to or upon the order of such person shall be conclusively presumed to be lawful and shall constitute a complete discharge and release of any liability of the Federal Reserve bank for or with respect to such property.

[U. S. C., title 12, sec. 632. As added by Act of April 7, 1941 (55 Stat. 131).]

4. Insured banks receiving property of foreign States and central banks

Whenever (1) any insured bank has received any property from or for the account of a foreign state which is recognized by the Government of the United States, or from or for the account of a central bank of any such foreign state, and holds such property in the name of such foreign state or such central bank; (2) a representative of such foreign state who is recognized by the Secretary of State as being the accredited representative of such foreign state to the Government of the United States has certified to the Secretary of State the name of a person as having authority to receive, control, or dispose of such property; and (3) the authority of such person to act with respect to such property is accepted and recognized by the Secretary of State, and so certified by the Secretary of State to such insured bank, the payment, transfer, delivery, or other disposal of such property by such bank to or upon the order of such person shall be conclusively presumed to be lawful and shall constitute a complete discharge and release of any liability of such bank for or with respect to such property. Any suit or other legal proceeding against any insured bank or any officer, director, or employee thereof, arising out of the receipt, possession, or disposition of any such property shall be deemed to arise under the laws of the United States and the district courts of the United States shall have exclusive jurisdiction thereof, regardless of the amount involved; and any such bank or any officer, director, or employee thereof which is a defendant in any

such suit may, at any time before trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law.

[U. S. C., title 12, sec. 632. As added by Act of April 7, 1941 (55 Stat. 132).]

5. Licenses relating to property of foreign States and central banks

Nothing in this section shall be deemed to repeal or to modify in any manner any of the provisions of the Gold Reserve Act of 1934 (ch. 6, 48 Stat. 337), as amended, the Silver Purchase Act of 1934 (ch. 674, 48 Stat. 1178), as amended, or subdivision (b) of section 5 of the Act of October 6, 1917 (40 Stat. 411), as amended, or any actions, regulations, rules, orders, or proclamations taken, promulgated, made, or issued pursuant to any of such statutes. In any case in which a license to act with respect to any property referred to in this section is required under any of said statutes, regulations, rules, orders, or proclamations, notification to the Secretary of State by the proper Government officer or agency of the issuance of an appropriate license or that appropriate licenses will be issued on application shall be a prerequisite to any action by the Secretary of State pursuant to this section, and the action of the Secretary of State shall relate only to such property as is included in such notification. Each such notification shall include the terms and conditions of such license or licenses and a description of the property to which they relate.

[U. S. C., title 12, sec. 632. As added by Act of April 7, 1941 (55 Stat. 132).]

6. Definitions

For the purposes of this section, (1) the term "property" includes gold, silver, currency, credits, deposits, securities, choses in action, and any other form of property, the proceeds thereof, and any right, title, or interest therein; (2) the term "foreign state" includes any foreign government or any department, district, province, county, possession, or other similar governmental organization or subdivision of a foreign government, and any agency or instrumentality of any such foreign government or of any such organization or subdivision; (3) the term "central bank" includes any foreign bank or banker authorized to perform any one or more of the functions of a central bank; (4) the term "person" includes any individual, or any corporation, partnership, association, or other similar organization; and (5) the term "insured bank" shall have the meaning given to it in section 12B of this Act.

[U. S. C., title 12, sec. 632. As added by Act of April 7, 1941 (55 Stat. 132).]

SECTION 26. REPEAL OF CONFLICTING LAWS

1. Repeal of conflicting laws; preservation of certain provisions

Sec. 26. All provisions of law inconsistent with or superseded by any of the provisions of this Act are to that extent and to that extent only hereby repealed: *Provided,* Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

[U. S. C., title 31, sec. 409. Part of original Federal Reserve Act; not amended.]

SECTION 27. TAX ON NATIONAL BANK NOTES

1. National currency associations; amendments to National Bank Act

Sec. 27. The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: *Provided, however,* That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

[Part of original Federal Reserve Act; not amended. For text of sec. 5153, Revised Statutes, see Appendix, p. 164. Secs. 5153, 5172, 5191, and 5214 of the Revised Statutes, referred to in this paragraph, are incorporated in U. S. C., title 12, secs. 90, 104, 141–143, and 541, respectively.]

2. Tax on national bank notes not secured by United States bonds

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three

months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes: *Provided further*, That whenever in his judgment he may deem it desirable, the Secretary of the Treasury shall have power to suspend the limitations imposed by section one and section three of the Act referred to in this section, which prescribe that such additional circulation secured otherwise than by bonds of the United States shall be issued only to National banks having circulating notes outstanding secured by the deposit of bonds of the United States to an amount not less than forty per centum of the capital stock of such banks, and to suspend also the conditions and limitations of section five of said Act except that no bank shall be permitted to issue circulating notes in excess of one hundred and twenty-five per centum of its unimpaired capital and surplus. He shall require each bank and currency association to maintain on deposit in the Treasury of the United States a sum in gold sufficient in his judgment for the redemption of such notes, but in no event less than five per centum. He may permit National banks, during the period for which such provisions are suspended, to issue additional circulation under the terms and conditions of the Act referred to as herein amended: *Provided further*, That the Secretary of the Treasury, in his discretion, is further authorized to extend the benefits of this Act to all qualified State banks and trust companies, which have joined the Federal reserve system, or which may contract to join within fifteen days after the passage of this Act.

[Omitted from U. S. Code. As amended by Act of August 4, 1914 (38 Stat. 682).]

SECTION 28. REDUCTION OF CAPITAL OF NATIONAL BANKS

1. Reduction of capital of national banks

Sec. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and no shareholder shall be entitled to any distribution of cash or other assets by reason of any reduction of the common capital of any association unless such distribution shall have been approved by

the Comptroller of the Currency and by the affirmative vote of at least two-thirds of the shares of each class of stock outstanding, voting as classes.

[U. S. C., title 12, sec. 59. Sec. 5143, Revised Statutes, as amended by this section, was further amended by Act of August 23, 1935 (49 Stat. 720).]

SECTION 29. SAVING CLAUSE

1. Saving clause

Sec. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

[Omitted from U. S. Code. Part of original Federal Reserve Act; not amended.]

SECTION 30. RESERVATION OF RIGHT TO AMEND

1. Reservation of right to amend

Sec. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

[Omitted from U. S. Code. Part of original Federal Reserve Act; not amended.]

APPENDIX

CONTAINING PROVISIONS OF OTHER ACTS OF CONGRESS WHICH AFFECT THE FEDERAL RESERVE SYSTEM

APPENDIX

TABLE OF CONTENTS

I. FEDERAL RESERVE BANKS

FISCAL AGENTS AND DEPOSITORIES

[NOTE.—Appropriation acts for certain Government agencies for the fiscal year 1946 contained provisions making appropriations available for "use of the services and facilities of the * * * Federal Reserve Banks". For example, see Acts of May 3, 1945, Pub. No. 49, 79th Cong. (Federal Home Loan Banks); May 5, 1945, Pub. No. 52, 79th Cong. (Federal Farm Mortgage Corporation); and May 21, 1945, Pub. No. 61, 79th Cong. (Reconstruction Finance Corporation).]

Functions of former subtreasuries

Act of May 29, 1920 (41 Stat. 654)

An Act making appropriations for the legislative, executive, and judicial expenses of the Government for the fiscal year ending June 30, 1921, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled, That * * *

Section 3595 of the Revised Statutes of the United States, as amended, providing for the appointment of an Assistant Treasurer of the United States at Boston, New York, Philadelphia, Baltimore, New Orleans, Saint Louis, San Francisco, Cincinnati, and Chicago, and all laws or parts of laws so far as they authorize the establishment or maintenance of offices of such Assistant Treasurers or of Subtreasuries of the United States are hereby repealed from and after July 1, 1921; and the Secretary of the Treasury is authorized and directed to discontinue from and after such date or at such earlier date or dates as he may deem advisable, such subtreasuries and the exercise of all duties and functions by such assistant treasurers or their offices. The office of each assistant treasurer specified above and the services of any officers or other employees assigned to duty at his office shall terminate upon the discontinuance of the functions of that office by the Secretary of the Treasury.

[Omitted from United States Code.]

The Secretary of the Treasury is hereby authorized, in his discretion, to transfer any or all of the duties and functions performed or authorized to be performed by the assistant treasurers above enumerated, or their offices, to the Treasurer of the United States or the mints or assay offices of the United States, under such rules and regulations as he may prescribe, or to utilize any of the Federal reserve banks acting as depositaries or fiscal agents of the United States, for the purpose of performing any or all of such duties and functions, notwithstanding the limitations of section 15 of the Federal reserve Act, as amended, or any other provisions of law: *Provided*, That if any moneys or bullion, constituting part of the trust funds or other special funds heretofore required by law to be kept in Treasury offices, shall be deposited with any Federal reserve bank, then such moneys or bullion shall by such bank be kept separate and distinct from the assets, funds, and securities of the Federal reserve bank and be held in the joint custody of the Federal reserve agent and the Federal reserve bank: *Provided further*, That nothing in this section shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositaries as heretofore authorized by law.

[U. S. C., title 31, secs. 476–478. This paragraph in effect amends sec. 15, Federal Reserve Act. See p. 86.]

The Secretary of the Treasury is hereby authorized to assign any or all the rooms, vaults, equipment, and safes or space in the buildings used by the subtreasuries to any Federal reserve bank acting as fiscal agent of the United States.

* * * * *

[U. S. C., title 31, sec. 479.]

Depositories for Reconstruction Finance Corporation

Section 7 of Reconstruction Finance Corporation Act of January 22, 1932
(47 Stat. 8)

SEC. 7. All moneys of the corporation not otherwise employed may be deposited with the Treasurer of the United States subject to check by authority of the corporation or in any Federal reserve bank, or may, by authorization of the board of directors of the corporation, be used in the purchase for redemption and retirement of any notes, debentures, bonds, or other obligations issued by the corporation, and the corporation may reimburse such Federal reserve bank for their services in the manner as may be agreed upon. The Federal reserve banks are authorized and directed to act as depositaries, custodians, and fiscal agents for the Reconstruction Finance Corporation in the general performance of its powers conferred by this Act.

[U. S. C., title 15, sec. 607. The corporation referred to in this paragraph is the Reconstruction Finance Corporation.]

Depositories for Federal Home Loan Banks

Section 15 of Federal Home Loan Bank Act of July 22, 1932 (47 Stat. 736)

SEC. 15. Obligations of the Federal Home Loan Banks issued with the approval of the board under this Act shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof. The Federal reserve banks are authorized to act as depositaries, custodians, and/or fiscal agents for Federal Home Loan Banks in the general performance of their powers under this Act. All obligations of Federal Home Loan Banks shall plainly state that such obligations are not obligations of the United States and are not guaranteed by the United States.

[U. S. C., title 12, sec. 1435. The board referred to in this paragraph is the Federal Home Loan Bank Board.]

Depositories for Home Owners' Loan Corporation

Section 8 of Act of April 27, 1934 (48 Stat. 646)

SEC. 8. The Federal Reserve banks are authorized, with the approval of the Secretary of the Treasury, to act as depositaries, custodians, and fiscal agents for the Home Owners' Loan Corporation.

[U. S. C., title 12, sec. 394.]

Depositories for Federal Savings and Loan Insurance Corporation

Section 402(d) of Title IV of National Housing Act of June 27, 1934 (48 Stat. 1256)

SEC. 402.—

* * * * *

(d) * * * Moneys of the Corporation not required for current operations shall be deposited in the Treasury of the United States, or upon the approval of the Secretary of the Treasury, in any Federal Reserve bank, or shall be invested in obligations of, or guaranteed as to principal and interest by, the United States. * * *.

[U. S. C., title 12, sec. 1725. The corporation referred to in this paragraph is the Federal Savings and Loan Insurance Corporation.]

Depositories for U. S. Housing Authority

Section 21 of United States Housing Act of September 1, 1937 (50 Stat. 898)

Sec. 21. (a) Any money of the Authority not otherwise employed may be deposited, subject to check, with the Treasurer of the United States or in any Federal Reserve bank, or may be invested in obligations of the United States or used in the purchase or retirement or redemption of any obligations issued by the Authority.

(b) The Federal Reserve banks are authorized and directed to act as depositories, custodians, and fiscal agents for the Authority in the general exercise of its powers, and the Authority may reimburse any such bank for its services in such manner as may be agreed upon.

* * * * *

[U. S. C., title 42, sec. 1421. The Authority referred to in this section is the United States Housing Authority.]

Depositories for Federal Crop Insurance Corporation

Section 510 of Federal Crop Insurance Act of February 16, 1938 (52 Stat. 75)

Sec. 510. * * * Subject to the approval of the Secretary of the Treasury, the Federal Reserve banks are hereby authorized and directed to act as depositories, custodians, and fiscal agents for the Corporation in the performance of its powers conferred by this title.

[U. S. C., title 7, sec. 1510. The Corporation referred to in this section is the Federal Crop Insurance Corporation.]

Depositories for Smaller War Plants Corporation

Section 4(e) of Act of June 11, 1942 (56 Stat. 354)

SEC. 4. * * * * *

(e) All moneys of the Corporation not otherwise employed may be deposited with the Treasurer of the United States subject to check by authority of the Corporation or in any Federal Reserve bank. The Federal Reserve banks are authorized and directed to act as depositaries, custodians, and fiscal agents for the Corporation in the general performance of its powers conferred by this Act. All insured banks, when designated by the Secretary of the Treasury, shall act as depositaries, custodians, and financial agents for the Corporation.

[U. S. C., title 50, War App., sec. 1104(e).]

Depositories for Commodity Credit Corporation

Section 3 of Act of April 16, 1943 (57 Stat. 566)

SEC. 3. The Federal Reserve banks are hereby authorized to act as depositaries, custodians, and fiscal agents for the Commodity Credit Corporation.

[U. S. C., title 12, sec. 395.]

Depositories for International Fund and Bank

Section 6 of Bretton Woods Agreements Act of July 31, 1945 (59 Stat. 514)

SEC. 6. Any Federal Reserve bank which is requested to do so by the Fund or the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall super-

vise and direct the carrying out of these functions by the Federal Reserve banks.

[U. S. C., title 22, sec. 286d. For other provisions of the Bretton Woods Agreements Act of July 31, 1945, see p. 240.]

Fiscal agents in connection with guarantees of loans to war contractors

Section 7 of Act of June 11, 1942 (56 Stat. 355)

SEC. 7. The War Department, the Navy Department, and the Maritime Commission are hereby authorized to make or participate in loans, guaranties, and commitments in accordance with Executive Order Numbered 9112 of March 26, 1942, and to participate in or to guarantee any loans made pursuant to this Act with a view to increasing the production of war materials, supplies, or equipment; and in connection therewith they may use any funds heretofore or hereafter made available to them for purposes of procuring war materials, supplies, and equipment, or of expediting the production thereof.

[U. S. C., title 50, War App., sec. 1107. Executive Order No. 9112 of March 26, 1942 authorized the War and Navy Departments and Maritime Commission to guarantee loans made by financing institutions for the purpose of financing war production contracts and authorized the Federal Reserve Banks to act as agents of the War and Navy Departments and Maritime Commission in carrying out the provisions of the Executive Order.]

Section 10 of Contract Settlement Act of July 1, 1944 (58 Stat. 657)

SEC. 10. (a) Any contracting agency is authorized—

(1) to enter into contracts with any Federal Reserve bank, or other public or private financing institution, guaranteeing such financing institution against loss of principal or interest on loans, discounts, or advances or on commitments in connection therewith, which such financing institution may make to any war contractor or to any person who is or has been engaged in performing any operation deemed by such contracting agency to be connected with or related to war production, for the purpose of financing such war contractor or other person in connection with or in contemplation of the termination of one or more such war contracts or operations; and

(2) to make, enter into contracts to make, or to participate with any Government agency, any Federal Reserve bank or public or private financing institution in making loans, discounts, or advances, or commitments in connection therewith, for the purpose of financing any such war contractor or other person in connection with or in contemplation of the termination of such war contracts or operations.

(b) Any such loan, discount, advance, guaranty, or commitment in connection therewith may be secured by assignment of, or convenants to assign, some or all of the rights of such war contractor or other person in connection with the termination of such war contracts or operations, or in such other manner as the contracting agency may prescribe.

(c) Subject to such regulations as the Board of Governors of the Federal Reserve System may prescribe with the approval of the Director, any Federal Reserve bank is authorized to act, on behalf of the contracting agencies, as fiscal agent of the United States in carrying out the purposes of this Act.

(d) This section shall not limit or affect any authority of any contracting agency, under any other statute, to make loans, discounts, or advances, or commitments in connection therewith or guaranties thereof.

[U. S. C., title 41, sec. 110.]

Checking accounts of Government-owned corporations

Section 302 of Government Corporation Control Act of December 6, 1945 (59 Stat. 601)

SEC. 302. The banking or checking accounts of all wholly owned and mixed-ownership Government corporations shall be kept with the Treasurer of the United States, or, with the approval of the Secretary of the Treasury, with a Federal Reserve bank, or with a bank designated as a depositary or fiscal agent of the United States: *Provided*, That the Secretary of the Treasury may waive the requirements of this section under such conditions as he may determine: *And provided further*, That this section will not apply to the establishment and maintenance in any bank for a temporary period of banking and checking accounts not in excess of $50,000 in any one bank. The provisions of this section shall not be applicable to Federal Intermediate Credit Banks, Production Credit Corporations, the Central Bank for Cooperatives, the Regional Banks for Cooperatives, or the Federal Land Banks, except that each such corporation shall be required to report annually to the Secretary of the Treasury the names of the depositaries in which such corporation keeps a banking or checking account, and the Secretary of the Treasury may make a report in writing to the corporation, to the President, and to the Congress which he deems advisable upon receipt of any such annual report.

[U.S.C., title 31, sec. 867.]

Redemption of United States savings bonds—Liability for losses

Section 22(i) of Second Liberty Bond Act of September 24, 1917 (40 Stat. 292), as added by Act of April 12, 1943 (57 Stat. 63), as amended

SEC. 22. * * *

(i) Any losses resulting from payments made in connection with the redemption of savings bonds shall be replaced out of the fund established by the Government Losses in Shipment Act, as amended, under such regulations as may be prescribed by the Secretary of the Treasury. The Treasurer of the United States, any Federal Reserve bank, or any

qualified paying agent authorized or permitted to make payments in connection with the redemption of such bonds, shall be relieved from liability to the United States for such losses, upon a determination by the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Treasurer, the Federal Reserve bank, or the qualified paying agent. * * *

[U. S. C., title 31, sec. 757c(i). As amended by Public Debt Act of April 3, 1945 (59 Stat. 47).]

Issuance by Secretary of Treasury of replacements for lost or stolen checks

Section 3646, Revised Statutes, as amended

SEC. 3646. * * *

(h) Any power, authority, or discretion conferred upon the Secretary of the Treasury by this section may be delegated by him, in whole or in part, subject to such terms and conditions as he may prescribe, to such individuals as he may designate within the Treasury Department or to the head of any other department or agency of the Government or of any Federal Reserve bank, and the head of such department or agency or Federal Reserve bank may, when such action is not inconsistent with the terms and conditions of the delegation by the Secretary of the Treasury, redelegate any power, authority, or discretion conferred upon him pursuant to this subsection to any officer or employee within such department, agency, or Federal Reserve bank.

[U. S. C., title 31, sec. 528. As added by Act of December 3, 1945 (59 Stat. 592).]

AVAILABILITY OF RECORDS TO GOVERNMENT AGENCIES

To Reconstruction Finance Corporation

Section 8 of Reconstruction Finance Corporation Act of January 22, 1932 (47 Stat. 8), as amended

SEC. 8. In order to enable the corporation to carry out the provisions of this Act and the Emergency Relief and Construction Act of 1932, the Treasury Department, the Farm Credit Administration, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal reserve banks, and the Interstate Commerce Commission are hereby authorized, under such conditions as they may prescribe, to make available to the corporation, in confidence, such reports, records, or other information as they may have available relating to the condition of applicants with respect to whom the corporation has had or contemplates having transactions under either of such Acts, or relating to individuals, associations, partnerships, corporations, or other obligors whose obligations are offered to or held by the corporation as security for loans under either of such Acts, and to make, through their examiners or other employees for the confidential use of the corporation,

examinations of applicants for loans. Every applicant for a loan under either of such Acts shall, as a condition precedent thereto, consent to such examination as the corporation may require for the purposes of either of such Acts and that reports of examinations by constituted authorities may be furnished by such authorities to the corporation upon request therefor.

[U. S. C., title 15, sec. 608. As amended by Act of July 21, 1932 (47 Stat. 714). The corporation referred to in this paragraph is the Reconstruction Finance Corporation. By Executive Order No. 6084 of March 27, 1933, "Federal Farm Loan Board" was changed to "Farm Credit Administration."]

To Federal Home Loan Banks

Section 22 of Federal Home Loan Bank Act of July 22, 1932 (47 Stat. 739)

SEC. 22. (a) In order to enable the board to carry out the provisions of this Act, the Treasury Department, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal reserve banks are hereby authorized, under such conditions as they may prescribe, to make available to the board in confidence for its use and the use of any Federal Home Loan Bank such reports, records, or other information as may be available, relating to the condition of institutions with respect to which any such Federal Home Loan Bank has had or contemplates having transactions under this Act or relating to persons whose obligations are offered to or held by any Federal Home Loan Bank, and to make through their examiners or other employees, for the confidential use of the board or any Federal Home Loan Bank, examinations of such institutions.

* * * * *

[U. S. C., title 12, sec. 1442. The board referred to in this paragraph is the Federal Home Loan Bank Board.]

To Farm Credit Administration

Section 208(e) of Federal Farm Loan Act of July 17, 1916 (39 Stat. 360), as amended

SEC. 208. * * *

(e) The executive departments, boards, commissions, and independent establishments of the Government, the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Reserve banks are severally authorized under such conditions as they may prescribe, upon the request of the Farm Credit Administration to make available to the Farm Credit Administration or any district bank or district corporation operating under its supervision, in confidence, all reports, records or other information they may have relating to the condition of any institution to which the Administration, such district bank, or corporation has made or contemplates making loans or for which it has discounted or contemplates discounting paper,

or which it is using or contemplates using as a custodian of securities or other credit instruments, or as a depositary.

[U. S. C., title 12, sec. 1095. As added by Act of June 3, 1935 (49 Stat. 316); and amended by Act of August 19, 1937 (50 Stat. 716).]

To Securities and Exchange Commission

Section 321(b) of Trust Indenture Act of August 3, 1939 (53 Stat. 1174)

SEC. 321. * * *

(b) The Treasury Department, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, and the Federal Deposit Insurance Corporation are hereby authorized, under such conditions as they may prescribe, to make available to the Commission such reports, records, or other information as they may have available with respect to trustees or prospective trustees under indentures qualified or to be qualified under this title, and to make through their examiners or other employees for the use of the Commission, examinations of such trustees or prospective trustees. Every such trustee or prospective trustee shall, as a condition precedent to qualification of such indenture, consent that reports of examinations by Federal, State, Territorial, or District authorities may be furnished by such authorities to the Commission upon request therefor.

Notwithstanding any provision of this title, no report, record, or other information made available to the Commission under this subsection, no report of an examination made under this subsection for the use of the Commission, no report of an examination made of any trustee or prospective trustee by any Federal, State, Territorial, or District authority having jurisdiction to examine or supervise such trustee, no report made by any such trustee or prospective trustee to any such authority, and no correspondence between any such authority and any such trustee or prospective trustee, shall be divulged or made known or available by the Commission or any member, officer, agent, or employee thereof, to any person other than a member, officer, agent, or employee of the Commission: *Provided*, That the Commission may make available to the Attorney General of the United States, in confidence, any information obtained from such records, reports of examination, other reports, or correspondence, and deemed necessary by the Commission, or requested by him, for the purpose of enabling him to perform his duties under this title.

[U. S. C., title 15, sec. 77uuu. The Commission referred to in this subsection is the Securities and Exchange Commission.]

DISCOUNTS AND PURCHASES

Ineligibility of obligations of Reconstruction Finance Corporation for discount or purchase

Section 9 of Reconstruction Finance Corporation Act of January 22, 1932 (47 Stat. 9), as amended

SEC. 9. The corporation is authorized and empowered, with the approval of the Secretary of the Treasury, to issue, and to have outstanding * * * its notes, debentures, bonds, or other such obligations; * * *. Such obligations shall not be eligible for discount or purchase by any Federal reserve bank. * * *.

[U. S. C., title 15, sec. 609. This part of sec. 9 of the Act of January 22, 1932, has not been amended. The corporation referred to in this paragraph is the Reconstruction Finance Corporation. Notwithstanding the provisions of this paragraph, Federal reserve banks may, in certain circumstances, "conduct, pursuant to existing law, throughout specified periods, open market operations in obligations of * * * corporations in which the United States is the majority stockholder." See subsec. (a) of sec. 43 of Act of May 12, 1933 (p. 198).]

Purchase and sale of Farm Loan Bonds

Section 27 of Federal Farm Loan Act of July 17, 1916 (39 Stat. 380)

SEC. 27. * * *

* * * * *

Any Federal reserve bank may buy and sell farm loan bonds issued under this Act to the same extent and subject to the same limitations placed upon the purchase and sale by said banks of State, county, district, and municipal bonds under subsection (b) of section fourteen of the Federal Reserve Act approved December twenty-third, nineteen hundred and thirteen.

[U. S. C., title 12, sec. 943.]

Paper of regional agricultural credit corporations

Section 201(e) of Act of July 21, 1932 (47 Stat. 713)

SEC. 201. * * *

(e) * * * Such corporations are hereby authorized and empowered to make loans or advances to farmers and stockmen, the proceeds of which are to be used for an agricultural purpose (including crop production), or for the raising, breeding, fattening, or marketing of livestock, to charge such rates of interest or discount thereon as in their judgment are fair and equitable, subject to the approval of the Reconstruction Finance Corporation, and to rediscount with the Reconstruction Finance Corporation and the various Federal reserve banks and Federal intermediate credit banks any paper that they acquire which is eligible for such purpose * * *.

[U. S. C., title 12, sec. 1148. By Presidential Executive Order No. 6084 of March 27, 1933, effective May 27, 1933, the functions of the Reconstruction Finance Corporation relating to approval of loans and advances of regional agricultural corporations were transferred to the Farm Credit Administration.]

Paper of Federal intermediate credit banks

Section 202 of Farm Loan Act of July 17, 1916 (39 Stat. 360), as amended

SEC. 202. (a) That Federal Intermediate Credit Banks, when chartered and established, shall have power, subject solely to such restrictions, limitations, and conditions as may be imposed by the Farm Credit Administration not inconsistent with the provisions of this Act,—

(1) To discount for, or purchase from, any national bank, and/or any State bank, trust company, agricultural credit corporation, incorporated live stock loan company, savings institution, cooperative bank, credit union, cooperative association of agricultural producers, organized under the laws of any State or of the Government of the United States, and/or any other Federal Intermediate Credit Bank, with its endorsement, any note, draft, bill of exchange, debenture, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose or for the raising, breeding, fattening, or marketing of live stock; and to make loans or advances direct to any such organization, secured by such obligations; and to discount for, or purchase from, any production credit association or bank for cooperatives organized under the Farm Credit Act of 1933, or any production credit association in which a Production Credit Corporation organized under such Act holds stock, with its indorsement, any note, draft, bill of exchange, debenture, or other such obligation presented by such association or bank, and to make loans and advances direct to any such association or bank secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

(2) To buy or sell, with or without recourse, debentures issued by any other Federal Intermediate Credit Bank; and

(3) To make loans or advances direct to any cooperative association organized under the laws of any State and composed of persons engaged in producing, or producing and marketing, staple agricultural products, or live stock, if the notes or other such obligations representing such loans are secured by warehouse receipts, and/or shipping documents covering such products, and/or mortgages on live stock, and/or such other collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance, when secured only by warehouse receipts and/or shipping documents, and/or mortgages on live stock, shall exceed 75 per centum of the market value of the products covered by said warehouse receipts and/or shipping documents, or of the livestock covered by said mortgages; and to accept drafts or bills of exchange issued or drawn by any such association when secured by warehouse receipts and/or shipping documents covering staple agricultural products as herein provided, at such rates of commission as may be approved by the Governor of the Farm Credit Administration.

[U. S. C., title 12, sec. 1031. As added by Act of March 4, 1923 (42 Stat. 1455); and amended by Acts of March 4, 1925 (43 Stat. 1264); June 26, 1930 (46 Stat. 816); May 19, 1932 (47 Stat. 159); June 16, 1933 (48 Stat. 271); June 3, 1935 (49 Stat. 315). For authority of Federal Reserve Banks to discount paper covering loans made by Federal Intermediate Credit Banks under this section, see section 13a of Federal Reserve Act (p. 79). By Executive Order No. 6084, of March 27, 1933, effective May 27, 1933, the functions of the Federal Farm Loan Board were transferred to the Farm Loan Commissioner, whose functions, by the same Order, were transferred to the Farm Credit Administration.]

(b) No paper shall be purchased from or discounted for any national bank, State bank, trust company, or savings institution under this section, if the amount of such paper added to the aggregate liabilities of such national bank, State bank, trust company or savings institution, whether direct or contingent (other than bona fide deposit liabilities), exceeds the amount of such liability permitted under the laws of the jurisdiction creating the same; or exceeds twice the paid in and unimpaired capital and surplus of such national bank, State bank, trust company, or savings institution. No paper shall under this section be purchased from or discounted for any other corporation engaged in making loans for agricultural purposes or for the raising, breeding, fattening, or marketing of live stock, if the amount of such paper added to the aggregate liabilities of such corporation exceeds the amount of such liabilities permitted under the laws of the jurisdiction creating the same; or exceeds ten times the paid in and unimpaired capital and surplus of such corporation. It shall be unlawful for any national bank which is indebted to any Federal Intermediate Credit Bank upon paper discounted or purchased under this section, to incur any additional indebtedness, if by virtue of such additional indebtedness its aggregate liabilities, direct or contingent, will exceed the limitations herein contained.

[U. S. C., title 12, sec. 1032. As added by Act of March 4, 1923 (42 Stat. 1455). This paragraph in effect amends section 13 of the Federal Reserve Act (p. 77) and section 5202, Revised Statutes (p. 76).]

(c) Loans, advances, or discounts made under this section shall have a maturity at the time they are made or discounted by the Federal intermediate credit bank of not more than three years. Any Federal intermediate credit bank may in its discretion sell loans or discounts made under this section, with or without its indorsement.

[U. S. C., title 12, sec. 1033. As added by Act of March 4, 1923 (42 Stat. 1456); and amended by Act of June 26, 1930 (46 Stat. 816).]

II. MEMBER BANKS

REMOVAL OF DIRECTORS AND OFFICERS

Section 30 of Banking Act of June 16, 1933 (48 Stat. 193)

SEC. 30. Whenever, in the opinion of the Comptroller of the Currency, any director or officer of a national bank, or of a bank or trust company doing business in the District of Columbia, or whenever, in

the opinion of a Federal reserve agent, any director or officer of a State member bank in his district shall have continued to violate any law relating to such bank or trust company or shall have continued unsafe or unsound practices in conducting the business of such bank or trust company, after having been warned by the Comptroller of the Currency or the Federal reserve agent, as the case may be, to discontinue such violations of law or such unsafe or unsound practices, the Comptroller of the Currency or the Federal reserve agent, as the case may be, may certify the facts to the Board of Governors of the Federal Reserve System. In any such case the Board of Governors of the Federal Reserve System may cause notice to be served upon such director or officer to appear before such Board to show cause why he should not be removed from office. A copy of such order shall be sent to each director of the bank affected, by registered mail. If after granting the accused director or officer a reasonable opportunity to be heard, the Board of Governors of the Federal Reserve System finds that he has continued to violate any law relating to such bank or trust company or has continued unsafe or unsound practices in conducting the business of such bank or trust company after having been warned by the Comptroller of the Currency or the Federal reserve agent to discontinue such violation of law or such unsafe or unsound practices, the Board of Governors of the Federal Reserve System, in its discretion, may order that such director or officer be removed from office. A copy of such order shall be served upon such director or officer. A copy of such order shall also be served upon the bank of which he is a director or officer, whereupon such director or officer shall cease to be a director or officer of such bank: *Provided*, That such order and the findings of fact upon which it is based shall not be made public or disclosed to anyone except the director or officer involved and the directors of the bank involved, otherwise than in connection with proceedings for a violation of this section. Any such director or officer removed from office as herein provided who thereafter participates in any manner in the management of such bank shall be fined not more than $5,000, or imprisoned for not more than five years, or both, in the discretion of the court.

[U. S. C., title 12, sec. 77.]

INTERLOCKING DIRECTORATES

With other banks (Clayton Act)

Sections 8 and 11 of Clayton Antitrust Act of October 15, 1914 (38 Stat. 732, 734), as amended

SEC. 8. No private banker or director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time a director, officer, or employee of any other bank,

banking association, savings bank, or trust company organized under the National Bank Act or organized under the laws of any State or of the District of Columbia, or any branch thereof, except that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof; but the foregoing prohibition shall not apply in the case of any one or more of the following or any branch thereof:

(1) A bank, banking association, savings bank, or trust company, more than 90 per centum of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per centum of the stock.

(2) A bank, banking association, savings bank, or trust company which has been placed formally in liquidation or which is in the hands of a receiver, conservator, or other official exercising similar functions.

(3) A corporation, principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act.

(4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank.

(5) A bank, banking association, savings bank, or trust company not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto.

(6) A bank, banking association, savings bank, or trust company not engaged in a class or classes of business in which such member bank is engaged.

(7) A mutual savings bank having no capital stock.

[U. S. C., title 15, sec. 19. As amended by Acts of May 15, 1916 (39 Stat. 121); May 26, 1920 (41 Stat. 626); March 9, 1928 (45 Stat. 253); March 2, 1929 (45 Stat. 1536); and by Act of August 23, 1935 (49 Stat. 717), which completely revised this section.]

Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve System, or any branch thereof, who is lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on the date of enactment of the Banking Act of 1935, from continuing such service.

[U. S. C., title 15, sec. 19. As added by Act of August 23, 1935 (49 Stat. 717).]

The Board of Governors of the Federal Reserve System is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose.

[U. S. C., title 15, sec. 19. As added by Act of August 23, 1935 (49 Stat. 717).]

* * * * *

When any person elected or chosen as a director or officer or selected as an employee of any bank or other corporation subject to the provisions of this Act is eligible at the time of his election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

[U. S. C., title 15, sec. 19. Part of original Clayton Antitrust Act; not amended.]

* * * * *

SEC. 11. That authority to enforce compliance with sections 2, 3, 7, and 8 of this Act by the persons respectively subject thereto is hereby vested: In the Interstate Commerce Commission where applicable to common carriers subject to the Interstate Commerce Act, as amended; in the Federal Communications Commission where applicable to common carriers engaged in wire or radio communication or radio transmission of energy; in the Board of Governors of the Federal Reserve System where applicable to banks, banking associations, and trust companies; and in the Federal Trade Commission where applicable to all other character of commerce, to be exercised as follows:

[U. S. C., title 15, sec. 21. As amended by Act of June 19, 1934 (48 Stat. 1102).]

Whenever the commission or board vested with jurisdiction thereof shall have reason to believe that any person is violating or has violated any of the provisions of sections two, three, seven and eight of this Act, it shall issue and serve upon such person a complaint stating its charges in that respect, and containing a notice of a hearing upon a day and at a place therein fixed at least thirty days after the service of said complaint. The person so complained of shall have the right to appear at the place and time so fixed and show cause why an order should not be entered by the commission or board requiring such person to cease and desist from the violation of the law so charged in said complaint. Any person may make application, and upon good cause shown may be allowed by the commission or board, to intervene and appear in said pro-

ceeding by counsel or in person. The testimony in any such proceeding shall be reduced to writing and filed in the office of the commission or board. If upon such hearing the commission or board, as the case may be, shall be of the opinion that any of the provisions of said sections have been or are being violated, it shall make a report in writing in which it shall state its findings as to the facts, and shall issue and cause to be served on such person an order requiring such person to cease and desist from such violations, and divest itself of the stock held or rid itself of the directors chosen contrary to the provisions of sections seven and eight of this Act, if any there be, in the manner and within the time fixed by said order. Until a transcript of the record in such hearing shall have been filed in a circuit court of appeals of the United States, as hereinafter provided, the commission or board may at any time, upon such notice and in such manner as it shall deem proper, modify or set aside, in whole or in part, any report or any order made or issued by it under this section.

[U. S. C., title 15, sec. 21. Part of original Clayton Antitrust Act; not amended.]

If such person fails or neglects to obey such order of the commission or board while the same is in effect, the commission or board may apply to the circuit court of appeals of the United States, within any circuit where the violation complained of was or is being committed or where such person resides or carries on business, for the enforcement of its order, and shall certify and file with its application a transcript of the entire record in the proceeding, including all the testimony taken and the report and order of the commission or board. Upon such filing of the application and transcript the court shall cause notice thereof to be served upon such person and thereupon shall have jurisdiction of the proceeding and of the question determined therein, and shall have power to make and enter upon the pleadings, testimony, and proceedings set forth in such transcript a decree affirming, modifying, or setting aside the order of the commission or board. The findings of the commission or board as to the facts, if supported by testimony, shall be conclusive. If either party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for the failure to adduce such evidence in the proceeding before the commission or board, the court may order such additional evidence to be taken before the commission or board and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The commission or board may modify its findings as to the facts, or make new findings, by reason of the additional evidence so taken, and it shall file such modified or new findings, which, if supported by testimony, shall be conclusive, and its recom-

mendation, if any, for the modification or setting aside of its original order, with the return of such additional evidence. The judgment and decree of the court shall be final, except that the same shall be subject to review by the Supreme Court upon certiorari as provided in section two hundred and forty of the Judicial Code.

[U. S. C., title 15, sec. 21. Part of original Clayton Antitrust Act; not amended. Section 2 of an Act of February 13, 1925 (43 Stat. 939), provided: "That cases * * * under section 11 of 'An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes,' approved October 15, 1914, are included among the cases to which sections 239 and 240 of the Judicial Code shall apply."]

Any party required by such order of the commission or board to cease and desist from a violation charged may obtain a review of such order in said circuit court of appeals by filing in the court a written petition praying that the order of the commission or board be set aside. A copy of such petition shall be forthwith served upon the commission or board, and thereupon the commission or board forthwith shall certify and file in the court a transcript of the record as hereinbefore provided. Upon the filing of the transcript the court shall have the same jurisdiction to affirm, set aside, or modify the order of the commission or board as in the case of an application by the commission or board for the enforcement of its order, and the findings of the commission or board as to the facts, if supported by testimony, shall in like manner be conclusive.

[U. S. C., title 15, sec. 21. Part of original Clayton Antitrust Act; not amended.]

The jurisdiction of the circuit court of appeals of the United States to enforce, set aside, or modify orders of the commission or board shall be exclusive.

[U. S. C., title 15, sec. 21. Part of original Clayton Antitrust Act; not amended.]

Such proceedings in the circuit court of appeals shall be given precedence over other cases pending therein, and shall be in every way expedited. No order of the commission or board or the judgment of the court to enforce the same shall in any wise relieve or absolve any person from any liability under the antitrust Acts.

[U. S. C., title 15, sec. 21. Part of original Clayton Antitrust Act; not amended.]

Complaints, orders, and other processes of the commission or board under this section may be served by anyone duly authorized by the commission or board, either (a) by delivering a copy thereof to the person to be served, or to a member of the partnership to be served, or to the president, secretary, or other executive officer or a director of the corporation to be served; or (b) by leaving a copy thereof at the principal office or place of business of such person; or (c) by registering and mailing a copy thereof addressed to such person at his principal office or place

of business. The verified return by the person so serving said complaint, order, or other process setting forth the manner of said service shall be proof of the same, and the return post-office receipt for said complaint, order, or other process registered and mailed as aforesaid shall be proof of the service of the same.

[U. S. C., title 15, sec. 21. Part of original Clayton Antitrust Act; not amended.]

With securities companies

Section 32 of Banking Act of June 16, 1933 (48 Stat. 194), as amended.

SEC. 32. No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve[1] the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments.

[U. S. C., title 12, sec. 78. As amended by Banking Act of August 23, 1935 (49 Stat. 709) to read as above set forth, effective January 1, 1936.]

With investment companies

Section 10(c) of Act of August 22, 1940 (54 Stat. 806).

SEC. 10. * * *

(c) After the effective date of this title, no registered investment company shall have a majority of its board of directors consisting of persons who are officers or directors of any one bank: *Provided*, That, if on March 15, 1940, any registered investment company shall have had a majority of its directors consisting of persons who are directors, officers, or employees of any one bank, such registered company may continue to have the same percentage of its board of directors consisting of persons who are directors, officers, or employees of such bank.

* * * * *

[U. S. C., title 15, sec. 80a-10. The effective date of the title of the Act of which the above provision was a part was November 1, 1940. As to exclusion of banks from definition of "investment company", see p. 239.]

[1] So in statute as enacted.

RELATIONS WITH SECURITIES COMPANIES

[NOTE.—As to interlocking directorates between member banks and securities companies, see p. 155.]

Affiliation with organizations dealing in securities

Section 20 of Banking Act of June 16, 1933 (48 Stat. 188), as amended.

SEC. 20. After one year from the date of the enactment of this Act, no member bank shall be affiliated in any manner described in section 2 (b) hereof with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities: *Provided*, That nothing in this paragraph shall apply to any such organization which shall have been placed in formal liquidation and which shall transact no business except such as may be incidental to the liquidation of its affairs.

For every violation of this section the member bank involved shall be subject to a penalty not exceeding $1,000 per day for each day during which such violation continues. Such penalty may be assessed by the Board of Governors of the Federal Reserve System, in its discretion, and, when so assessed, may be collected by the Federal reserve bank by suit or otherwise.

If any such violation shall continue for six calendar months after the member bank shall have been warned by the Board of Governors of the Federal Reserve System to discontinue the same, (a) in the case of a national bank, all the rights, privileges, and franchises granted to it under the National Bank Act may be forfeited in the manner prescribed in section 2 of the Federal Reserve Act, as amended (U. S. C., title 12, secs. 141, 222–225, 281–286, and 502), or, (b) in the case of a State member bank, all of its rights and privileges of membership in the Federal Reserve System may be forfeited in the manner prescribed in section 9 of the Federal Reserve Act, as amended (U. S. C., title 12, secs. 321–332).

[U. S. C., title 12, sec. 377. As amended by Act of August 23, 1935 (49 Stat. 707), which added the proviso in the first paragraph of this section. For section 2(b) of the Banking Act of 1933, see Appendix, p. 158.]

Receipt of deposits by securities companies and other institutions

Section 21 of Banking Act of June 16, 1933 (48 Stat. 189), as amended.

SEC. 21. (a) After the expiration of one year after the date of enactment of this Act it shall be unlawful—

(1) For any person, firm, corporation, association, business trust, or other similar organization, engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of

receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor: *Provided*, That the provisions of this paragraph shall not prohibit national banks or State banks or trust companies (whether or not members of the Federal Reserve System) or other financial institutions or private bankers from dealing in, underwriting, purchasing, and selling investment securities to the extent permitted to national banking associations by the provisions of section 5136 of the Revised Statutes, as amended (U. S. C., title 12, sec. 24; Supp. VII, title 12, sec. 24): *Provided further*, That nothing in this paragraph shall be construed as affecting in any way such right as any bank, banking association, savings bank, trust company, or other banking institution, may otherwise possess to sell, without recourse or agreement to repurchase, obligations evidencing loans on real estate; or

(2) For any person, firm, corporation, association, business trust, or other similar organization to engage, to any extent whatever with others than his or its officers, agents or employees, in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization (A) shall be incorporated under, and authorized to engage in such business by, the laws of the United States or of any State, Territory, or District, or (B) shall be permitted by any State, Territory, or District to engage in such business and shall be subjected by the law of such State, Territory, or District to examination and regulation, or (C) shall submit to periodic examination by the banking authority of the State, Territory, or District where such business is carried on and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and under the same conditions as required by the law of such State, Territory, or District in the case of incorporated banking institutions engaged in such business in the same locality.

[U. S. C., title 12, sec. 378. As amended by Act of August 23, 1935 (49 Stat. 707). The date of enactment of this Act, referred to in the first sentence of this subsection, was June 16, 1933.]

(b) Whoever shall willfully violate any of the provisions of this section shall upon conviction be fined not more than $5,000 or imprisoned not more than five years, or both, and any officer, director, employee, or agent of any person, firm, corporation, association, business trust, or other similar organization who knowingly participates in any such violation shall be punished by a like fine or imprisonment or both.

[U. S. C., title 12, sec. 378.]

AFFILIATES AND HOLDING COMPANY AFFILIATES

Definition of terms

Section 2 of Banking Act of June 16, 1933 (48 Stat. 162), as amended.

SEC. 2. As used in this Act and in any provision of law amended by this Act—

(a) The terms "banks", "national bank", "national banking association", "member bank", "board", "district", and "reserve bank" shall have the meanings assigned to them in section 1 of the Federal Reserve Act, as amended.

[U. S. C., title 12, sec. 221a.]

(b) Except where otherwise specifically provided, the term "affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

(2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; or

(3) Of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one member bank.

[U. S. C., title 12, sec. 221a.]

(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

[U. S. C., title 12, sec. 221a. The last paragraph of this subsection was added by Banking Act of August 23, 1935 (49 Stat. 707). For provisions as to holding company affiliates of State member banks and national banks see Federal Reserve Act, sec. 9, par. 21 (p. 26), and sec. 5144, U. S. Rev. Stats. (p. 159), respectively.]

Voting permits

Section 5144, Revised Statutes, as amended

SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except that (1) this shall not be construed as limiting the voting rights of holders of preferred stock under the terms and provisions of articles of association, or amendments thereto, adopted pursuant to the provisions of section 302 (a) of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, (2) in the election of directors, shares of its own stock held by a national bank as sole trustee, whether registered in its own name as such trustee or in the name of its nominee, shall not be voted by the registered owner unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted, (3) shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote. Whenever shares of stock cannot be voted by reason of being held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares.

[U. S. C., title 12, sec. 61. As amended by Acts of June 16, 1933 (48 Stat. 186); August 23, 1935 (49 Stat. 710). For sec. 302 (a) of the Emergency Banking Act of March 9, 1933, see Appendix, p. 188.]

For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly

or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof.

[U. S. C., title 12, sec. 61. As added by Act of June 16, 1933 (48 Stat. 186).]

Any such holding company affiliate may make application to the Board of Governors of the Federal Reserve System for a voting permit entitling it to vote the stock controlled by it at any or all meetings of shareholders of such bank or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same. The Board of Governors of the Federal Reserve System may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions:

(a) Every such holding company affiliate shall, in making the application for such permit, agree (1) to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined; (2) that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks; (3) that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate; and (4) that publication of individual or consolidated statements of condition of such banks may be required;

(b) After five years after the enactment of the Banking Act of 1933, every such holding company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of any lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than 12 per centum of the aggregate par value of all bank stocks controlled by such holding company affiliate, which amount shall be increased by not less than 2 per centum per annum of such aggregate par value until such assets shall amount to 25 per centum of the aggregate par value of such bank stocks; and (2) shall reinvest in readily marketable assets other than bank stock all net earnings over and above 6 per centum per annum on the book value of its own shares outstanding until such assets shall amount to

such 25 per centum of the aggregate par value of all bank stocks controlled by it;

(c) Notwithstanding the foregoing provisions of this section, after five years after the enactment of the Banking Act of 1933, (1) any such holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, shall be required only to establish and maintain out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding a reserve of readily marketable assets in an amount of not less than 12 per centum of the aggregate par value of bank stocks controlled by it, and (2) the assets required by this section to be possessed by such holding company affiliate may be used by it for replacement of capital in banks affiliated with it and for losses incurred in such banks, but any deficiency in such assets resulting from such use shall be made up within such period as the Board of Governors of the Federal Reserve System may by regulation prescribe and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affiliates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stock;

(d) Every officer, director, agent, and employee of every such holding company affiliate shall be subject to the same penalties for false entries in any book, report, or statement of such holding company affiliate as are applicable to officers, directors, agents, and employees of member banks under section 5209 of the Revised Statutes, as amended (U. S. C., title 12, sec. 592); and

(e) Every such holding company affiliate shall, in its application for such voting permit, (1) show that it does not own, control, or have any interest in, and is not participating in the management or direction of, any corporation, business trust, association, or other similar organization formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort (hereinafter referred to as "securities company"); (2) agree that during the period that the permit remains in force it will not acquire any ownership, control or interest in any such securities company or participate in the management or direction thereof; (3) agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of its ownership,

control, and interest in such securities company and will cease participating in the management or direction thereof, and will not thereafter, during the period that the permit remains in force, acquire any further ownership, control, or interest in any such securities company or participate in the management or direction thereof; and (4) agree that thenceforth it will declare dividends only out of actual net earnings.

[U. S. C., title 12, sec. 61. As added by Act of June 16, 1933 (48 Stat. 186); first sentence of this paragraph and subparagraph (c) thereof were amended by Act of August 23,1935 (49 Stat. 711). The Banking Act of 1933, referred to in subparagraphs (b) and (c) above, was approved June 16, 1933. For text of sec. 5209, Revised Statutes, see Appendix, p. 173.]

If at any time it shall appear to the Board of Governors of the Federal Reserve System that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to this section, the Board of Governors of the Federal Reserve System may, in its discretion, revoke any such voting permit after giving sixty days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard. Whenever the Board of Governors of the Federal Reserve System shall have revoked any such voting permit, no national bank whose stock is controlled by the holding company affiliate whose permit is so revoked shall receive deposits of public moneys of the United States, nor shall any such national bank pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate.

[U. S. C., title 12, sec. 61. As added by Act of June 16, 1933 (48 Stat. 188). The Banking Act of 1933, referred to above, was approved June 16, 1933.]

Whenever the Board of Governors of the Federal Reserve System shall have revoked any voting permit as hereinbefore provided, the rights, privileges, and franchises of any or all national banks the stock of which is controlled by such holding company affiliate shall, in the discretion of the Board of Governors of the Federal Reserve System, be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended.

[U. S. C., title 12, sec. 61. As added by Act of June 16, 1933 (48 Stat. 188).]

Tax credit allowed holding company affiliates

Section 26(d) of Internal Revenue Code, approved February 10, 1939 (53 Stat. 18)

SEC. 26. **Credits of corporations**

In the case of a corporation the following credits shall be allowed to the extent provided in the various sections imposing tax—

* * * * *

(d) Bank affiliates. In the case of a holding company affiliate (as defined in section 2 of the Banking Act of 1933), the amount of the

earnings or profits which the Board of Governors of the Federal Reserve System certifies to the Commissioner has been devoted by such affiliate during the taxable year to the acquisition of readily marketable assets other than bank stock in compliance with section 5144 of the Revised Statutes. The aggregate of the credits allowable under this subsection for all taxable years beginning after December 31, 1935, shall not exceed the amount required to be devoted under such section 5144 to such purposes, and the amount of the credit for any taxable year shall not exceed the adjusted net income for such year.

[U. S. C., title 26, sec. 26. The above provision was derived from similar provisions contained in the Revenue Act of 1936 (49 Stat. 1664).]

DEPOSITORIES OF PUBLIC MONEYS

Insured banks as depositories

Section 10 of Act of June 11, 1942 (56 Stat. 356)

SEC. 10. All insured banks designated for that purpose by the Secretary of the Treasury shall be depositaries of public money of the United States (including, without being limited to, revenues and funds of the United States, and any funds the deposit of which is subject to the control or regulation of the United States or any of its officers, agents, or employees, and Postal Savings funds), and the Secretary is hereby authorized to deposit public money in such depositaries, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government as may be required of them. The Secretary of the Treasury shall require of the insured banks thus designated satisfactory security by the deposit of United States bonds or otherwise, for the safekeeping and prompt payment of public money deposited with them and for the faithful performance of their duties as financial agents of the Government: *Provided*, That no such security shall be required for the safekeeping and prompt payment of such parts of the deposits of the public money in such banks as are insured deposits and each officer, employee, or agent of the United States having official custody of public funds and lawfully depositing the same in an insured bank shall, for the purpose of determining the amount of the insured deposits, be deemed a depositor in such custodial capacity separate and distinct from any other officer, employee, or agent of the United States having official custody of public funds and lawfully depositing the same in the same insured bank in custodial capacity. Notwithstanding any other provision of law, no department, board, agency, instrumentality, officer, employee, or agent of the United States shall issue or permit to continue in effect any regulations, rulings, or instructions, or enter into or approve any contracts or perform any other acts having to do with

the deposit, disbursement, or expenditure of public funds, or the deposit, custody, or advance of funds subject to the control of the United States as trustee or otherwise which shall discriminate against or prefer national banking associations, State banks members of the Federal Reserve System, or insured banks not members of the Federal Reserve System, by class, or which shall require those enjoying the benefits, directly or indirectly, of disbursed public funds so to discriminate. All Acts or parts thereof in conflict herewith are hereby repealed. The terms "insured bank" and "insured deposit" as used in this Act shall be construed according to the definitions of such terms in the Act of August 23, 1935 (49 Stat. 684), as amended (U. S. C., title 12, sec. 264).

[U. S. C., title 12, sec. 265. For definitions of "insured bank" and "insured deposit", see sec.12B(c) of Federal Reserve Act (pp. 43, 44).]

National banks as depositories

Section 5153, Revised Statutes, as amended

SEC. 5153. All national banking associations, designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. The Secretary of the Treasury shall require the associations thus designated to give satisfactory security, by the deposit of United States bonds and otherwise, for the safe-keeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the Government: *Provided*, That the Secretary shall, on or before the first of January of each year, make a public statement of the securities required during that year for such deposits. And every association so designated as receiver or depositary of the public money shall take and receive at par all of the national currency bills, by whatever association issued, which have been paid into the Government for internal revenue, or for loans or stocks: *Provided*, That the Secretary of the Treasury shall distribute the deposits herein provided for, as far as practicable, equitably between the different States and sections.

[U. S. C., title 12, sec. 90. As amended by Acts of March 3, 1901 (31 Stat. 1448); March 4, 1907 (34 Stat. 1290); December 23, 1913 (38 Stat. 274); August 4, 1914 (38 Stat. 682).]

Any association may, upon the deposit with it of public money of a State or any political subdivision thereof, give security for the safekeeping and prompt payment of the money so deposited, of the same kind as is authorized by the law of the State in which such association is located in the case of other banking institutions in the State.

[U. S. C., title 12, sec. 90. As added by Act of June 25, 1930 (46 Stat. 809).]

Depositories of funds of Federal land banks

Sections 5 and 13 of Federal Farm Loan Act of July 17, 1916 (39 Stat. 364, 372) as amended

SEC. 5.—

* * * * *

At least twenty-five per centum of that part of the capital of any Federal land bank for which stock is outstanding in the name of national farm loan associations shall be held in quick assets, and may consist of cash in the vaults of said land bank, or in deposits in member banks of the Federal reserve system, or in readily marketable securities which are approved under rules and regulations of the Federal Farm Loan Board: *Provided*, That not less than five per centum of such capital shall be invested in United States Government bonds.

* * * * *

[U. S. C., title 12, sec. 697. Part of original Federal Farm Loan Act of July 17, 1916; not amended. Under the terms of the Executive order of March 27, 1933, of the President of the United States, effective as of May 27, 1933, "all the powers and functions of the Federal Farm Loan Board are transferred to and vested in the farm loan commissioner" whose functions by the same order "are transferred to the jurisdiction and control of the Farm Credit Administration"; and subsec. (a) of sec. 80 of title VIII of the Farm Credit Act of 1933, approved June 16, 1933 (48 Stat. 273), provides that "After the date of the enactment of this act, the office of Farm Loan Commissioner shall be known as the office of the Land Bank Commissioner and the Farm Loan Commissioner shall be known as the Land Bank Commissioner."]

SEC. 13. That every Federal land bank shall have power, subject to the limitations and requirements of this Act—

* * * * *

Fifth. To deposit its securities, and its current funds subject to check, with any member bank of the Federal Reserve System, and to receive interest on the same as may be agreed.

* * * * *

[U. S. C., title 12, sec. 781. Part of original Federal Farm Loan Act of July 17, 1916; subparagraph "Fifth" not amended.]

Depositories for National Agricultultural Credit Corporations

Section 212 of Act of March 4, 1923 (42 Stat. 1469)

SEC. 212. That the moneys of National Agricultural Credit Corporations may be kept on deposit subject to check in any member bank of the Federal reserve system.

[U. S. C., title 12, sec. 1271. This subsection not amended. By Act of June 16, 1933 (48 Stat. 272), it was provided that no national agricultural credit corporations should be formed after that date.]

Depositories of Postal Savings Funds

Sections 8 and 9 of Postal Savings Act of June 25, 1910 (36 Stat. 816), as amended

SEC. 8. Notwithstanding any other provision of law, (1) each deposit

in a postal savings depository office shall be a savings deposit, and interest thereon shall be allowed and entered to the credit of the depositor once for each quarter beginning with the first day of the month following the date of such deposit, but no interest shall be allowed to any such depositor with respect to the whole or any part of the funds to his or her credit for any period of less than three months; (2) no interest shall be paid on any such deposit at a rate in excess of that which may lawfully be paid on savings deposits under regulations prescribed by the Board of Governors of the Federal Reserve System pursuant to the Federal Reserve Act, as amended, for member banks of the Federal Reserve System located in or nearest to the place where such depository office is situated; and (3) postal savings depositories may deposit funds on time in member banks of the Federal Reserve System subject to the provisions of the Federal Reserve Act, as amended, and the regulations of the Board of Governors of the Federal Reserve System, with respect to the payment of time deposits and interest thereon. * * *

[U. S. C., title 39, sec. 758. As amended by Acts of June 16, 1933 (48 Stat. 182); August 23, 1935 (49 Stat. 721).]

SEC. 9. That postal savings funds received under the provisions of this Act shall be deposited in solvent banks, whether organized under National or State laws, and whether member banks or not of the Federal Reserve System established by the Act approved December twenty-third, nineteen hundred and thirteen, being subject to National or State supervision and examination, and the sums deposited shall bear interest at the rate of not less than 2¼ per centum per annum, which rate shall be uniform throughout the United States and Territories thereof; but 5 per centum of such funds shall be withdrawn by the board of trustees and kept with the Treasurer of the United States, who shall be treasurer of the board of trustees, in lawful money as a reserve. The board of trustees shall take from such banks such security in public bonds or other securities, authorized by Act of Congress or supported by the taxing power, as the board may prescribe, approve, and deem sufficient and necessary to insure the safety and prompt payment of such deposits on demand: *Provided*, That no such security shall be required in case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended. The funds received at the postal savings depository offices in each city, town, village, and other locality shall be deposited in banks located therein (substantially in proportion to the capital and surplus of each such bank) willing to receive such deposits under the terms of this Act and the regulations made by authority thereof: *Provided, however*, If one or more member banks of the Federal Reserve System established by the Act approved December twenty-third, nineteen hundred and thirteen, exists in the city, town,

village, or locality where the postal savings deposits are made, such deposits shall be placed in such qualified member banks substantially in proportion to the capital and surplus of each such bank, but if such member banks fail to qualify to receive such deposits, then any other bank located therein may, as hereinbefore provided, qualify and receive the same. If no such member bank and no other qualified bank exists in any city, town, village, or locality, or if none where such deposits are made will receive such deposits on the terms prescribed, then such funds shall be deposited under the terms of this Act in the bank most convenient to such locality. * * *

[U. S. C., title 39, sec. 759. As amended by Acts of May 18, 1916 (39 Stat. 159); June 16, 1933 (48 Stat. 182).]

Depositories of proceeds of sale of Liberty bonds

Section 7 of First Liberty Bond Act of April 24, 1917 (40 Stat. 37)

SEC. 7. That the Secretary of the Treasury, in his discretion, is hereby authorized to deposit in such banks and trust companies as he may designate the proceeds, or any part thereof, arising from the sale of the bonds and certificates of indebtedness authorized by this Act, or the bonds previously authorized as described in section four of this Act, and such deposits may bear such rate of interest and be subject to such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the amount so deposited shall not in any case exceed the amount withdrawn from any such bank or trust company and invested in such bonds or certificates of indebtedness plus the amount so invested by such bank or trust company, and such deposits shall be secured in the manner required for other deposits by section fifty-one hundred and fifty-three, Revised Statutes, and amendments thereto: *Provided further*, That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, as amended by the Federal Reserve Act and the amendments thereof, with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositaries.

[U. S. C., title 31, sec. 755a. This section of First Liberty Bond Act has not been amended. This section in effect amends sec. 15, Federal Reserve Act, which relates to government deposits (p. 86). As to reserves against public moneys of the United States, see sec. 19, par. 14, of Federal Reserve Act (p. 102).]

Section 8 of Second Liberty Bond Act of September 24, 1917 (40 Stat. 291), as amended

SEC. 8. That the Secretary of the Treasury, in his discretion, is hereby authorized to deposit, in such incorporated banks and trust companies as he may designate, the proceeds, or any part thereof, arising from the sale of the bonds and certificates of indebtedness, Treasury bills

and war-savings certificates authorized by this Act, and arising from the payment of income and excess profits taxes, and such deposits shall bear such rate or rates of interest, and shall be secured in such manner, and shall be made upon and subject to such terms and conditions as the Secretary of the Treasury may from time to time prescribe: *Provided*, That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, as amended by the Federal reserve Act, and the amendments thereof, with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositaries. The Secretary of the Treasury is hereby authorized to designate depositaries in foreign countries with which shall be deposited all public money which it may be necessary or desirable to have on deposit in such countries to provide for current disbursements to the military and naval forces of the United States and to the diplomatic and consular and other representatives of the United States in and about such countries until six months after the termination of the war between the United States and the Imperial German Government, and to prescribe the terms and conditions of such deposits.

[U. S. C., title 31, sec. 771. As amended by sec. 5 of Third Liberty Bond Act of April 4, 1918 (40 Stat. 504) and by Act of January 30, 1934 (48 Stat. 343). This section in effect amends sec. 15, Federal Reserve Act, which relates to government deposits (p. 86). As to reserves against public moneys of the United States, see sec. 19, par. 14, of Federal Reserve Act (p. 102).]

Deposits of bankrupt estates

Section 61 of Act of July 1, 1898 (30 Stat. 562), as amended

Sec. 61. DEPOSITORIES FOR MONEY—The judges of the several courts of bankruptcy shall designate, by order, banking institutions as depositories for the money of estates under this Act, as convenient as may be to the residences of receivers and trustees, and shall require from each such banking institution a good and sufficient bond with surety, to secure the prompt repayment of the deposit. Said judges may, in accordance with the provisions of, and the authority conferred in section 1126 of the Revenue Act of 1926, as amended (U. S. C., title 6, sec. 15), accept the deposit of the securities therein designated, in lieu of a surety or sureties upon such bond and may, from time to time as occasion may require, by like order increase or decrease the number of depositories or the amount of any bond or other security or change such depositories: *Provided*, That no security in the form of a bond or otherwise shall be required in the case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended: *And provided further*, That depository banks shall place such securities, accepted for deposit in lieu of a surety or sureties upon depository bonds, in the

custody of Federal Reserve banks or branches thereof designated by the judges of the several courts of bankruptcy, subject to the orders of such judges. All national banking associations designated as depositories, pursuant to the provisions of this section of this Act, are authorized to give such security as may be required. All pledges of securities heretofore made for the purposes herein named are hereby ratified, validated and approved.

[U. S. C., title 11, sec. 101. As amended by Acts of August 23, 1935 (49 Stat. 721); and June 22, 1938 (52 Stat. 872).]

Deposits of receivership moneys

Section 5234, Revised Statutes, as amended

SEC. 5234. On becoming satisfied * * * that any association has refused to pay its circulating notes * * * and is in default, the Comptroller of the Currency may forthwith appoint a receiver, and require of him such bond and security as he deems proper. Such receiver, under the direction of the Comptroller, shall take possession of the books, records, and assets of every description of such association, collect all debts, dues, and claims belonging to it, and, upon the order of a court of record of competent jurisdiction, may sell or compound all bad or doubtful debts, and, on a like order, may sell all the real and personal property of such association, on such terms as the court shall direct; and may, if necessary to pay the debts of such association, enforce the individual liability of the stockholders. Such receiver, shall pay over all money so made to the Treasurer of the United States, subject to the order of the Comptroller, and also make report to the Comptroller of all his acts and proceedings. *Provided*, That the comptroller may, if he deems proper, deposit any of the money so made in any regular Government depositary, or in any State or national bank either of the city or town in which the insolvent bank was located, or of a city or town as adjacent thereto as practicable; if such deposit is made he shall require the depositary to deposit United States bonds or other satisfactory securities with the Treasurer of the United States for the safekeeping and prompt payment of the money so deposited: *Provided*, That no security in the form of deposit of United States bonds, or otherwise, shall be required in the case of such parts of the deposits as are insured under section 12B of the Federal Reserve Act, as amended. Such depositary shall pay upon such money interest at such rate as the comptroller may prescribe, not less, however, than two per centum per annum upon the average monthly amount of such deposits.

[U. S. C., title 12, sec. 192. As amended by Acts of May 15, 1916 (39 Stat. 121); August 23, 1935 (49 Stat. 721).]

Depositories of employment taxes

Section 1631 of Internal Revenue Code of February 10, 1939 (53 Stat. 1) as added by Current Tax Payment Act of June 9, 1943 (57 Stat. 138)

SEC. 1631. **Use of government depositaries in connection with payment of taxes.**

The Secretary may authorize incorporated banks or trust companies which are depositaries or financial agents of the United States to receive any taxes under this chapter in such manner, at such times, and under such conditions as he may prescribe; and he shall prescribe the manner, times, and conditions under which the receipt of such taxes by such depositaries and financial agents is to be treated as payment of such taxes to the collectors.

[U. S. C., title 26, sec. 1631. The "chapter" referred to in this section is chapter 9 of the Internal Revenue Code relating to employment taxes, including Social Security taxes and income taxes withheld by employers.]

NUMBER OF DIRECTORS

Section 31 of Banking Act of June 16, 1933 (48 Stat. 194), as indirectly (see Note) amended by Banking Act of August 23, 1935 (49 Stat. 708)

[**Partially repealed; see note.**] SEC. 31. After one year from the date of enactment of this Act, notwithstanding any other provision of law, the board of directors, board of trustees, or other similar governing body of every national banking association and of every State bank or trust company which is a member of the Federal Reserve System shall consist of not less than five nor more than twenty-five members; [and every director, trustee, or other member of such governing body shall be the bona fide owner in his own right of shares of stock of such banking association, State bank or trust company having a par value in the aggregate of not less than $2,500, unless the capital of the bank shall not exceed $50,000, in which case he must own in his own right shares having a par value in the aggregate of not less than $1,500, or unless the capital of the bank shall not exceed $25,000, in which case he must own in his own right shares having a par value in the aggregate of not less than $1,000.] If any national banking association violates the provisions of this section and continues such violation after thirty days' notice from the Comptroller of the Currency, the said Comptroller may appoint a receiver or conservator therefor, in accordance with the provisions of existing law. If any State bank or trust company which is a member of the Federal Reserve System violates the provisions of this section and continues such violation after thirty days' notice from the Board of Governors of the Federal Reserve System, it shall be subject to the forfeiture of its membership in the Federal Reserve System in accordance with the provisions of section 9 of the Federal Reserve Act, as amended.

[U. S. C., title 12, sec. 71a. The language enclosed in brackets was in effect repealed by the Banking Act of August 23, 1935 (49 Stat. 708), which amended section 4 of the Act of June 16, 1934 (48 Stat. 971) to read as follows:

"SEC. 4. So much of section 31 of the Banking Act of 1933, as amended, as relates to stock ownership by directors, trustees, or members of similar governing bodies of any national banking association, or of any State bank or trust company which is a member of the Federal Reserve System, is hereby repealed."]

IMPAIRMENT OF CAPITAL

Section 345 of Banking Act of August 23, 1935 (49 Stat. 722)

SEC. 345. If any part of the capital of a national bank, State member bank, or bank applying for membership in the Federal Reserve System consists of preferred stock, the determination of whether or not the capital of such bank is impaired and the amount of such impairment shall be based upon the par value of its stock even though the amount which the holders of such preferred stock shall be entitled to receive in the event of retirement or liquidation shall be in excess of the par value of such preferred stock. If any such bank or trust company shall have outstanding any capital notes or debentures of the type which the Reconstruction Finance Corporation is authorized to purchase pursuant to the provisions of section 304 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, the capital of such bank may be deemed to be unimpaired if the sound value of its assets is not less than its total liabilities, including capital stock, but excluding such capital notes or debentures and any obligations of the bank expressly subordinated thereto. Notwithstanding any other provision of law, the holders of preferred stock issued by a national banking association pursuant to the provisions of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, shall be entitled to receive such cumulative dividends at a rate not exceeding six per centum per annum on the purchase price received by the association for such stock and, in the event of the retirement of such stock, to receive such retirement price, not in excess of such purchase price plus all accumulated dividends, as may be provided in the articles of association with the approval of the Comptroller of the Currency. If the association is placed in voluntary liquidation, or if a conservator or a receiver is appointed therefor, no payment shall be made to the holders of common stock until the holders of preferred stock shall have been paid in full such amount as may be provided in the articles of association with the approval of the Comptroller of the Currency, not in excess of such purchase price of such preferred stock plus all accumulated dividends.

[U. S. C., title 12, sec. 51b-1. For provisions relating to assessments on stockholders of national banks to make up impairment in capital, see sec. 5205, Revised Statutes (Appendix, p. 186). As to issuance of preferred stock by national banks under the Emergency Banking and Bank Conservation Act, see Appendix, p. 187.]

PURCHASE OF FARM LOAN BONDS

Section 27 of Federal Farm Loan Act of July 17, 1916 (39 Stat. 380)

SEC. 27. * * *

Any member bank of the Federal Reserve System may buy and sell farm loan bonds issued under the authority of this Act.

[U. S. C., title 12, sec. 942.]

EMERGENCY RESTRICTIONS ON BUSINESS

Section 4 of Emergency Banking Act of March 9, 1933 (48 Stat. 2)

SEC. 4. In order to provide for the safer and more effective operation of the National Banking System and the Federal Reserve System, to preserve for the people the full benefits of the currency provided for by the Congress through the National Banking System and the Federal Reserve System, and to relieve interstate commerce of the burdens and obstructions resulting from the receipt on an unsound or unsafe basis of deposits subject to withdrawal by check, during such emergency period as the President of the United States by proclamation may prescribe, no member bank of the Federal Reserve System shall transact any banking business except to such extent and subject to such regulations, limitations and restrictions as may be prescribed by the Secretary of the Treasury, with the approval of the President. Any individual, partnership, corporation, or association, or any director, officer or employee thereof, violating any of the provisions of this section shall be deemed guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $10,000 or, if a natural person, may, in addition to such fine, be imprisoned for a term not exceeding ten years. Each day that any such violation continues shall be deemed a separate offense.

[U. S. C., title 12, sec. 95.]

CRIMINAL OFFENSES

False certification of checks

Section 5208, Revised Statutes, as amended

SEC. 5208. It shall be unlawful for any officer, director, agent, or employee of any Federal reserve bank, or any member bank as defined in the Act of December 23, 1913, known as the Federal Reserve Act, to certify any check drawn upon such Federal reserve bank or member bank unless the person, firm, or corporation drawing the check has on deposit with such Federal reserve bank or member bank, at the time such check is certified, an amount of money not less than the amount specified in such check. Any check so certified by a duly authorized

officer, director, agent, or employee shall be a good and valid obligation against such Federal reserve bank or member bank; but the act of any officer, director, agent, or employee of any such Federal reserve bank or member bank in violation of this section shall, in the discretion of the Board of Governors of the Federal Reserve System, subject such Federal reserve bank to the penalties imposed by section 11, subsection (h) of the Federal Reserve Act, and shall subject such member bank, if a national bank, to the liabilities and proceedings on the part of the Comptroller of the Currency provided for in section 5234, Revised Statutes, and shall, in the discretion of the Board of Governors of the Federal Reserve System, subject any other member bank to the penalties imposed by section 9 of said Federal Reserve Act for the violation of any of the provisions of said Act. Any officer, director, agent, or employee of any Federal reserve bank or member bank who shall willfully violate the provisions of this section, or who shall resort to any device, or receive any fictitious obligation, directly or collaterally, in order to evade the provisions thereof, or who shall certify a check before the amount thereof shall have been regularly deposited in the bank by the drawer thereof, shall be deemed guilty of a misdemeanor and shall, on conviction thereof in any district court of the United States, be fined not more than $5,000, or shall be imprisoned for not more than five years, or both, in the discretion of the court.

[U. S. C., title 12, secs. 501 and 591. As amended by Acts of September 26, 1918 (40 Stat. 972); February 25, 1927 (44 Stat. 1231).]

Embezzlement and abstraction of funds

Section 5209, Revised Statutes, as amended

SEC. 5209. Any officer, director, agent, or employee of any Federal reserve bank, or of any member bank as defined in the Act of December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act, or of any national banking association, or of any insured bank as defined in subsection (c) of section 12B of the Federal reserve Act, who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of such Federal reserve bank or member bank or such national banking association or insured bank, or who, without authority from the directors of such Federal reserve bank or member bank, or such national banking association or insured bank, issues or puts in circulation any of the notes of such Federal reserve bank or member bank, or such national banking association or insured bank, or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or who makes any false entry in any book, report, or statement of such Federal reserve bank or member bank, or such national banking asso-

ciation or insured bank, with intent in any case to injure or defraud such Federal reserve bank or member bank, or such national banking association or insured bank, or any other company, body politic or corporate, or any individual person, or to deceive any officer of such Federal reserve bank or member bank, or such national banking association or insured bank, or the Comptroller of the Currency or the Federal Deposit Insurance Corporation, or any agent or examiner appointed to examine the affairs of such Federal reserve bank or member bank, or such national banking association or insured bank, or the Board of Governors of the Federal Reserve System; and every receiver of a national banking association who, with like intent to defraud or injure, embezzles, abstracts, purloins, or willfully misapplies any of the moneys, funds, or assets of his trust, and every person who, with like intent, aids or abets, any officer, director, agent, employee, or receiver in any violation of this section shall be deemed guilty of a misdemeanor, and upon conviction thereof in any district court of the United States shall be fined not more than $5,000 or shall be imprisoned for not more than five years, or both, in the discretion of the court.

[U. S. C., title 12, sec. 592. As amended by Acts of September 26, 1918 (40 Stat. 972); August 23, 1935 (49 Stat. 712).]

Any Federal reserve agent, or any agent or employee of such Federal reserve agent, or of the Board of Governors of the Federal Reserve System, who embezzles, abstracts, or willfully misapplies any moneys, funds, or securities intrusted to his care, or without complying with or in violation of the provisions of the Federal reserve Act, issues or puts in circulation any Federal Reserve notes shall be guilty of a misdemeanor and upon conviction in any district court of the United States shall be fined not more than $5,000 or imprisoned for not more than five years, or both, in the discretion of the court.

[U. S. C., title 12, sec. 592. As added by Act of September 26, 1918 (40 Stat. 972).]

Robbery of banks

Act approved May 18, 1934 (48 Stat. 783), as amended

An Act To provide punishment for certain offenses committed against banks organized or operating under laws of the United States or any member of the Federal Reserve System.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That as used in this Act the term "bank" includes any member bank of the Federal Reserve System, and any bank, banking association, trust company, savings bank, or other banking institution organized or operating under the laws of the United States and any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act, as amended.

[U. S. C., title 12, sec. 588a. As amended by Act of August 23, 1935 (49 Stat. 720).]

SEC. 2. (a) Whoever, by force and violence, or by putting in fear, feloniously takes, or feloniously attempts to take, from the person or presence of another any property or money or any other thing of value belonging to, or in the care, custody, control, management, or possession of, any bank; or whoever shall enter or attempt to enter any bank, or any building used in whole or in part as a bank, with intent to commit in such bank or building, or part thereof, so used, any felony or larceny, shall be fined not more than $5,000 or imprisoned not more than twenty years, or both; or whoever shall take and carry away, with intent to steal or purloin, any property or money or any other thing of value exceeding $50 belonging to, or in the care, custody, control, management, or possession of any bank, shall be fined not more than $5,000 or imprisoned not more than ten years, or both; or whoever shall take and carry away, with intent to steal or purloin, any property or money or any other thing of value not exceeding $50 belonging to, or in the care, custody, control, management, or possession of any bank, shall be fined not more than $1,000 or imprisoned not more than one year, or both.

[U. S. C., title 12, sec. 588b. As amended by Act of August 24, 1937 (50 Stat. 749).]

(b) Whoever, in committing, or in attempting to commit, any offense defined in subsection (a) of this section, assaults any person, or puts in jeopardy the life of any person by the use of a dangerous weapon or device, shall be fined not less than $1,000 nor more than $10,000 or imprisoned not less than five years nor more than twenty-five years, or both.

[U. S. C., title 12, sec. 588b.]

(c) Whoever shall receive, possess, conceal, store, barter, sell, or dispose of any property or money or other thing of value knowing the same to have been taken from a bank in violation of subsection (a) of this section shall be fined not more than $5,000 or imprisoned not more than ten years, or both.

[U. S. C., title 12, sec. 588b. As added by Act of June 29, 1940 (54 Stat. 695).]

SEC. 3. Whoever, in committing any offense defined in this Act, or in avoiding or attempting to avoid apprehension for the commission of such offense, or in freeing himself or attempting to free himself from arrest or confinement for such offense, kills any person, or forces any person to accompany him without the consent of such person, shall be punished by imprisonment for not less than 10 years, or by death if the verdict of the jury shall so direct.

[U. S. C., title 12, sec. 588c.]

SEC. 4. Jurisdiction over any offense defined by this Act shall not be reserved exclusively to courts of the United States.

[U. S. C., title 12, sec. 588d.]

III. NATIONAL BANKS

DEALINGS IN INVESTMENT SECURITIES

Paragraph "Seventh" of Section 5136, Revised Statutes, as amended

SEC. 5136. Upon duly making and filing articles of association and an organization certificate, the association shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

* * * * *

Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title. The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: *Provided*, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on the date of enactment of the Banking Act of 1935. As used in this section the term "investment securities" shall mean marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term "investment securities" as may by regulation be prescribed by the Comptroller of the Currency. Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation. The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of

any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended, or issued by the Federal Home Loan Banks or the Home Owners' Loan Corporation, or obligations which are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States, or obligations of national mortgage associations: *Provided*, That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus.

[U. S. C., title 12, sec. 24. As amended by Acts of February 25, 1927 (44 Stat. 1226); June 16, 1933 (48 Stat. 184); August 23, 1935 (49 Stat. 709); February 3, 1938 (52 Stat. 26). Sec. 16 of the Banking Act of June 16, 1933, amending the above paragraph, provides that "The restrictions of this section as to dealing in investment securities shall take effect one year after the date of the approval of this Act." The Banking Act of 1935, referred to in this paragraph, was approved August 23, 1935.]

BRANCHES

Section 5155, Revised Statutes, as amended

SEC. 5155. The conditions upon which a national banking association may retain or establish and operate a branch or branches are the following:

(a) A national banking association may retain and operate such branch or branches as it may have in lawful operation at the date of the approval of this Act, and any national banking association which has continuously maintained and operated not more than one branch for a period of more than twenty-five years immediately preceding the approval of this Act may continue to maintain and operate such branch.

(b) If a State bank is hereafter converted into or consolidated with a national banking association, or if two or more national banking associations are consolidated, such converted or consolidated association may, with respect to any of such banks, retain and operate any of their branches which may have been in lawful operation by any bank at the date of the approval of the Act.

(c) A national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches: (1) Within the limits of the city, town or village in which said association is situated, if such establishment and operation are at the time expressly authorized to State banks by the law of the State in question; and (2) at any point within the State in which said association is situated, if such establishment and operation are at the time authorized to State banks by the statute law of the State in question by language

specifically granting such authority affirmatively and not merely by implication or recognition, and subject to the restrictions as to location imposed by the law of the State on State banks. In any State in which State banks are permitted by statute law to maintain branches within county or greater limits, if no bank is located and doing business in the place where the proposed agency is to be located, any national banking association situated in such State may, with the approval of the Comptroller of the Currency, establish and operate, without regard to the capital requirements of this section, a seasonal agency in any resort community within the limits of the county in which the main office of such association is located, for the purpose of receiving and paying out deposits, issuing and cashing checks and drafts, and doing business incident thereto: *Provided*, That any permit issued under this sentence shall be revoked upon the opening of a State or national bank in such community. Except as provided in the immediately preceding sentence, no such association shall establish a branch outside of the city, town, or village in which it is situated unless it has a paid-in and unimpaired capital stock of not less than $500,000: *Provided*, That in States with a population of less than one million, and which have no cities located therein with a population exceeding one hundred thousand, the capital shall be not less than $250,000: *Provided*, That in States with a population of less than one-half million, and which have no cities located therein with a population exceeding fifty thousand, the capital shall not be less than $100,000.

(d) The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated.

(e) No branch of any national banking association shall be established or moved from one location to another without first obtaining the consent and approval of the Comptroller of the Currency.

(f) The term "branch" as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received, or checks paid, or money lent.

(g) This section shall not be construed to amend or repeal section 25 of the Federal Reserve Act, as amended, authorizing the establishment by national banking associations of branches in foreign countries, or dependencies, or insular possessions of the United States.

(h) The words "State bank," "State banks," "bank," or "banks," as used in this section, shall be held to include trust companies, savings

banks, or other such corporations or institutions carrying on the banking business under the authority of State laws.

[U. S. C., title 12, sec. 36. This section was completely revised by Act of February 25, 1927 (44 Stat. 1228); subpar. (c) was amended by Acts of June 16, 1933 (48 Stat. 189), and August 23, 1935 (49 Stat. 708); and subpar. (d) was amended by Act of June 16, 1933 (48 Stat. 190). The Act referred to in subpars. (a) and (b) above was approved February 25, 1927.]

LOAN LIMITATIONS

Limitation on loans to one person

Section 5200, Revised Statutes, as amended

SEC. 5200. The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. The term "obligations" shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest. Such limitation of 10 per centum shall be subject to the following exceptions:

(1) Obligations in the form of drafts or bills of exchange drawn in good faith against actually existing values shall not be subject under this section to any limitation based upon such capital and surplus.

(2) Obligations arising out of the discount of commercial or business paper actually owned by the person, copartnership, association, or corporation negotiating the same shall not be subject under this section to any limitation based upon such capital and surplus.

(3) Obligations drawn in good faith against actually existing values and secured by goods or commodities in process of shipment shall not be subject under this section to any limitation based upon such capital and surplus.

(4) Obligations as indorser or guarantor of notes, other than commercial or business paper excepted under (2) hereof, having a maturity of not more than six months, and owned by the person, corporation, association, or copartnership indorsing and negotiating the same, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

(5) Obligations in the form of banker's acceptances of other banks of the kind described in section 13 of the Federal Reserve Act shall not be subject under this section to any limitation based upon such capital and surplus.

(6) Obligations of any person, copartnership, association or corporation, in the form of notes or drafts secured by shipping documents, warehouse receipts or other such documents transferring or securing title covering readily marketable nonperishable staples when such property is fully covered by insurance, if it is customary to insure such staples, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus when the market value of such staples securing such obligation is not at any time less than 115 per centum of the face amount of such obligation, and to an additional increase of limitation of 5 per centum of such capital and surplus in addition to such 25 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 120 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 30 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 125 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 35 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 130 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 40 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 135 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 45 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 140 per centum of the face amount of such additional obligation, but this exception shall not apply to obligations of any one person, copartnership, association or corporation arising from the same transactions and/or secured upon the identical staples for more than ten months.

(7) Obligations of any person, copartnership, association, or corporation in the form of notes or drafts secured by shipping documents or instruments transferring or securing title covering livestock or giving a lien on livestock when the market value of the livestock securing the

obligation is not at any time less than 115 per centum of the face amount of the notes covered by such documents shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

(8) Obligations of any person, copartnership, association, or corporation in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, shall (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

(9) Obligations representing loans to any national banking association or to any banking institution organized under the laws of any State, or to any receiver, conservator, or superintendent of banks, or to any other agent, in charge of the business and property of any such association or banking institution, when such loans are approved by the Comptroller of the Currency, shall not be subject under this section to any limitation based upon such capital and surplus.

(10) Obligations shall not be subject under this section to any limitation based upon such capital and surplus to the extent that such obligations are secured or covered by guaranties, or by commitments or agreements to take over or to purchase, made by any Federal Reserve bank or by the United States or any department, bureau, board, commission, or establishment of the United States, including any corporation wholly owned directly or indirectly by the United States: *Provided*, That such guaranties, agreements, or commitments are unconditional and must be performed by payment of cash or its equivalent within sixty days after demand. The Comptroller of the Currency is hereby authorized to define the terms herein used if and when he may deem it necessary.

[U. S. C., title 12, sec. 84. As amended by Acts of June 22, 1906 (34 Stat. 451); September 24, 1918 (40 Stat. 967); October 22, 1919 (41 Stat. 296); February 25, 1927 (44 Stat. 1229); May 20, 1933 (48 Stat. 72); June 16, 1933 (48 Stat. 191); August 23, 1935 (49 Stat. 713); June 11, 1942 (56 Stat. 356). The words "and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest", contained in the second sentence of this section, were added by sec. 26 of the Banking Act of June 16, 1933, which also provides in subsec. (b) thereof that "The amendment made by this section shall not apply to such obligaitons of subsidiaries held by such association on the date this section takes effect." Paragraph (10) of this section was added by the Act of June 11, 1942 (56 Stat. 356). Notwithstanding any other law or regulation, national banks are authorized by section 19(b) of the District of Columbia Redevelopment Act of 1945, approved August 2, 1946, to make loans to redevelopment corporations to finance the improvement of any project area as provided in such Act (Pub. No. 592, 79th Cong.).]

Loans on or purchase of own stock

Section 5201, Revised Statutes

SEC. 5201. No association shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months from the time of its purchase, be sold or disposed of at public or private sale; or, in default thereof, a receiver may be appointed to close up the business of the association, according to section fifty-two hundred and thirty-four.

[U. S. C., title 12, sec. 83. Not amended.]

REPORTS OF CONDITION

Section 5211, Revised Statutes, as amended

SEC. 5211. Every association shall make to the Comptroller of the Currency not less than three reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president, or of the cashier, or of a vice president, or of an assistant cashier of the association designated by its board of directors to verify such reports in the absence of the president and cashier, taken before a notary public properly authorized and commissioned by the State in which such notary resides and the association is located, or any other officer having an official seal, authorized in such State to administer oaths, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the association at the close of business on any past day by him specified, and shall be transmitted to the comptroller within five days after the receipt of a request or requisition therefor from him; and the statement of resources and liabilities, together with acknowledgment and attestation in the same form in which it is made to the comptroller, shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the comptroller. The comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of its condition.

[U. S. C., title 12, sec. 161. As amended by Acts of February 27, 1877 (19 Stat. 252); December 28, 1922 (42 Stat. 1067); February 25, 1927 (44 Stat. 1232).]

Each national banking association shall obtain from each of its affiliates other than member banks and furnish to the Comptroller of the Currency not less than three reports during each year, in such form as the Comptroller may prescribe, verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, disclosing the information hereinafter provided for as of dates identical with those for which the Comptroller shall during such year require the reports of the condition of the association. For the purpose of this section the term "affiliate" shall include holding company affiliates as well as other affiliates. Each such report of an affiliate shall be transmitted to the Comptroller at the same time as the corresponding report of the association, except that the Comptroller may, in his discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Comptroller of the Currency shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the association under the same conditions as govern its own condition reports. The Comptroller shall also have power to call for additional reports with respect to any such affiliate whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of the conditions of the association with which it is affiliated. Such additional reports shall be transmitted to the Comptroller of the Currency in such form as he may prescribe. Any such affiliated bank which fails to obtain and furnish any report required under this section shall be subject to a penalty of $100 for each day during which such failure continues.

[U. S. C., title 12, sec. 161. As added by Act of June 16, 1933 (48 Stat. 191). For definition of "affiliate" and "holding company affiliate", see section 2 of Banking Act of June 16, 1933 (Appendix, p. 158).]

CAPITAL STOCK

Minimum capital

Section 5138, Revised Statutes, as amended

SEC. 5138. After this section as amended takes effect, no national banking association shall be organized with a less capital than $100,000, except that such associations with a capital of not less than $50,000 may be organized in any place the population of which does not exceed six thousand inhabitants. No such association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than $200,000, except that in the outlying districts of such a city where the State laws permit the organization of State banks with a capital of $100,000 or less, national banking associations now organized or hereafter organized may, with the approval of the Comptroller of

the Currency, have a capital of not less than $100,000. No such association shall hereafter be authorized to commence the business of banking until it shall have a paid-in surplus equal to 20 per centum of its capital: *Provided*, That the Comptroller of the Currency may waive this requirement as to a State bank converting into a national banking association, but each such State bank which is converted into a national banking association shall, before the declaration of a dividend on its shares of common stock, carry not less than one-half part of its net profits of the preceding half year to its surplus fund until it shall have a surplus equal to 20 per centum of its capital: *Provided*, That for the purposes of this section any amounts paid into a fund for the retirement of any preferred stock of any such converted State bank out of its net earnings for such half-year period shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the converted State bank shall be obligated to transfer to surplus the amount so paid into such retirement fund for such period on account of the preferred stock as such stock is retired.

[U. S. C., title 12, sec. 51. As amended by Acts of March 14, 1900 (31 Stat. 48); February 25, 1927 (44 Stat 1227); June 16, 1933 (48 Stat 185); and by Act of August 23, 1935 (49 Stat. 709), which added the last sentence. See sec. 303 of title II of Act of March 9, 1933, for definition of terms "common stock", "capital", and "capital stock" (Appendix, p. 188).]

Divorce of stock from stock of other corporations

Section 5139, Revised Statutes, as amended

SEC. 5139. The capital stock of each association shall be divided into shares of $100 each, or into shares of such less amount as may be provided in the articles of association, and be deemed personal property, and transferable on the books of the association in such manner as may be prescribed in the by-laws or articles of association. Every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all rights and liabilities of the prior holder of such shares; and no change shall be made in the articles of association by which the rights, remedies, or security of the existing creditors of the association shall be impaired.

[U. S. C., title 12, sec. 52. As amended by Act of February 25, 1927 (44 Stat. 1233).]

Certificates hereafter issued representing shares of stock of the association shall state (1) the name and location of the association, (2) the name of the holder of record of the stock represented thereby, (3) the number and class of shares which the certificate represents, and (4) if the association shall issue stock of more than one class, the respective rights, preferences, privileges, voting rights, powers, restrictions, limitations, and qualifications of each class of stock issued shall be stated in

full or in summary upon the front or back of the certificates or shall be incorporated by a reference to the articles of association set forth on the front of the certificates. Every certificate shall be signed by the president and the cashier of the association, or by such other officers as the bylaws of the association shall provide, and shall be sealed with the seal of the association.

[U. S. C., title 12, sec. 52. As added by Act of August 23, 1935 (49 Stat. 720).]

After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any such association shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such association: *Provided*, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a national banking association.

[U. S. C., title 12, sec. 52. As added by Act of June 16, 1933 (48 Stat. 186); and amended by Act of August 23, 1935 (49 Stat. 710). The Banking Act of 1935, referred to in this paragraph, was approved August 23, 1935.]

Dividends; accumulation of surplus

Section 5199, Revised Statutes, as amended

SEC. 5199. The directors of any association may, semiannually, declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend on its shares of common stock, carrying[1] not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common capital: *Provided*, That for the purposes of this section, any amounts paid into a fund for the retirement of any preferred stock of any such association out of its net earnings for such half-year period shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the association shall be obligated to transfer to surplus the amounts so paid into such retirement fund for such period on account of the preferred stock as such stock is retired.

[1] So in statute as enacted.

[U. S. C., title 12, sec. 60. As amended by Act of August 23, 1935 (49 Stat. 712). As to payment of unearned dividends by national banks, see sec. 5204, Revised Statutes (Appendix, p. 186).]

Withdrawal of capital—Unearned dividends

Section 5204, Revised Statutes

SEC. 5204. No association, or any member thereof, shall, during the time it shall continue its banking operations, withdraw, or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. If losses have at any time been sustained by any such association, equal to or exceeding its undivided profits then on hand, no dividend shall be made; and no dividend shall ever be made by any association, while it continues its banking operations, to an amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. All debts due to any associations, on which interest is past due and unpaid for a period of six months, unless the same are well secured, and in process of collection, shall be considered bad debts within the meaning of this section. But nothing in this section shall prevent the reduction of the capital stock of the association under section fifty-one hundred and forty-three.

[U. S. C., title 12, sec. 56. Not amended.]

Impairment of capital

Section 5205, Revised Statutes, as amended

SEC. 5205. Every association which shall have failed to pay up its capital stock, as required by law, and every association whose capital stock shall have become impaired by losses or otherwise, shall, within three months after receiving notice thereof from the Comptroller of the Currency, pay the deficiency in the capital stock, by assessment upon the shareholders pro rata for the amount of capital stock held by each; and the Treasurer of the United States shall withhold the interest upon all bonds held by him in trust for any such association, upon notification from the Comptroller of the Currency, until otherwise notified by him. If any such association shall fail to pay up its capital stock, and shall refuse to go into liquidation, as provided by law, for three months after receiving notice from the Comptroller, a receiver may be appointed to close up the business of the association, according to the provisions of section fifty-two hundred and thirty-four: *And provided*, That if any shareholder or shareholders of such bank shall neglect or refuse, after three months' notice, to pay the assessment, as provided in this section, it shall be the duty of the board of directors to cause a sufficient amount of the capital stock of such shareholder or shareholders to be sold at public auction (after thirty days' notice shall be given by posting such notice of sale in the office of the bank, and by publishing such notice in a newspaper of the city or town in which the bank is located, or in a

newspaper published nearest thereto), to make good the deficiency, and the balance, if any, shall be returned to such delinquent shareholder or shareholders.

[U. S. C., title 12, sec. 55. As amended by Act of June 30, 1876 (19 Stat. 64). As to determination of whether capital of member banks is impaired, see sec. 345 of Banking Act of August 23, 1935 (Appendix, p. 171).]

Liability of shareholders

Section 22 of Banking Act of June 16, 1933 (48 Stat. 189), as amended

SEC. 22. The additional liability imposed upon shareholders in national banking associations by the provisions of section 5151 of the Revised Statutes, as amended, and section 23 of the Federal Reserve Act, as amended (U. S. C., title 12, secs. 63 and 64), shall not apply with respect to shares in any such association issued after the date of enactment of this Act. Such additional liability shall cease on July 1, 1937, with respect to all shares issued by any association which shall be transacting the business of banking on July 1, 1937: *Provided*, That not less than six months prior to such date, such association shall have caused notice of such prospective termination of liability to be published in a newspaper published in the city, town, or county in which such association is located, and if no newspaper is published in such city, town, or county, then in a newspaper of general circulation therein. If the association fail to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six month[1] subsequent to publication, in the manner above provided.

[U. S. C., title 12, sec. 64a. The last two sentences of this section were added by Act of August 23, 1935 (49 Stat. 708). For sec. 5151, Revised Statutes, see U. S. C., title 12, sec. 63.]

Issuance of preferred stock and purchase by Reconstruction Finance Corporation

Title III of Act of March 9, 1933 (48 Stat. 5)

TITLE III

Issuance of preferred stock by national banks

SEC. 301. Notwithstanding any other provision of law, any national banking association may, with the approval of the Comptroller of the Currency and by vote of shareholders owning a majority of the stock of such association, upon not less than five days' notice, given by registered mail pursuant to action taken by its board of directors, issue preferred stock of one or more classes, in such amount and with such par value as shall be approved by said Comptroller, and make such amendments to its articles of association as may be necessary for this purpose; but, in the case of any newly organized national banking association

[1] So in statute as enacted.

which has not yet issued common stock, the requirement of notice to and vote of shareholders shall not apply. No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid in and notice thereof, duly acknowledged before a notary public by the president, vice president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate obtained specifying the amount of such issue of preferred stock and his approval thereof and that the amount has been duly paid in as a part of the capital of such association; which certificate shall be deemed to be conclusive evidence that such preferred stock has been duly and validly issued.

[U. S. C., title 12, sec. 51a. As amended by Acts of June 15, 1933 (48 Stat. 147); August 23, 1935 (49 Stat. 720).]

Dividends; liability of stockholders

SEC. 302. (a) Notwithstanding any other provision of law, whether relating to restriction upon the payment of dividends upon capital stock or otherwise, the holders of such preferred stock shall be entitled to receive such cumulative dividends at a rate not exceeding 6 per centum per annum and shall have such voting and conversion rights and such control of management, and such stock shall be subject to retirement in such manner and upon such conditions, as may be provided in the articles of association with the approval of the Comptroller of the Currency. The holders of such preferred stock shall not be held individually responsible as such holders for any debts, contracts, or engagements of such association, and shall not be liable for assessments to restore impairments in the capital of such association as now provided by law with reference to holders of common stock.

[U. S. C., title 12, sec. 51b. As amended by Act of June 15, 1933 (48 Stat. 148). As to dividends on preferred stock of national banks, see also sec. 345 of Banking Act of August 23, 1935 (Appendix, p. 171).]

Restriction on payment of dividends

(b) No dividends shall be declared or paid on common stock until the cumulative dividends on the preferred stock shall have been paid in full; and, if the association is placed in voluntary liquidation or a conservator or a receiver is appointed therefor, no payments shall be made to the holders of the common stock until the holders of the preferred stock shall have been paid in full the par value of such stock plus all accumulated dividends.

[U. S. C., title 12, sec. 51b. See also sec. 345 of Banking Act of August 23, 1935 (Appendix, p. 171).]

Definitions of "common stock", "capital", and "capital stock"

SEC. 303. The term "common stock" as used in this title means stock of national banking associations other than preferred stock issued under

the provisions of this title. The term "capital" as used in provisions of law relating to the capital of national banking associations shall mean the amount of unimpaired common stock plus the amount of preferred stock outstanding and unimpaired; and the term "capital stock", as used in section 12 of the Act of March 14, 1900, shall mean only the amount of common stock outstanding.

[U. S. C., title 12, sec. 51c.]

Subscription to stock by Reconstruction Finance Corporation

SEC. 304. If in the opinion of the Secretary of the Treasury any national banking association or any State bank or trust company is in need of funds for capital purposes either in connection with the organization or reorganization of such association, State bank or trust company or otherwise, he may, with the approval of the President, request the Reconstruction Finance Corporation to subscribe for preferred stock in such association, State bank or trust company, or to make loans secured by such stock as collateral, and the Reconstruction Finance Corporation may comply with such request. Nothing in this section shall be construed to authorize the Reconstruction Finance Corporation to subscribe for preferred stock in any State bank or trust company if under the laws of the State in which said State bank or trust company is located the holders of such preferred stock are not exempt from double liability. In any case in which under the laws of the State in which it is located a State bank or trust company is not permitted to issue preferred stock exempt from double liability, or if such laws permit such issue of preferred stock only by unanimous consent of stockholders, the Reconstruction Finance Corporation is authorized, for the purposes of this section, to purchase the legally issued capital notes or debentures of such State bank or trust company. The Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury, and under such rules and regulations as he may prescribe, sell in the open market the whole or any part of the preferred stock, capital notes, or debentures of any national banking association, State bank or trust company acquired by the Corporation pursuant to this section. The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by an amount sufficient to carry out the provisions of this section. As used in this section, the term "State bank or trust company" shall include other banking corporations engaged in the business of industrial banking and under the supervision of State banking departments or of the Comptroller of the Currency.

[U. S. C., title 12, sec. 51d. As amended by Act of March 24, 1933 (48 Stat. 21).]

Notwithstanding any other provision of law or any privilege or consent to tax expressly or impliedly granted thereby, the shares of preferred stock of national banking associations, and the shares of preferred stock, capital notes, and debentures of State banks and trust companies, heretofore or hereafter acquired by Reconstruction Finance Corporation, and the dividends or interest derived therefrom by the Reconstruction Finance Corporation, shall not, so long as Reconstruction Finance Corporation shall continue to own the same, be subject to any taxation by the United States, by any Territory, dependency, or possession thereof, or the District of Columbia, or by any State, county, municipality, or local taxing authority, whether now, heretofore, or hereafter imposed, levied, or assessed, and whether for a past, present, or future taxing period.

[U. S. C., title 12, sec. 51d. As added by Act of March 20, 1936 (49 Stat. 1185).]

The Reconstruction Finance Corporation is authorized to purchase at par any part of the stock of any Federal home-loan bank owned by the United States, as evidenced by certificates, receipts, or otherwise, in amounts to be determined by the Corporation, with the approval of the Federal Loan Administrator; and the Secretary of the Treasury is authorized on behalf of the United States to sell such stock to the Corporation. Any such stock so purchased by the Corporation shall be held subject to the same conditions, requirements, rights, and privileges (including all dividend and retirement provisions) as are provided by law for or in connection with the ownership of such stock by the United States.

[U. S. C., title 12, sec. 51d. As added by Act of June 25, 1940 (54 Stat. 572).]

TRANSFER OF TRUST POWERS UPON CONSOLIDATION

Section 3 of Act of November 7, 1918 (40 Stat. 1043), as amended

SEC. 3. That any bank incorporated under the laws of any State, or any bank incorporated in the District of Columbia, may be consolidated with a national banking association * * *. Upon such a consolidation, or upon a consolidation of two or more national banking associations under section 1 of this Act, the corporate existence of each of the constituent banks and national banking associations participating in such consolidation shall be merged into and continued in the consolidated national banking association and the consolidated association shall be deemed to be the same corporation as each of the constituent institutions. All the rights, franchises, and interests of each of such constituent banks and national banking associations in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such consolidated national banking association without any deed or other transfer; and such consolidated national banking association, by virtue

of such consolidation and without any order or other action on the part of any court or otherwise, shall hold and enjoy the same and all rights of property, franchises, and interests, including appointments, designations, and nominations and all other rights and interests as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics and in every other fiduciary capacity, in the same manner and to the same extent as such rights, franchises, and interests were held or enjoyed by any such constituent institution at the time of such consolidation: *Provided, however,* That where any such constituent institution at the time of such consolidation was acting under appointment of any court as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics or in any other fiduciary capacity, the consolidated national banking association shall be subject to removal by a court of competent jurisdiction in the same manner and to the same extent as was such constituent corporation prior to the consolidation, and nothing herein contained shall be construed to impair in any manner the right of any court to remove such a consolidated national banking association and to appoint in lieu thereof a substitute trustee, executor, or other fiduciary, except that such right shall not be exercised in such a manner as to discriminate against national banking associations, nor shall any such consolidated association be removed solely because of the fact that it is a national banking association. * * *.

[U. S. C., title 12, sec. 34a. This section was added by Act of February 25, 1927 (44 Stat. 1224) and amended by Acts of June 16, 1933 (48 Stat. 190) and August 23, 1935 (49 Stat. 719); but the provisions above set forth were not changed by the Act of August 23, 1935.

The words "State bank", "State banks", "bank", or "banks", as used in this section, shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws.

[U. S. C., title 12, sec. 34a. As added by Act of February 25, 1927 (44 Stat. 1225).]

RESUMPTION OF BUSINESS BY CLOSED BANK

Section 29 of Banking Act of June 16, 1933 (48 Stat. 193)

SEC. 29. In any case in which, in the opinion of the Comptroller of the Currency, it would be to the advantage of the depositors and unsecured creditors of any national banking association whose business has been closed, for such association to resume business upon the retention by the association, for a reasonable period to be prescribed by the Comptroller, of all or any part of its deposits, the Comptroller is authorized, in his discretion, to permit the association to resume business if deposi-

tors and unsecured creditors of the association representing at least 75 per centum of its total deposit and unsecured credit liabilities consent in writing to such retention of deposits. Nothing in this section shall be construed to affect in any manner any powers of the Comptroller under the provisions of law in force on the date of enactment of this Act with respect to the reorganization of national banking associations.

[U. S. C., title 12, sec. 197a.]

CONSERVATORS

Title II of Act of March 9, 1933 (48 Stat. 2), as amended

SEC. 201. This title may be cited as the "Bank Conservation Act."

[U. S. C., title 12, sec. 201.]

Definitions of terms

SEC. 202. As used in this title, the term "bank" means (1) any national banking association, and (2) any bank or trust company located in the District of Columbia and operating under the supervision of the Comptroller of the Currency; and the term "State" means any State, Territory, or possession of the United States, and the Canal Zone.

[U. S. C., title 12, sec. 202.]

Appointment and powers of conservators

SEC. 203. Whenever he shall deem it necessary in order to conserve the assets of any bank for the benefit of the depositors and other creditors thereof, the Comptroller of the Currency may appoint a conservator for such bank and require of him such bond and security as the Comptroller of the Currency deems proper. The conservator, under the direction of the Comptroller, shall take possession of the books, records, and assets of every description of such bank, and take such action as may be necessary to conserve the assets of such bank pending further disposition of its business as provided by law. Such conservator shall have all the rights, powers, and privileges now possessed by or hereafter given receivers of insolvent national banks and shall be subject to the obligations and penalties, not inconsistent with the provisions of this title, to which receivers are now or may hereafter become subject. During the time that such conservator remains in possession of such bank, the rights of all parties with respect thereto shall, subject to the other provisions of this title, be the same as if a receiver had been appointed therefor. All expenses of any such conservatorship shall be paid out of the assets of such bank and shall be a lien thereon which shall be prior to any other lien provided by this Act or otherwise. The conservator shall receive as salary an amount no greater than that paid to employees of the Federal Government for similar services.

[U. S. C., title 12, sec. 203.]

Examinations of banks in conservatorship

SEC. 204. The Comptroller of the Currency shall cause to be made such examinations of the affairs of such bank as shall be necessary to inform him as to the financial condition of such bank, and the examiner shall make a report thereon to the Comptroller of the Currency at the earliest practicable date.

[U. S. C., title 12, sec. 204.]

Termination of conservatorship

SEC. 205. If the Comptroller of the Currency becomes satisfied that it may safely be done and that it would be in the public interest, he may, in his discretion, terminate the conservatorship and permit such bank to resume the transaction of its business subject to such terms, conditions, restrictions and limitations as he may prescribe.

[U. S. C., title 12, sec. 205]

Withdrawals and deposits during conservatorship

SEC. 206. While such bank is in the hands of the conservator appointed by the Comptroller of the Currency, the Comptroller may require the conservator to set aside and make available for withdrawal by depositors and payment to other creditors, on a ratable basis, such amounts as in the opinion of the Comptroller may safely be used for this purpose; and the Comptroller may, in his discretion, permit the conservator to receive deposits, but deposits received while the bank is in the hands of the conservator shall not be subject to any limitation as to payment or withdrawal, and such deposits shall be segregated and shall not be used to liquidate any indebtedness of such bank existing at the time that a conservator was appointed for it, or any subsequent indebtedness incurred for the purpose of liquidating any indebtedness of such bank existing at the time such conservator was appointed. Such deposits received while the bank is in the hands of the conservator shall be kept on hand in cash, invested in the direct obligations of the United States, or deposited with a Federal reserve bank. The Federal reserve banks are hereby authorized to open and maintain separate deposit accounts for such purpose, or for the purpose of receiving deposits from State officials in charge of State banks under similar circumstances.

[U. S. C., title 12, sec. 206.]

Plan of reorganization

SEC. 207. In any reorganization of any bank under a plan of a kind which, under existing law, requires the consent, as the case may be, (a) of depositors and other creditors or (b) of stockholders or (c) of both depositors and other creditors and stockholders, such reorganiza-

tion shall become effective only (1) when the Comptroller of the Currency shall be satisfied that the plan of reorganization is fair and equitable as to all depositors, other creditors and stockholders and is in the public interest and shall have approved the plan subject to such conditions, restrictions and limitations as he may prescribe and (2) when, after reasonable notice of such reorganization, as the case may require, (A) depositors and other creditors of such bank representing at least 75 per cent in amount of its total deposits and other liabilities as shown by the books of the bank or (B) stockholders owning at least two-thirds of its outstanding capital stock as shown by the books of the bank or (C) both depositors and other creditors representing at least 75 per cent in amount of the total deposits and other liabilities and stockholders owning at least two-thirds of its outstanding capital stock as shown by the books of the bank, shall have consented in writing to the plan of reorganization: *Provided, however*, That claims of depositors or other creditors which will be satisfied in full under the provisions of the plan of reorganization shall not be included among the total deposits and other liabilities of the bank in determining the 75 per cent thereof as above provided. When such reorganization becomes effective, all books, records, and assets of the bank shall be disposed of in accordance with the provisions of the plan and the affairs of the bank shall be conducted by its board of directors in the manner provided by the plan and under the conditions, restrictions and limitations which may have been prescribed by the Comptroller of the Currency. In any reorganization which shall have been approved and shall have become effective as provided herein, all depositors and other creditors and stockholders of such bank, whether or not they shall have consented to such plan of reorganization, shall be fully and in all respects subject to and bound by its provisions, and claims of all depositors and other creditors shall be treated as if they had consented to such plan of reorganization.

[U. S. C., title 12, sec. 207. As amended by Act of May 20, 1933 (48 Stat. 72).]

Return of affairs to directors

SEC. 208. After fifteen days after the affairs of a bank shall have been turned back to its board of directors by the conservator, either with or without a reorganization as provided in section 207 hereof, the provisions of section 206 of this title with respect to the segregation of deposits received while it is in the hands of the conservator and with respect to the use of such deposits to liquidate the indebtedness of such bank shall no longer be effective: *Provided*, That before the conservator shall turn back the affairs of the bank to its board of directors he shall cause to be published in a newspaper published in the city, town or county in which such bank is located, and if no newspaper is published in such city, town or county, in a newspaper to be selected by the

Comptroller of the Currency published in the State in which the bank is located, a notice in form approved by the Comptroller, stating the date on which the affairs of the bank will be returned to its board of directors and that the said provisions of section 206 will not be effective after fifteen days after such date; and on the date of the publication of such notice the conservator shall immediately send to every person who is a depositor in such bank under section 206 a copy of such notice by registered mail addressed to the last known address of such person as shown by the records of the bank, and the conservator shall send similar notice in like manner to every person making deposit in such bank under section 206 after the date of such newspaper publication and before the time when the affairs of the bank are returned to its directors.

[U. S. C., title 12, sec. 208.]

Provisions of law applicable to conservators

SEC. 209. Conservators appointed pursuant to the provisions of this title shall be subject to the provisions of and to the penalties prescribed by section 5209 of the Revised Statutes (U. S. C., Title 12, sec. 592); and sections 112, 113, 114, 115, 116 and 117 of the Criminal Code of the United States (U. S. C., Title 18, secs. 202, 203, 204, 205, 206 and 207), in so far as applicable, are extended to apply to contracts, agreements, proceedings, dealings, claims and controversies by or with any such conservator or the Comptroller of the Currency under the provisions of this title.

[U. S. C., title 12, sec. 209. For sec. 5209, Revised Statutes, see Appendix, p. 173.]

Preservation of powers

SEC. 210. Nothing in this title shall be construed to impair in any manner any powers of the President, the Secretary of the Treasury, the Comptroller of the Currency, or the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 210.]

Rules and regulations

SEC. 211. The Comptroller of the Currency is hereby authorized and empowered, with the approval of the Secretary of the Treasury, to prescribe such rules and regulations as he may deem necessary in order to carry out the provisions of this title. Whoever violates any rule or regulation made pursuant to this section shall be deemed guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $5,000, or imprisoned not more than one year, or both.

[U. S. C., title 12, sec. 211.]

IV. MONEY AND CURRENCY

TRADING WITH THE ENEMY ACT

Section 5(b) of Act of October 6, 1917 (40 Stat. 415), as amended

SEC. 5. * * *

* * * * *

(b) (1) During the time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, and under such rules and regulations as he may prescribe, by means of instructions, licenses, or otherwise—

(A) investigate, regulate, or prohibit, any transactions in foreign exchange, transfers of credit or payments between, by, through, or to any banking institution, and the importing, exporting, hoarding, melting, or earmarking of gold or silver coin or bullion, currency or securities, and

(B) investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition, holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest,

by any person, or with respect to any property, subject to the jurisdiction of the United States; and any property or interest of any foreign country or national thereof shall vest, when, as, and upon the terms, directed by the President, in such agency or person as may be designated from time to time by the President, and upon such terms and conditions as the President may prescribe such interest or property shall be held, used, administered, liquidated, sold, or otherwise dealt with in the interest of and for the benefit of the United States, and such designated agency or person may perform any and all acts incident to the accomplishment or furtherance of these purposes; and the President shall, in the manner hereinabove provided, require any person to keep a full record of, and to furnish under oath, in the form of reports or otherwise, complete information relative to any act or transaction referred to in this subdivision either before, during, or after the completion thereof, or relative to any interest in foreign property, or relative to any property in which any foreign country or any national thereof has or has had any interest, or as may be otherwise necessary to enforce the provisions of this subdivision, and in any case in which a report could be required, the President may, in the manner hereinabove provided, require the production, or if necessary to the national security or defense, the seizure, of any books of account, records, contracts, letters, memoranda, or

other papers, in the custody or control of such person; and the President may, in the manner hereinabove provided, take other and further measures not inconsistent herewith for the enforcement of this subdivision.

(2) Any payment, conveyance, transfer, assignment, or delivery of property or interest therein, made to or for the account of the United States, or as otherwise directed, pursuant to this subdivision or any rule, regulation, instruction, or direction issued hereunder shall to the extent thereof be a full acquittance and discharge for all purposes of the obligation of the person making the same; and no person shall be held liable in any court for or in respect to anything done or omitted in good faith in connection with the administration of, or in pursuance of and in reliance on, this subdivision, or any rule, regulation, instruction, or direction issued hereunder.

(3) As used in this subdivision the term "United States" means the United States and any place subject to the jurisdiction thereof, including the Philippine Islands, and the several courts of first instance of the Commonwealth of the Philippine Islands shall have jurisdiction in all cases, civil or criminal, arising under this subdivision in the Philippine Islands and concurrent jurisdiction with the district courts of the United States of all cases, civil or criminal, arising upon the high seas: *Provided, however*, That the foregoing shall not be construed as a limitation upon the power of the President, which is hereby conferred, to prescribe from time to time, definitions, not inconsistent with the purposes of this subdivision, for any or all of the terms used in this subdivision. Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than $10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both. As used in this subdivision the term "person" means an individual, partnership, association, or corporation.

[U. S. C., title 12, sec. 95a. As amended by Acts of September 24, 1918 (40 Stat. 966); March 9, 1933 (48 Stat. 1); May 7, 1940 (54 Stat. 179); and December 18, 1941 (55 Stat. 839).]

THOMAS AMENDMENT

Sections 43 and 44 of Act of May 12, 1933 (48 Stat. 51), as amended

SEC. 43. Whenever the President finds, upon investigation, that (1) the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government or governments in relation to the present standard value of gold, or (2) action under this section is necessary in order to regulate and maintain the parity of currency issues of the United States, or (3) an

economic emergency requires an expansion of credit, or (4) an expansion of credit is necessary to secure by international agreement a stabilization at proper levels of the currencies of various governments, the President is authorized, in his discretion—

(a) To direct the Secretary of the Treasury to enter into agreements with the several Federal Reserve banks and with the Board of Governors of the Federal Reserve System whereby the Board of Governors of the Federal Reserve System will, and it is hereby authorized to, notwithstanding any provisions of law or rules and regulations to the contrary, permit such reserve banks to agree that they will, (1) conduct, pursuant to existing law, throughout specified periods, open market operations in obligations of the United States Government or corporations in which the United States is the majority stockholder, and (2) purchase directly and hold in portfolio for an agreed period or periods of time Treasury bills or other obligations of the United States Government in an aggregate sum of $3,000,000,000 in addition to those they may then hold, unless prior to the termination of such period or periods the Secretary shall consent to their sale. No suspension of reserve requirements of the Federal Reserve banks, under the terms of section 11(c) of the Federal Reserve Act, necessitated by reason of operations under this section, shall require the imposition of the graduated tax upon any deficiency in reserves as provided in said section 11(c). Nor shall it require any automatic increase in the rates of interest or discount charged by any Federal Reserve bank, as otherwise specified in that section. The Board of Governors of the Federal Reserve System, with the approval of the Secretary of the Treasury, may require the Federal Reserve banks to take such action as may be necessary, in the judgment of the Board and of the Secretary of the Treasury, to prevent undue credit expansion.

[U. S. C., title 31, sec. 821. Not amended. For sec. 11 (c) of the Federal Reserve Act, see p. 33.]

(b) If the Secretary, when directed by the President, is unable to secure the assent of the several Federal Reserve banks and the Board of Governors of the Federal Reserve System to the agreements authorized in this section, or if operations under the above provisions prove to be inadequate to meet the purposes of this section, or if for any other reason additional measures are required in the judgment of the President to meet such purposes, then the President is authorized—

[Partially repealed; see note below.] (1) To direct the Secretary of the Treasury to cause to be issued in such amount or amounts as he may from time to time order, United States notes, as provided in the Act entitled "An Act to authorize the issue of United States notes and for the redemption of funding thereof and for funding the floating debt of the United States", approved February 25, 1862, and Acts supple-

mentary thereto and amendatory thereof, in the same size and of similar color to the Federal Reserve notes heretofore issued and in denominations of $1, $5, $10, $20, $50, $100, $500, $1,000, and $10,000; but notes issued under this subsection shall be issued only for the purpose of meeting maturing Federal obligations to repay sums borrowed by the United States and for purchasing United States bonds and other interest-bearing obligations of the United States: *Provided*, That when any such notes are used for such purpose the bond or other obligation so acquired or taken up shall be retired and canceled. Such notes shall be issued at such times and in such amounts as the President may approve but the aggregate amount of such notes outstanding at any time shall not exceed $3,000,000,000. There is hereby appropriated, out of any money in the Treasury not otherwise appropriated, an amount sufficient to enable the Secretary of the Treasury to retire and cancel 4 per centum annually of such outstanding notes, and the Secretary of the Treasury is hereby directed to retire and cancel annually 4 per centum of such outstanding notes. All coins and currencies of the United States (including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations) heretofore or hereafter coined or issued, shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, except that gold coins, when below the standard weight and limit of tolerance provided by law for the single piece, shall be legal tender only at valuation in proportion to their actual weight.

[U. S. C., title 31, sec. 462. So much of the above paragraph (1) as relates to authority for the issuance of United States notes was repealed by section 4 of Act of June 12, 1945 (59 Stat. 238), which provided:

"Sec. 4. All power and authority of the President and the Secretary of the Treasury under section 43 (b) (1) of the Act approved May 12, 1933 (48 Stat. 31, 52), with respect to the issuance of United States notes, shall cease and terminate on the date of enactment of this Act." The last sentence of this paragraph (1) was amended to read as here set forth by section 2 of Public Resolution of June 5, 1933 (48 Stat. 112).]

(2) By proclamation to fix the weight of the gold dollar in grains nine tenths fine and also to fix the weight of the silver dollar in grains nine tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon, and such gold dollar, the weight of which is so fixed, shall be the standard unit of value, and all forms of money issued or coined by the United

States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity, but in no event shall the weight of the gold dollar be fixed so as to reduce its present weight by more than 50 per centum. Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire June 30, 1943, unless the President shall sooner declare the existing emergency ended.

[Omitted from U. S. Code. As Amended by Acts of January 30, 1934 (48 Stat. 342); January 23, 1937 (50 Stat. 4); July 6, 1939 (53 Stat. 998); June 30, 1941 (55 Stat. 396). By virtue of the Act of June 30, 1941 (55 Stat. 396), the powers of the President specified in this paragraph expired June 30, 1943. Under authority of this paragraph, Presidential Proclamation was issued December 21, 1933 (No. 2067), providing for the coinage of silver; and by Presidential Proclamation of January 31, 1934 (No. 2072), the weight of the gold dollar was fixed at 15 5/21 grains of gold nine-tenths fine. For provisions confirming regulations, proclamations, etc., under this section, see sec. 13 of Gold Reserve Act of 1934 (Appendix, p. 206).]

The President, in addition to the authority to provide for the unlimited coinage of silver at the ratio so fixed, under such terms and conditions as he may prescribe, is further authorized to cause to be issued and delivered to the tenderer of silver for coinage, silver certificates in lieu of the standard silver dollars to which the tenderer would be entitled and in an amount in dollars equal to the number of coined standard silver dollars that the tenderer of such silver for coinage would receive in standard silver dollars.

[U. S. C., title 31, sec. 821. As added by Gold Reserve Act of January 30, 1934 (48 Stat. 342).]

The President is further authorized to issue silver certificates in such denominations as he may prescribe against any silver bullion, silver, or standard silver dollars in the Treasury not then held for redemption of any outstanding silver certificates, and to coin standard silver dollars or subsidiary currency for the redemption of such silver certificates.

[U. S. C., title 31, sec. 821. As added by Act of January 30, 1934 (48 Stat. 342).]

The President is authorized, in his discretion, to prescribe different terms and conditions and to make different charges, or to collect different seigniorage, for the coinage of silver of foreign production than for the coinage of silver produced in the United States or its dependencies. The silver certificates herein referred to shall be issued, delivered, and circulated substantially in conformity with the law now governing existing silver certificates, except as may herein be expressly provided to the contrary, and shall have and possess all of the privileges and the legal tender characteristics of existing silver certificates now in the Treasury of the United States, or in circulation.

[U. S. C., title 31, sec. 821. As added by Act of January 30, 1934 (48 Stat. 343).]

The President is authorized, in addition to other powers, to reduce the weight of the standard silver dollar in the same percentage that he reduces the weight of the gold dollar.

[U. S. C., title 31, sec. 821. As added by Act of January 30, 1934 (48 Stat. 343).]

The President is further authorized to reduce and fix the weight of subsidiary coins so as to maintain the parity of such coins with the standard silver dollar and with the gold dollar.

[U. S. C., title 31, sec. 821. As added by Act of January 30, 1934 (48 Stat. 343).]

SEC. 44. The Secretary of the Treasury, with the approval of the President, is hereby authorized to make and promulgate rules and regulations covering any action taken or to be taken by the President under subsection (a) or (b) of section 43.

[U. S. C., title 31, sec. 822. Not amended.]

DISCONTINUANCE OF GOLD PAYMENTS

Public Resolution of June 5, 1933 (48 Stat. 112)

JOINT RESOLUTION

To assure uniform value to the coins and currencies of the United States

Whereas the holding of or dealing in gold affect the public interest, and are therefore subject to proper regulation and restriction; and

Whereas the existing emergency has disclosed that provisions of obligations which purport to give the obligee a right to require payment in gold or a particular kind of coin or currency of the United States, or in an amount in money of the United States measured thereby, obstruct the power of the Congress to regulate the value of the money of the United States, and are inconsistent with the declared policy of the Congress to maintain at all times the equal power of every dollar, coined or issued by the United States, in the markets and in the payment of debts. Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) every provision contained in or made with respect to any obligation which purports to give the obligee a right to require payment in gold or a particular kind of coin or currency, or in an amount in money of the United States measured thereby, is declared to be against public policy; and no such provision shall be contained in or made with respect to any obligation hereafter incurred. Every obligation, heretofore or hereafter incurred, whether or not any such provision is contained therein or made with respect thereto, shall be discharged upon payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender for public and private debts.

Any such provision contained in any law authorizing obligations to be issued by or under authority of the United States, is hereby repealed, but the repeal of any such provision shall not invalidate any other provision or authority contained in such law.

(b) As used in this resolution, the term "obligation" means an obligation (including every obligation of and to the United States, excepting currency) payable in money of the United States; and the term "coin or currency" means coin or currency of the United States, including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations.

[U. S. C., title 31, sec. 463. Sec. 2 of this resolution amended the last sentence of subpar. (1) of subsec. (b) of sec. 43 of the Thomas Amendment of May 12, 1933 (see Appendix, p. 199). By Joint Resolution of August 27, 1935 (49 Stat. 938), provision was made for payment of "gold clause" securities in legal tender.]

GOLD RESERVE ACT OF 1934

Act of January 30, 1934 (48 Stat. 337), as amended

* * * * *

Title to gold coin and bullion vested in United States

SEC. 2. (a) Upon the approval of this Act all right, title, and interest, and every claim of the Board of Governors of the Federal Reserve System, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U. S. C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Board of Governors of the Federal Reserve System, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

[U. S. C., title 31, sec. 441. For sixteenth paragraph of sec. 16 of Federal Reserve Act, see p. 93.]

Redemption of Federal reserve notes

SEC. 2. (b). * * *

[This section amended sec. 16, Federal Reserve Act. See pp. 87–91, 93, 94.]

Acquisition, holding, etc., of gold

SEC. 3. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the conditions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

[U. S. C., title 31, sec. 442.]

Penalties for acquiring, holding, etc., gold

SEC. 4. Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

[U. S. C., title 31, sec. 443.]

Withdrawal of gold coin from circulation

SEC. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided, however,* That coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the Act of January 29, 1874 (U. S. C., title 31, sec. 367). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

[U. S. C., title 31, sec. 315b.]

Redemption of currency in gold

SEC. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval

of the President, no currency of the United States shall be redeemed in gold: *Provided, however*, That gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further*, That the reserve for United States notes and for Treasury notes of 1890, and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates, or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this Act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States mint or assay office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

[U. S. C., title 31, sec. 408a. For sec. 16 of Federal Reserve Act, see p. 87.]

Effect of reduction or increase of weight of gold dollar

SEC. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held by the United States (including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by transfers of gold bullion from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

[U. S. C., title 31, sec. 408b. For authority to reduce the weight of the gold dollar (now expired) see sec. 43 (b) (2) of Thomas Amendment (p. 199).]

Purchase of gold by Secretary of Treasury

SEC. 8. Section 3700 of the Revised Statutes (U. S. C., title 31, sec. 734) is amended to read as follows:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to

the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

[U. S. C., title 31, sec. 734.]

Sale of gold by Secretary of Treasury

SEC. 9. Section 3699 of the Revised Statutes (U. S. C., title 31, sec. 733) is amended to read as follows:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however*, That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

[U. S. C., title 31, sec. 733.]

Power of Secretary of Treasury to deal in gold and foreign exchange

SEC. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President and to the Congress.

[U. S. C., title 31, sec. 822a. As amended by Act of July 6, 1939 (53 Stat. 998).]

Establishment of stabilization fund

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of $2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall

be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. Such fund shall not be used in any manner whereby direct control and custody thereof pass from the President and the Secretary of the Treasury. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

[U. S. C., title 31, sec. 822a. As amended by Act of April 29, 1943 (57 Stat. 68).]

Subscription to International Monetary Fund

(c) The Secretary of the Treasury is directed to use $1,800,000,000 of the fund established in this section to pay part of the subscription of the United States to the International Monetary Fund; and any repayment thereof shall be covered into the Treasury as a miscellaneous receipt.

[U. S. C., title 31, sec. 822a. As amended by Acts of January 23, 1937 (50 Stat. 4); July 6, 1939 (53 Stat. 998); June 30, 1941 (55 Stat. 395); April 29, 1943 (57 Stat. 68); July 31, 1945 (59 Stat. 514). Prior to July 31, 1945, this subsection (c) provided that all powers conferred by this section should expire June 30, 1945; the Act of July 31, 1945 repealed this provision, thereby giving permanent effect to the section, and substituted the language set forth above. For provisions regarding the International Monetary Fund, see p. 240.]

Rules and regulations

SEC. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this Act.

[U. S. C., title 31, sec. 822b.]

Weight of gold dollar; coinage of silver

SEC. 12. * * *

[Amended sec. 43 of Act of May 12, 1933 (48 Stat. 51), as amended by Public Resolution approved June 5, 1933 (48 Stat. 113). See Appendix, p. 199.]

Ratification of acts of President under other statutes

SEC. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made or issued by the President of the United States or the Secretary of the Treasury, under the Act of March 9, 1933, or under section 43 or section 45 of title III of the Act of May 12, 1933, are hereby approved, ratified, and confirmed.

[U. S. C., title 31, sec. 824. For sec. 43 of title III of Act of May 12, 1933, see Appendix, p. 197.]

Issuance of gold certificates

SEC. 14.—

* * * * *

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

[U. S. C., title 31, sec. 405b.]

Definitions of terms

SEC. 15. As used in this Act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Board of Governors of the Federal Reserve System, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this Act to equivalents as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

[U. S. C., title 31, sec. 444. Under authority of sec. 43, title III, of the Act approved May 12, 1933 (see Appendix, p. 199), the President, by proclamation dated January 31, 1934 (No. 2072), fixed the weight of the gold dollar at 15 5/21 grains of gold nine tenths fine.]

SILVER PURCHASE ACT OF 1934

Act of June 19, 1934 (48 Stat. 1178)

* * * * *

Declaration of policy

SEC. 2. It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United

States should be increased, with the ultimate objective of having and maintaining, one fourth of the monetary value of such stocks in silver.

[U. S. C., title 31, sec. 311a.]

Purchase of silver by Secretary of Treasury

SEC. 3. Whenever and so long as the proportion of silver in the stocks of gold and silver of the United States is less than one-fourth of the monetary value of such stocks, the Secretary of the Treasury is authorized and directed to purchase silver, at home or abroad, for present or future delivery with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest: *Provided*, That no purchase of silver shall be made hereunder at a price in excess of the monetary value thereof: *And provided further*, That no purchases of silver situated in the continental United States on May 1, 1934, shall be made hereunder at a price in excess of 50 cents a fine ounce.

[U. S. C., title 31, sec. 734a.]

Sale of silver by Secretary of Treasury

SEC. 4. Whenever and so long as the market price of silver exceeds its monetary value or the monetary value of the stocks of silver is greater than 25 per centum of the monetary value of the stocks of gold and silver, the Secretary of the Treasury may, with the approval of the President and subject to the provisions of section 5, sell any silver acquired under the authority of this Act, at home or abroad, for present or future delivery, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest.

[U. S. C., title 31, sec. 734b.]

Issuance of silver certificates against silver purchased

SEC. 5. The Secretary of the Treasury is authorized and directed to issue silver certificates in such denominations as he may from time to time prescribe in a face amount not less than the cost of all silver purchased under the authority of section 3, and such certificates shall be placed in actual circulation. There shall be maintained in the Treasury as security for all silver certificates heretofore or hereafter issued and at the time outstanding an amount of silver in bullion and standard silver dollars of a monetary value equal to the face amount of such silver certificates. All silver certificates heretofore or hereafter issued shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, and shall be redeemable on demand at the Treasury

of the United States in standard silver dollars; and the Secretary of the Treasury is authorized to coin standard silver dollars for such redemption.

[U. S. C., title 31, sec. 405a.]

Restrictions on acquisition, importation, etc., of silver

SEC. 6. Whenever in his judgment such action is necessary to effectuate the policy of this Act, the Secretary of the Treasury is authorized, with the approval of the President, to investigate, regulate, or prohibit, by means of licenses or otherwise, the acquisition, importation, exportation, or transportation of silver and of contracts and other arrangements made with respect thereto; and to require the filing of reports deemed by him reasonably necessary in connection therewith. Whoever willfully violates the provisions of any license, order, rule, or regulation issued pursuant to the authorization contained in this section shall, upon conviction, be fined not more than $10,000 or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

[U. S. C., title 31. sec. 316b.]

Delivery of silver to mints for coinage

SEC. 7. Whenever in the judgment of the President such action is necessary to effectuate the policy of this Act, he may by Executive order require the delivery to the United States mints of any or all silver by whomever owned or possessed. The silver so delivered shall be coined into standard silver dollars or otherwise added to the monetary stocks of the United States as the President may determine; and there shall be returned therefor in standard silver dollars, or any other coin or currency of the United States, the monetary value of the silver so delivered less such deductions for seigniorage, brassage, coinage, and other mint charges as the Secretary of the Treasury with the approval of the President shall have determined: *Provided*, That in no case shall the value of the amount returned therefor be less than the fair value at the time of such order of the silver required to be delivered as such value is determined by the market price over a reasonable period terminating at the time of such order. The Secretary of the Treasury shall pay all necessary costs of the transportation of such silver and standard silver dollars, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any silver withheld in violation of any Executive order issued under this section or of any regulations issued pursuant thereto shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law;

and, in addition, any person failing to comply with the provisions of any such Executive order or regulation shall be subject to a penalty equal to twice the monetary value of the silver in respect of which such failure occurred.

[U. S. C., title 31, sec. 316a. Under date of August 9, 1934, the President by Executive Order (No. 6814) required "the delivery of all silver situated in the continental United States" to the United States mints.]

* * * * *

Rules and regulations

SEC. 9. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary of the Treasury may deem necessary or proper to carry out the purposes of this Act, or of any order issued hereunder.

[U. S. C., title 31, sec. 448a.]

Definitions of terms

SEC. 10. As used in this Act—

The term "person" means an individual, partnership, association, or corporation;

The term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska;

The term "monetary value" means a value calculated on the basis of $1 for an amount of silver or gold equal to the amount at the time contained in the standard silver dollar and the gold dollar, respectively;

The term "stocks of silver" means the total amount of silver at the time owned by the United States (whether or not held as security for outstanding currency of the United States) and of silver contained in coins of the United States at the time outstanding;

The term "stocks of gold" means the total amount of gold at the time owned by the United States, whether or not held as a reserve or as security for any outstanding currency of the United States.

[U. S. C., title 31, sec. 448b.]

* * * * *

COINAGE AND SALE OF SILVER

Section 4 of Act of July 6, 1939 (53 Stat. 998)

SEC. 4(a) Each United States coinage mint shall receive for coinage into standard silver dollars any silver which such mint, subject to regulations prescribed by the Secretary of the Treasury, is satisfied has been mined subsequently to July 1, 1939, from natural deposits in the United States or any place subject to the jurisdiction thereof.

(b) The Director of such mint with the consent of the owner shall deduct and retain of such silver so received 45 per centum as seigniorage for services performed by the Government of the United States relative to the coinage and delivery of silver dollars. The balance of such silver so received, that is 55 per centum, shall be coined into standard silver dollars and the same or any equal number of other standard silver dollars shall be delivered to the owner or depositor of such silver, and no provisions of law taxing transfers of silver shall extend or apply to any delivery of silver to a United States mint under this section. The 45 per centum of such silver so deducted shall be retained as bullion by the Treasury or coined into standard silver dollars and held or disposed of in the same manner as other bullion or silver dollars held in or belonging to the Treasury.

(c) The Secretary of the Treasury is authorized to prescribe regulations to carry out the purposes of this section. Such regulations shall contain provisions substantially similar to the provisions contained in the regulations issued pursuant to the Act of Congress approved April 23, 1918 (40 Stat. L., p. 535), known as the Pittman Act, with such changes as he shall determine prescribing how silver tendered to such mints shall be identified as having been produced from natural deposits in the United States or any places subject to its jurisdiction subsequent to July 1, 1939.

[U. S. C., title 31, sec. 316c.]

Act of July 31, 1946 (Pub. No. 579, 79th. Cong.)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter the Secretary of the Treasury is authorized to sell or lease for manufacturing uses, including manufacturing uses incident to reconversion and the building up of employment in industry, upon such terms as the Secretary of the Treasury shall deem advisable, to any person, partnership, association, or corporation, or any department of the Government, any silver held or owned by the United States at not less than 90.5 cents per fine troy ounce: *Provided*, That at all times the ownership and the possession or control within the United States of an amount of silver of a monetary value equal to the face amount of all outstanding silver certificates heretofore or hereafter issued by the Secretary of the Treasury shall be maintained by the Treasury: *Provided further*, That hereafter each United States coinage mint shall receive for coinage silver mined after July 1, 1946, from natural deposits in the United States or any place subject to the jurisdiction thereof, as provided in the Act of July 6, 1939 (Public Law 165, Seventy-sixth Congress), and tendered to such mint within one year after the month in which the ore from which it is derived was

mined, except that the seigniorage to be deducted shall be 30 per centum instead of 45 per centum as provided in section 4 (b) of said Act.

[Not incorporated in U. S. Code at time of publication of this edition.]

REDEMPTION OF CURRENCY NOT IDENTIFIABLE AS TO BANK OF ISSUE

Act of June 13, 1933 (48 Stat. 127)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever any national-bank notes, Federal Reserve bank notes, or Federal Reserve notes are presented to the Treasurer of the United States for redemption and such notes cannot be identified as to the bank of issue or the bank through which issued, the Treasurer of the United States may redeem such notes under such rules and regulations as the Secretary of the Treasury may prescribe, and the notes so redeemed shall be forwarded to the Comptroller of the Currency for cancelation and destruction.

[U. S. C., title 12, sec. 121a.]

SEC. 2. National-bank notes and Federal Reserve bank notes redeemed by the Treasurer of the United States under this Act shall be charged against the balance of deposits for the retirement of national-bank notes and Federal Reserve bank notes under the provisions of section 6 of the Act entitled "An Act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes", approved July 14, 1890 (U. S. C., title 12, sec. 122), and section 18 of the Federal Reserve Act (U. S. C., title 12, sec. 445); and charges for Federal Reserve notes redeemed by the Treasurer of the United States under this Act shall be apportioned among the twelve Federal Reserve banks in proportion to the amount of Federal Reserve notes of each Federal Reserve bank in circulation on the 31st day of December of the year preceding the date of redemption, and the amount so apportioned to each bank shall be charged by the Treasurer of the United States against deposit in the gold-redemption fund made by such bank or its Federal Reserve agent.

[U. S. C., title 12, sec. 122a.]

COST OF REDEEMING FEDERAL RESERVE BANK NOTES

Act of October 10, 1940 (54 Stat. 1093)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That after the reimbursement to the Treasury from funds derived from assessments made pursuant to section 8 of the Act of July 12, 1882, 22 Stat. 164, as amended (U. S. C., title 12. sec. 177), of all costs lawfully charged thereto for the fiscal year

ending June 30, 1941, the balance of such funds shall be covered into the Treasury as miscellaneous receipts; and thereafter the cost of transporting and redeeming such outstanding national bank notes and Federal Reserve bank notes as may be presented to the Treasurer of the United States for redemption shall be paid from the regular annual appropriations for the Treasury Department.

[U. S. C., title 12, sec. 177a.]

CONVERSION OF FOREIGN CURRENCY INTO U. S. CURRENCY

Section 522 of Title IV of Tariff Act of 1930, approved June 17, 1930 (46 Stat. 739)

(a) VALUE OF FOREIGN COIN PROCLAIMED BY SECRETARY OF TREASURY.—Section 25 of the Act of August 27, 1894, entitled "An Act to reduce taxation, to provide revenue for the Government, and for other purposes," as amended, is reenacted without change as follows:

"SEC. 25. That the value of foreign coin as expressed in the money of account of the United States shall be that of the pure metal of such coin of standard value; and the values of the standard coins in circulation of the various nations of the world shall be estimated quarterly by the Director of the Mint and be proclaimed by the Secretary of the Treasury quarterly on the 1st day of January, April, July, and October in each year."

(b) PROCLAIMED VALUE BASIS OF CONVERSION.—For the purpose of the assessment and collection of duties upon merchandise imported into the United States on or after the day of the enactment of this Act, wherever it is necessary to convert foreign currency into currency of the United States, such conversion, except as provided in subdivision (c), shall be made at the values proclaimed by the Secretary of the Treasury under the provisions of section 25 of such Act of August 27, 1894, as amended, for the quarter in which the merchandise was exported.

(c) MARKET RATE WHEN NO PROCLAMATION.—If no such value has been proclaimed, or if the value so proclaimed varies by 5 per centum or more from a value measured by the buying rate in the New York market at noon on the day of exportation, conversion shall be made at a value measured by such buying rate. If the date of exportation falls upon a Sunday or holiday, then the buying rate at noon on the last preceding business day shall be used. For the purposes of this subdivision such buying rate shall be the buying rate for cable transfers payable in the foreign currency so to be converted; and shall be determined by the Federal Reserve Bank of New York and certified daily to the Secretary of the Treasury, who shall make it public at such times and to such extent as he deems necessary. In ascertaining such buying rate such Federal Reserve bank may in its discretion (1) take into consideration the last ascertainable transactions and quotations, whether direct

or through exchange of other currencies, and (2) if there is no market buying rate for such cable transfers, calculate such rate from actual transactions and quotations in demand or time bills of exchange.

[U. S. C., title 31, sec. 372.]

V. GOVERNMENT OBLIGATIONS

CERTIFICATES OF INDEBTEDNESS AND TREASURY BILLS AS "BONDS AND NOTES"

Section 5 of Second Liberty Bond Act of September 24, 1917 (40 Stat. 290), as amended

SEC. 5.—

* * * * *

(c) Wherever the words "bonds and notes of the United States," or "bonds and notes of the Government of the United States," or "bonds or notes of the United States" are used in the Federal Reserve Act, as amended, they shall be held to include certificates of indebtedness and Treasury bills issued hereunder.

[U. S. C., title 31, sec. 754. As added by Act of June 17, 1929 (46 Stat. 19).]

DEPOSIT OF U. S. BONDS AND NOTES IN LIEU OF SURETY

Section 1126 of Revenue Act of February 26, 1926 (44 Stat. 122)

SEC. 1126. Wherever by the laws of the United States or regulations made pursuant thereto, any person is required to furnish any recognizance, stipulation, bond, guaranty, or undertaking, hereinafter called "penal bond," with surety or sureties, such person may, in lieu of such surety or sureties, deposit as security with the official having authority to approve such penal bond, United States Liberty bonds or other bonds or notes of the United States in a sum equal at their par value to the amount of such penal bond required to be furnished, together with an agreement authorizing such official to collect or sell such bonds or notes so deposited in case of any default in the performance of any of the conditions or stipulations of such penal bond. The acceptance of such United States bonds or notes in lieu of surety or sureties required by law shall have the same force and effect as individual or corporate sureties, or certified checks, bank drafts, post-office money orders, or cash, for the penalty or amount of such penal bond. The bonds or notes deposited hereunder and such other United States bonds or notes as may be substituted therefor from time to time as such security, may be deposited with the Treasurer of the United States, a Federal reserve bank, or other depositary duly designated for that purpose by the Secretary, which shall issue receipt therefor, describing such bonds or notes

so deposited. As soon as security for the performance of such penal bond is no longer necessary, such bonds or notes so deposited shall be returned to the depositor: *Provided*, That in case a person or persons supplying a contractor with labor or material as provided by the Act of Congress, approved February 24, 1905 (33 Stat. 811), entitled "An Act to amend an Act approved August thirteenth, eighteen hundred and ninety-four, entitled 'An Act for the protection of persons furnishing materials and labor for the construction of public works,'" shall file with the obligee, at any time after a default in the performance of any contract subject to said Acts, the application and affidavit therein provided, the obligee shall not deliver to the obligor the deposited bonds or notes nor any surplus proceeds thereof until the expiration of the time limited by said Acts for the institution of suit by such person or persons, and, in case suits shall be instituted within such time, shall hold said bonds or notes or proceeds subject to the order of the court having jurisdiction thereof: *Provided further*, That nothing herein contained shall affect or impair the priority of the claim of the United States against the bonds or notes deposited or any right or remedy granted by said Acts or by this section to the United States for default upon any obligation of said penal bond: *Provided further*, That all laws inconsistent with this section are hereby so modified as to conform to the provisions hereof: *And provided further*, That nothing contained herein shall affect the authority of courts over the security, where such bonds are taken as security in judicial proceedings, or the authority of any administrative officer of the United States to receive United States bonds for security in cases authorized by existing laws. The Secretary may prescribe rules and regulations necessary and proper for carrying this section into effect.

[U. S. C., title 6, sec. 15. The provisions of this section are identical with those of sec. 1320 of Act of February 24, 1919 (40 Stat. 1148), which was repealed by Act of February 26, 1926 (44 Stat. 122).]

OBLIGATIONS GUARANTEED AS TO PRINCIPAL AND/OR INTEREST BY UNITED STATES

Bonds of Federal Farm Mortgage Corporation

Section 4(a) of Act of January 31, 1934 (48 Stat. 345), as amended

SEC. 4(a). With the approval of the Secretary of the Treasury, the corporation is authorized to issue and have outstanding at any one time bonds in an aggregate amount not exceeding $2,000,000,000. * * * Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof, * * *. In the event that the corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such bonds, the Secretary of the Treasury shall pay to the holder the amount thereof which is hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated,

and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such bonds. * * *.

[U. S. C., title 12, sec. 1020c. As amended by Act of April 27, 1934 (48 Stat. 647).]

Bonds of Home Owners' Loan Corporation

Section 4(c) of Act of June 13, 1933 (48 Stat. 129), as amended

SEC. 4. * * *

(c) * * * Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed on the face thereof, * * *. * * *

[U. S. C., title 12, sec. 1463. As amended by Acts of April 27, 1934 (48 Stat. 643); June 27, 1934 (48 Stat. 1263); May 28, 1934 (49 Stat. 296); October 24, 1942 (56 Stat. 986).]

Debentures issued under National Housing Act

Sections 204(d), 207(i) and 604(d) of National Housing Act of June 27, 1934 (48 Stat. 1249) as amended

SEC. 204. * * *

(d) The debentures issued under this section to any mortgagee with respect to mortgages insured under section 203 shall be executed in the name of the Mutual Mortgage Insurance Fund as obligor, shall be signed by the Administrator by either his written or engraved signature, and shall be negotiable and the debentures issued under this section to any mortgagee with respect to mortgages insured under section 210 shall be executed in the name of the Housing Insurance Fund as obligor, shall be signed by the Administrator by either his written or engraved signature, and shall be negotiable. * * * Such debentures as are issued in exchange for property covered by mortgages insured under section 203 or section 207 prior to the date of enactment of the National Housing Act Amendments of 1938 * * * shall be fully and unconditionally guaranteed as to principal and interest by the United States; * * *. Such debentures as are issued in exchange for property covered by mortgages insured after the date of enactment of the National Housing Act Amendments of 1938, * * * shall be fully and unconditionally guaranteed as to principal and interest by the United States, and such guaranty shall be expressed on the face of the debentures. * * * .

* * * * *

[U. S. C., title 12, sec. 1710(d). As amended by Act of February 3, 1938 (52 Stat. 13). Section 203 of the National Housing Act, as amended, provides for insurance of mortgages on individual dwellings and farms in small amounts; section 207 of the Act provides for the insurance of mortgages on slum clearance projects; section 210 was repealed by Act of June 3, 1939 (53 Stat. 807).]

SEC. 207. * * *

(i) Debentures issued under this section upon the assignment of an insured mortgage to the Administrator shall be executed in the name

of the Housing Insurance Fund as obligor, shall be signed by the Administrator, by either his written or engraved signature, and shall be negotiable. * * * They shall be paid out of the Housing Fund which shall be primarily liable therefor, and they shall be fully and unconditionally guaranteed as to principal and interest by the United States, and such guaranty shall be expressed on the face of the debentures. * * *

* * * * *

[U. S. C., title 12, sec. 713(i). As amended by Act of February 3, 1938 (52 Stat. 20).]

SEC. 604. * * *

(d) The debentures issued under this section to any mortgagee shall be executed in the name of the War Housing Insurance Fund as obligor, shall be signed by the Administrator by either his written or engraved signature, and shall be negotiable. * * * Such debentures * * * shall be paid out of the War Housing Insurance Fund, which shall be primarily liable therefor, and they shall be fully and unconditionally guaranteed as to principal and interest by the United States, and such guaranty shall be expressed on the face of the debentures. * * *

* * * * *

[U. S. C., title 12, sec. 1739(d). As added by Act of March 28, 1941 (55 Stat. 59); and amended by Act of May 26, 1942 (56 Stat. 302, 304).]

Obligations of Reconstruction Finance Corporation

Section 9 of Act of January 22, 1932 (47 Stat. 9), as amended

SEC. 9. The corporation is authorized and empowered, with the approval of the Secretary of the Treasury, to issue * * * its notes, debentures, bonds, or other such obligations; * * *. * * * The said obligations shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof. * * *

[U. S. C., title 15, sec. 609. The language quoted has not been amended.]

Obligations of Commodity Credit Corporation

Section 4 of Act of March 8, 1938 (52 Stat. 108), as amended

SEC. 4. With the approval of the Secretary of the Treasury, the Commodity Credit Corporation is authorized to issue * * * bonds, notes, debentures, and other similar obligations * * *. * * * Such obligations shall be fully and unconditionally guaranteed both as to interest and principal by the United States, * * *. * * *

[U. S. C., title 15, sec. 713a-4. The language quoted has not been amended.]

Debentures of United States Maritime Commission

Section 1105 of Act of June 29, 1936 (49 Stat. 1985), as added by Act of June 23, 1938 (52 Stat. 971)

SECTION 1105. (a) In any case in which the mortgagee under an insured mortgage shall have foreclosed and acquired title and possession of the mortgaged property * * * the mortgagee shall be entitled to receive the benefits of the insurance as hereinafter provided, upon (1) the prompt conveyance to the Commission of title to the property * * * and (2) the assignment to the Commission of all claims of the mortgagee against the mortgagor or others, * * *. Upon such conveyance and assignment * * * the Commission shall * * * issue to the mortgagee debentures * * *. * * *

* * * * *

(c) * * * They [such debentures] shall be paid out of the fund, which shall be primarily liable therefor, and they shall be fully and unconditionally guaranteed as to principal and interest by the United States, and such guaranty shall be expressed on the face of the debentures. * * *

[U. S. C., title 46, sec. 1275. As added by Act of June 23, 1938 (52 Stat. 971). The insurance referred to in this section was insurance of mortgages on ships to be paid out of the Federal Ship Mortgage Insurance Fund established by the Act of June 29, 1936 referred to above.]

Obligations of United States Housing Authority

Section 20 of Act of September 1, 1937 (50 Stat. 898), as amended

SEC. 20. (a) The Authority is authorized to issue obligations, in the form of notes, bonds, or otherwise, * * *. * * *

* * * * *

(c) Such obligations shall be fully and unconditionally guaranteed upon their face by the United States as to the payment of both interest and principal, * * *. * * *

[U. S. C., title 42, sec. 1420. The language quoted has not been amended.]

Bonds of Tennessee Valley Authority

Section 15a of Act of May 18, 1933 (48 Stat. 58), as added by Act of August 31, 1935 (49 Stat. 1078)

SEC. 15a. With the approval of the Secretary of the Treasury, the Corporation is authorized to issue bonds * * *. Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed on the face thereof, * * *. * * *

[U. S. C., title 16, sec. 831n-1. By virtue of the Act of July 26, 1939 (53 Stat. 1083), no bonds could be issued under this section after the date of that Act.]

VI. ACTS RELATING TO SECURITIES AND INVESTMENTS

EXEMPTION OF BANKS FROM SECURITIES ACT OF 1933

Section 3 of Securities Act of 1933, approved May 27, 1933 (48 Stat. 75), as amended

SEC. 3. (a) Except as hereinafter expressly provided, the provisions of this title shall not apply to any of the following classes of securities:

* * * * *

(2) Any security issued or guaranteed by the United States or any Territory thereof, or by the District of Columbia, or by any State of the United States, or by any political subdivision of a State or Territory, or by any public instrumentality of one or more States or Territories, or by any person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States, or any certificate of deposit for any of the foregoing, or any security issued or guaranteed by any national bank, or by any banking institution organized under the laws of any State or Territory or the District of Columbia, the business of which is substantially confined to banking and is supervised by the State or Territorial banking commission or similar official; or any security issued by or representing an interest in or a direct obligation of a Federal Reserve bank;

(3) Any note, draft, bill of exchange, or banker's acceptance which arises out of a current transaction or the proceeds of which have been or are to be used for current transactions, and which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited;

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[U. S. C., title 15, sec. 77c. As amended by Act of June 6, 1934 (48 Stat. 906).]

SECURITIES EXCHANGE ACT OF 1934

Act of June 6, 1934 (48 Stat. 881), as amended

* * * * *

TITLE I—REGULATION OF SECURITIES EXCHANGES

* * * * *

Definitions

SEC. 3. (a) When used in this title, unless the context otherwise requires—

(1) The term "exchange" means any organization, association, or group of persons, whether incorporated or unincorporated, which constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities or for otherwise performing

with respect to securities the functions commonly performed by a stock exchange as that term is generally understood, and includes the market place and the market facilities maintained by such exchange.

(2) The term "facility" when used with respect to an exchange includes its premises, tangible or intangible property whether on the premises or not, any right to the use of such premises or property or any service thereof for the purpose of effecting or reporting a transaction on an exchange (including, among other things, any system of communication to or from the exchange, by ticker or otherwise, maintained by or with the consent of the exchange), and any right of the exchange to the use of any property or service.

(3) The term "member" when used with respect to an exchange means any person who is permitted either to effect transactions on the exchange without the services of another person acting as broker, or to make use of the facilities of an exchange for transactions thereon without payment of a commission or fee or with the payment of a commission or fee which is less than that charged the general public, and includes any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm.

(4) The term "broker" means any person engaged in the business of effecting transactions in securities for the account of others, but does not include a bank.

(5) The term "dealer" means any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include a bank, or any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not as a part of a regular business.

(6) The term "bank" means (A) a banking institution organized under the laws of the United States, (B) a member bank of the Federal Reserve System, (C) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under section 11-(k) of the Federal Reserve Act, as amended, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this title, and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B), or (C) of this paragraph.

(7) The term "director" means any director of a corporation or any person performing similar functions with respect to any organization, whether incorporated or unincorporated.

(8) The term "issuer" means any person who issues or proposes to issue any security; except that with respect to certificates of deposit for

securities, voting-trust certificates, or collateral-trust certificates, or with respect to certificates of interest or shares in an unincorporated investment trust not having a board of directors or of the fixed, restricted management, or unit type, the term "issuer" means the person or persons performing the acts and assuming the duties of depositor or manager pursuant to the provisions of the trust or other agreement or instrument under which such securities are issued; and except that with respect to equipment-trust certificates or like securities, the term "issuer" means the person by whom the equipment or property is, or is to be, used.

(9) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an unincorporated organization.

(10) The term "security" means any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, or in general, any instrument commonly known as a "security"; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

(11) The term "equity security" means any stock or similar security; or any security convertible, with or without consideration, into such a security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right; or any other security which the Commission shall deem to be of similar nature and consider necessary or appropriate, by such rules and regulations as it may prescribe in the public interest or for the protection of investors, to treat as an equity security.

(12) The term "exempted security" or "exempted securities" shall include securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States; such securities issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury as necessary or appropriate in the public interest or for the protection of investors; securities which are direct obligations of or obligations guaranteed as to principal or interest by a State or any political subdivision thereof or any agency or instrumentality of a State or any political subdivision thereof or any municipal corporate instru-

mentality of one or more States; and such other securities (which may include, among others, unregistered securities, the market in which is predominantly intrastate) as the Commission may, by such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors, either unconditionally or upon specified terms and conditions or for stated periods, exempt from the operation of any one or more provisions of this title which by their terms do not apply to an "exempted security" or to "exempted securities."

(13) The terms "buy" and "purchase" each include any contract to buy, purchase, or otherwise acquire.

(14) The terms "sale" and "sell" each include any contract to sell or otherwise dispose of.

(15) The term "Commission" means the Securities and Exchange Commission established by section 4 of this title.

(16) The term "State" means any State of the United States, the District of Columbia, Alaska, Hawaii, Puerto Rico, the Philippine Islands, the Canal Zone, the Virgin Islands, or any other possession of the United States.

(17) The term "interstate commerce" means trade, commerce, transportation, or communication among the several States, or between any foreign country and any State, or between any State and any place or ship outside thereof.

(b) The Commission and the Board of Governors of the Federal Reserve System, as to matters within their respective jurisdictions, shall have power by rules and regulations to define technical, trade, and accounting terms used in this title insofar as such definitions are not inconsistent with the provisions of this title.

(c) No provision of this title shall apply to, or be deemed to include, any executive department or independent establishment of the United States, or any lending agency which is wholly owned, directly or indirectly, by the United States, or any officer, agent, or employee of any such department, establishment, or agency, acting in the course of his official duty as such, unless such provision makes specific reference to such department, establishment, or agency.

[U. S. C., title 15, sec. 78c. This section became effective July 1, 1934.]

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Rules of exchanges

SEC. 6.—

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(b) No registration shall be granted or remain in force unless the rules of the exchange include provision for the expulsion, suspension, or disciplining of a member for conduct or proceeding inconsistent with just

and equitable principles of trade, and declare that the willful violation of any provisions of this title or any rule or regulation thereunder shall be considered conduct or proceeding inconsistent with just and equitable principles of trade.

(c) Nothing in this title shall be construed to prevent any exchange from adopting and enforcing any rule not inconsistent with this title and the rules and regulations thereunder and the applicable laws of the State in which it is located.

[U. S. C., title 15, sec. 78f. This section became effective September 1, 1934.]

Margin requirements

SEC. 7. (a) For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Board of Governors of the Federal Reserve System shall, prior to the effective date of this section and from time to time thereafter, prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. For the initial extension of credit, such rules and regulations shall be based upon the following standard: An amount not greater than whichever is the higher of—

(1) 55 per centum of the current market price of the security, or

(2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

Such rules and regulations may make appropriate provision with respect to the carrying of undermargined accounts for limited periods and under specified conditions; the withdrawal of funds or securities; the substitution or additional purchases of securities; the transfer of accounts from one lender to another; special or different margin requirements for delayed deliveries, short sales, arbitrage transactions, and securities to which paragraph (2) of this subsection does not apply; the bases and the methods to be used in calculating loans, and margins and market prices; and similar administrative adjustments and details. For the purposes of paragraph (2) of this subsection, until July 1, 1936, the lowest price at which a security has sold on or after July 1, 1933, shall be considered as the lowest price at which such security has sold during the preceding thirty-six calendar months.

(b) Notwithstanding the provisions of subsection (a) of this section, the Board of Governors of the Federal Reserve System, may, from time to time, with respect to all or specified securities or transactions, or classes of securities, or classes of transactions, by such rules and regulations (1) prescribe such lower margin requirements for the initial extension or maintenance of credit as it deems necessary or appropriate for

the accommodation of commerce and industry, having due regard to the general credit situation of the country, and (2) prescribe such higher margin requirements for the initial extension or maintenance of credit as it may deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities.

(c) It shall be unlawful for any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly to extend or maintain credit or arrange for the extension or maintenance of credit to or for any customer—

(1) On any security (other than an exempted security) registered on a national securities exchange, in contravention of the rules and regulations which the Board of Governors of the Federal Reserve System shall prescribe under subsections (a) and (b) of this section.

(2) Without collateral or on any collateral other than exempted securities and/or securities registered upon a national securities exchange, except in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe (A) to permit under specified conditions and for a limited period any such member, broker, or dealer to maintain a credit initially extended in conformity with the rules and regulations of the Board of Governors of the Federal Reserve System, and (B) to permit the extension or maintenance of credit in cases where the extension or maintenance of credit is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of paragraph (1) of this subsection.

(d) It shall be unlawful for any person not subject to subsection (c) to extend or maintain credit or to arrange for the extension or maintenance of credit for the purpose of purchasing or carrying any security registered on a national securities exchange, in contravention of such rules and regulations as the Board of Governors of the Federal Reserve System shall prescribe to prevent the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions of this section. Such rules and regulations may impose upon all loans made for the purpose of purchasing or carrying securities registered on national securities exchanges limitations similar to those imposed upon members, brokers, or dealers by subsection (c) of this section and the rules and regulations thereunder. This subsection and the rules and regulations thereunder shall not apply (A) to a loan made by a person not in the ordinary course of his business, (B) to a loan on an exempted security, (C) to a loan to a dealer to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange, (D) to a loan by a bank on a security other than an equity security, or (E) to such other loans as the Board of Governors of the Federal Reserve System shall, by such rules and regu-

lations as it may deem necessary or appropriate in the public interest or for the protection of investors, exempt, either unconditionally or upon specified terms and conditions or for stated periods, from the operation of this subsection and the rules and regulations thereunder.

(e) The provisions of this section or the rules and regulations thereunder shall not apply on or before July 1, 1937, to any loan or extension of credit made prior to the enactment of this title or to the maintenance, renewal, or extension of any such loan or credit, except to the extent that the Board of Governors of the Federal Reserve System may by rules and regulations prescribe as necessary to prevent the circumvention of the provisions of this section or the rules and regulations thereunder by means of withdrawals of funds or securities, substitutions of securities, or additional purchases or by any other device.

[U. S. C., title 15, sec. 78g. This section became effective October 1, 1934.]

Restrictions on borrowing by members, brokers, and dealers

SEC. 8. It shall be unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly—

(a) To borrow in the ordinary course of business as a broker or dealer on any security (other than an exempted security) registered on a national securities exchange except (1) from or through a member bank of the Federal Reserve System, (2) from any nonmember bank which shall have filed with the Board of Governors of the Federal Reserve System an agreement, which is still in force and which is in the form prescribed by the Board, undertaking to comply with all provisions of this Act, the Federal Reserve Act, as amended, and the Banking Act of 1933, which are applicable to member banks and which relate to the use of credit to finance transactions in securities, and with such rules and regulations as may be prescribed pursuant to such provisions of law or for the purpose of preventing evasions thereof, or (3) in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe to permit loans between such members and/or brokers and/or dealers, or to permit loans to meet emergency needs. Any such agreement filed with the Board of Governors of the Federal Reserve System shall be subject to termination at any time by order of the Board, after appropriate notice and opportunity for hearing, because of any failure by such bank to comply with the provisions thereof or with such provisions of law or rules or regulations; and, for any willful violation of such agreement, such bank shall be subject to the penalties provided for violations of rules and regulations prescribed under this title. The provisions of sections 21 and 25 of this title shall apply in the case of any such proceeding or order of the Board of Governors of the Federal

Reserve System in the same manner as such provisions apply in the case of proceedings and orders of the Commission.

(b) To permit in the ordinary course of business as a broker his aggregate indebtedness to all other persons, including customers' credit balances (but excluding indebtedness secured by exempted securities), to exceed such percentage of the net capital (exclusive of fixed assets and value of exchange membership) employed in the business, but not exceeding in any case 2,000 per centum, as the Commission may by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors.

(c) In contravention of such rules and regulations as the Commission shall prescribe for the protection of investors to hypothecate or arrange for the hypothecation of any securities carried for the account of any customer under circumstances (1) that will permit the commingling of his securities without his written consent with the securities of any other customer, (2) that will permit such securities to be commingled with the securities of any person other than a bona fide customer, or (3) that will permit such securities to be hypothecated, or subjected to any lien or claim of the pledgee, for a sum in excess of the aggregate indebtedness of such customers in respect of such securities.

(d) To lend or arrange for the lending of any securities carried for the account of any customer without the written consent of such customer.

[U. S. C., title 15, sec. 78h. This section became effective October 1, 1934.]

* * * * *

Extension of credit by brokers or dealers on securities distributed by them

SEC. 11. * * *.

(d) It shall be unlawful for a member of a national securities exchange who is both a dealer and a broker, or for any person who both as a broker and a dealer transacts a business in securities through the medium of a member or otherwise, to effect through the use of any facility of a national securities exchange or of the mails or of any means or instrumentality of interstate commerce, or otherwise in the case of a member, (1) any transaction in connection with which, directly or indirectly, he extends or maintains or arranges for the extension or maintenance of credit to or for a customer on any security (other than an exempted security) which was a part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within six months prior to such transaction: *Provided*, That credit shall not be deemed extended by reason of a bona fide delayed delivery of any such security against full payment of the entire purchase price thereof upon such delivery within thirty-five days after such purchase, or (2) any transaction with respect to any security (other than an exempted

security) unless, if the transaction is with a customer, he discloses to such customer in writing at or before the completion of the transaction whether he is acting as a dealer for his own account, as a broker for such customer, or as a broker for some other person.

[U. S. C., title 15, sec. 78k. This section became effective October 1, 1934.]

Continuation of unlisted trading privileges

SEC. 12—

* * * * *

(f) Notwithstanding the foregoing provisions of this section, any national securities exchange, upon application to and approval of such application by the Commission and subject to the terms and conditions hereinafter set forth, (1) may continue unlisted trading privileges to which a security had been admitted on such exchange prior to March 1, 1934; or (2) may extend unlisted trading privileges to any security duly listed and registered on any other national securities exchange, but such unlisted trading privileges shall continue in effect only so long as such security shall remain listed and registered on any other national securities exchange; or (3) may extend unlisted trading privileges to any security in respect of which there is available from a registration statement and periodic reports or other data filed pursuant to rules or regulations prescribed by the Commission under this title or the Securities Act of 1933, as amended, information substantially equivalent to that available pursuant to rules or regulations of the Commission in respect of a security duly listed and registered on a national securities exchange, but such unlisted trading privileges shall continue in effect only so long as such a registration statement remains effective and such periodic reports or other data continue to be so filed.

No application pursuant to this subsection shall be approved unless the Commission finds that the continuation or extension of unlisted trading privileges pursuant to such application is necessary or appropriate in the public interest or for the protection of investors. No application to extend unlisted trading privileges to any security pursuant to clause (2) or (3) of this subsection shall be approved except after appropriate notice and opportunity for hearing. No application to extend unlisted trading privileges to any security pursuant to clause (2) or (3) of this subsection shall be approved unless the applicant exchange shall establish to the satisfaction of the Commission that there exists in the vicinity of such exchange sufficiently widespread public distribution of such security and sufficient public trading activity therein to render the extension of unlisted trading privileges on such exchange thereto necessary or appropriate in the public interest or for the protection of investors. No application to extend unlisted trading privileges to any security

pursuant to clause (3) of this subsection shall be approved except upon such terms and conditions as will subject the issuer thereof, the officers and directors of such issuer, and every beneficial owner of more than 10 per centum of such security to duties substantially equivalent to the duties which would arise pursuant to this title if such security were duly listed and registered on a national securities exchange; except that such terms and conditions need not be imposed in any case or class of cases in which it shall appear to the Commission that the public interest and the protection of investors would nevertheless best be served by such extension of unlisted trading privileges. In the publication or making available for publication by any national securities exchange, or by any person directly or indirectly controlled by such exchange, of quotations or transactions in securities made or effected upon such exchange, such exchange or controlled person shall clearly differentiate between quotations or transactions in listed securities, and quotations or transactions in securities for which unlisted trading privileges on such exchange have been continued or extended pursuant to this subsection. In the publication or making available for publication of such quotations or transactions otherwise than by ticker, such exchange or controlled person shall group under separate headings (A) quotations or transactions in listed securities, and (B) quotations or transactions in securities for which unlisted trading privileges on such exchange has been continued or extended pursuant to this subsection.

The Commission shall by rules and regulations suspend unlisted trading privileges in whole or in part for any or all classes of securities for a period not exceeding twelve months, if it deems such suspension necessary or appropriate in the public interest or for the protection of investors or to prevent evasion of the purposes of this title.

Unlisted trading privileges continued for any security pursuant to clause (1) of this subsection shall be terminated by order, after appropriate notice and opportunity for hearing, if it appears at any time that such security has been withdrawn from listing on any exchange by the issuer thereof, unless it shall be established to the satisfaction of the Commission that such delisting was not designed to evade the purposes of this title or unless it shall appear to the Commission that, notwithstanding any such purpose of evasion, the continuation of such unlisted trading privileges is nevertheless necessary or appropriate in the public interest or for the protection of investors. On the application of the issuer of any security for which unlisted trading privileges on any exchange have been continued or extended pursuant to this subsection, or of any broker or dealer who makes or creates a market for such security, or of any other person having a bona-fide interest in the question of termination or suspension of such unlisted trading privileges, or on its own motion, the Commission shall by order terminate, or suspend for a

period not exceeding twelve months, such unlisted trading privileges for such security if the Commission finds, after appropriate notice and opportunity for hearing, that by reason of inadequate public distribution of such security in the vicinity of said exchange, or by reason of inadequate public trading activity or of the character of trading therein on said exchange, such termination or suspension is necessary or appropriate in the public interest or for the protection of investors.

In any proceeding under this subsection in which appropriate notice and opportunity for hearing are required, notice of not less than ten days to the applicant in such proceeding, to the issuer of the security involved, to the exchange which is seeking to continue or extend or has continued or extended unlisted trading privileges for such security, and to the exchange, if any, on which such security is listed and registered, shall be deemed adequate notice, and any broker or dealer who makes or creates a market for such security, and any other person having a bona-fide interest in such proceeding, shall upon application be entitled to be heard.

Any security for which unlisted trading privileges are continued or extended pursuant to this subsection shall be deemed to be registered on a national securities exchange within the meaning of this title. The powers and duties of the Commission under subsection (b) of section 19 of this title shall be applicable to the rules of an exchange in respect of any such security. The Commission may, by such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors, either unconditionally or upon specified terms and conditions, or for stated periods, exempt such securities from the operation of any provision of section 13, 14, or 16 of this title.

[U. S. C., title 15, sec. 78l. As amended by Act of May 27, 1936 (49 Stat. 1375). Under the Act of May 27, 1936, clause (2) and clause (3) of this subsection, as amended, became effective 90 days and six months, respectively, after the enactment of that Act. Section 2 of such Act of May 27, 1936 (U. S. C., title 31, sec. 78 l-1) provided:

"Sec. 2. Any application to continue unlisted trading privileges for any security heretofore filed by any exchange and approved by the Commission pursuant to clause (1) of subsection (f) of section 12 of the Securities Exchange Act of 1934 and rules and regulations thereunder shall be deemed to have been filed and approved pursuant to clause (1) of said subsection (f) as amended by section 1 of this Act."]

* * * * *

Records, reports, and examinations of exchanges, members, and others

SEC. 17. (a) Every national securities exchange, every member thereof, every broker or dealer who transacts a business in securities through the medium of any such member, every registered securities association, and every broker or dealer registered pursuant to section 15 of this title, shall make, keep, and preserve for such periods, such accounts, correspondence, memoranda, papers, books, and other records, and make such reports, as the Commission by its rules and regulations

may prescribe as necessary or appropriate in the public interest or for the protection of investors. Such accounts, correspondence, memoranda, papers, books, and other records shall be subject at any time or from time to time to such reasonable periodic, special, or other examinations by examiners or other representatives of the Commission as the Commission may deem necessary or appropriate in the public interest or for the protection of investors.

(b) Any broker, dealer, or other person extending credit who is subject to the rules and regulations prescribed by the Board of Governors of the Federal Reserve System pursuant to this title shall make such reports to the Board as it may require as necessary or appropriate to enable it to perform the functions conferred upon it by this title. If any such broker, dealer, or other person shall fail to make any such report or fail to furnish full information therein, or, if in the judgment of the Board it is otherwise necessary, such broker, dealer, or other person shall permit such inspections to be made by the Board with respect to the business operations of such broker, dealer, or other person as the Board may deem necessary to enable it to obtain the required information.

[U. S. C., title 15, sec. 78q. As amended by Acts of May 27, 1936 (49 Stat. 1379); and June 25, 1938 (52 Stat. 1076). This section, as originally enacted, became effective October 1, 1934.]

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Indirect violations

SEC. 20—

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(b) It shall be unlawful for any person, directly or indirectly, to do any act or thing which it would be unlawful for such person to do under the provisions of this title or any rule or regulation thereunder through or by means of any other person.

[U. S. C., title 15, sec. 78t. This section became effective July 1, 1934.]

* * * * *

Investigations; injunctions and prosecution of offenses

SEC. 21. (a) The Commission may, in its discretion, make such investigations as it deems necessary to determine whether any person has violated or is about to violate any provision of this title or any rule or regulation thereunder, and may require or permit any person to file with it a statement in writing, under oath or otherwise as the Commission shall determine, as to all the facts and circumstances concerning the matter to be investigated. The Commission is authorized, in its discretion, to publish information concerning any such violations, and to investigate any facts, conditions, practices, or matters which it may

deem necessary or proper to aid in the enforcement of the provisions of this title, in the prescribing of rules and regulations thereunder, or in securing information to serve as a basis for recommending further legislation concerning the matters to which this title relates.

(b) For the purpose of any such investigation, or any other proceeding under this title, any member of the Commission or any officer designated by it is empowered to administer oaths and affirmations, subpena witnesses, compel their attendance, take evidence, and require the production of any books, papers, correspondence, memoranda, or other records which the Commission deems relevant or material to the inquiry. Such attendance of witnesses and the production of any such records may be required from any place in the United States or any State at any designated place of hearing.

(c) In case of contumacy by, or refusal to obey a subpena issued to, any person, the Commission may invoke the aid of any court of the United States within the jurisdiction of which such investigation or proceeding is carried on, or where such person resides or carries on business, in requiring the attendance and testimony of witnesses and the production of books, papers, correspondence, memoranda, and other records. And such court may issue an order requiring such person to appear before the Commission or member or officer designated by the Commission, there to produce records, if so ordered, or to give testimony touching the matter under investigation or in question; and any failure to obey such order of the court may be punished by such court as a contempt thereof. All process in any such case may be served in the judicial district whereof such person is an inhabitant or wherever he may be found. Any person who shall, without just cause, fail or refuse to attend and testify or to answer any lawful inquiry or to produce books, papers, correspondence, memoranda, and other records, if in his power so to do, in obedience to the subpena of the Commission, shall be guilty of a misdemeanor and, upon conviction, shall be subject to a fine of not more than $1,000 or to imprisonment for a term of not more than one year, or both.

(d) No person shall be excused from attending and testifying or from producing books, papers, contracts, agreements, and other records and documents before the Commission, or in obedience to the subpena of the Commission or any member thereof or any officer designated by it, or in any cause or proceeding instituted by the Commission, on the ground that the testimony or evidence, documentary or otherwise, required of him may tend to incriminate him or subject him to a penalty or forfeiture; but no individual shall be prosecuted or subject to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he is compelled, after having claimed his privilege against self-incrimination, to testify or produce evidence, documentary or other-

wise, except that such individual so testifying shall not be exempt from prosecution and punishment for perjury committed in so testifying.

(e) Whenever it shall appear to the Commission that any person is engaged or about to engage in any acts or practices which constitute or will constitute a violation of the provisions of this title, or of any rule or regulation thereunder, it may in its discretion bring an action in the proper district court of the United States, the district court of the United States for the District of Columbia, or the United States courts of any Territory or other place subject to the jurisdiction of the United States, to enjoin such acts or practices, and upon a proper showing a permanent or temporary injunction or restraining order shall be granted without bond. The Commission may transmit such evidence as may be available concerning such acts or practices to the Attorney General, who may, in his discretion, institute the necessary criminal proceedings under this title.

(f) Upon application of the Commission the district courts of the United States, the district court of the United States for the District of Columbia, and the United States courts of any Territory or other place subject to the jurisdiction of the United States, shall also have jurisdiction to issue writs of mandamus commanding any person to comply with the provisions of this title or any order of the Commission made in pursuance thereof or with any undertaking contained in a registration statement as provided in subsection (d) of section 15 of this title.

[U. S. C., title 15, sec. 78u. As amended by Act of May 27, 1936 (49 Stat. 1379). The name of the Supreme Court of the District of Columbia was changed to "district court of the United States for the District of Columbia" by Act of June 25, 1936 (49 Stat. 1921). This section, as originally enacted, became effective July 1, 1934.]

* * * * *

Rules and regulations; annual reports

SEC. 23. (a) The Commission and the Board of Governors of the Federal Reserve System shall each have power to make such rules and regulations as may be necessary for the execution of the functions vested in them by this title, and may for such purpose classify issuers, securities, exchanges, and other persons or matters within their respective jurisdictions. No provision of this title imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule or regulation of the Commission or the Board of Governors of the Federal Reserve System, notwithstanding that such rule or regulation may, after such act or omission, be amended or rescinded or be determined by judicial or other authority to be invalid for any reason.

(b) The Commission and the Board of Governors of the Federal Reserve System, respectively, shall include in their annual reports to Congress such information, data, and recommendation for further legislation

as they may deem advisable with regard to matters within their respective jurisdictions under this title.

[U. S. C., title 15, sec. 78w. As amended by Act of May 27, 1936 (49 Stat. 1379). This section became effective July 1, 1934.]

Records of Commission available to Board of Governors of the Federal Reserve System

SEC. 24.—

* * * * *

(c) It shall be unlawful for any member, officer, or employee of the Commission to disclose to any person other than a member, officer, or employee of the Commission, or to use for personal benefit, any information contained in any application, report, or document filed with the Commission which is not made available to the public pursuant to subsection (b) of this section: *Provided*, That the Commission may make available to the Board of Governors of the Federal Reserve System any information requested by the Board for the purpose of enabling it to perform its duties under this title.

[U. S. C., title 15, sec. 78x. This section became effective July 1, 1934.]

Court review of orders

SEC. 25. (a) Any person aggrieved by an order issued by the Commission in a proceeding under this title to which such person is a party may obtain a review of such order in the Circuit Court of Appeals of the United States, within any circuit wherein such person resides or has his principal place of business, or in the Court of Appeals of the District of Columbia, by filing in such court, within sixty days after the entry of such order, a written petition praying that the order of the Commission be modified or set aside in whole or in part. A copy of such petition shall be forthwith served upon any member of the Commission, and thereupon the Commission shall certify and file in the court a transcript of the record upon which the order complained of was entered. Upon the filing of such transcript such court shall have exclusive jurisdiction to affirm, modify, and enforce or set aside such order, in whole or in part. No objection to the order of the Commission shall be considered by the court unless such objection shall have been urged before the Commission. The finding of the Commission as to the facts, if supported by substantial evidence, shall be conclusive. If either party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for failure to adduce such evidence in the hearing before the Commission, the court may order such additional evidence to be taken before the Commission and to be adduced

upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The Commission may modify its findings as to the facts, by reason of the additional evidence so taken, and it shall file such modified or new findings, which, if supported by substantial evidence, shall be conclusive, and its recommendation, if any, for the modification or setting aside of the original order. The judgment and decree of the court, affirming, modifying, and enforcing or setting aside, in whole or in part, any such order of the Commission, shall be final, subject to review by the Supreme Court of the United States upon certiorari or certification as provided in sections 239 and 240 of the Judicial Code, as amended (U. S. C., title 28, secs. 346 and 347).

(b) The commencement of proceedings under subsection (a) shall not, unless specifically ordered by the court, operate as a stay of the Commission's order.

[U. S. C., title 15, sec. 78y. This section became effective July 1, 1934.]

Unlawful representations

SEC. 26. No action or failure to act by the Commission or the Board of Governors of the Federal Reserve System, in the administration of this title shall be construed to mean that the particular authority has in any way passed upon the merits of, or given approval to, any security or any transaction or transactions therein, nor shall such action or failure to act with regard to any statement or report filed with or examined by such authority pursuant to this title or rules and regulations thereunder, be deemed a finding by such authority that such statement or report is true and accurate on its face or that it is not false or misleading. It shall be unlawful to make, or cause to be made, to any prospective purchaser or seller of a security any representation that any such action or failure to act by any such authority is to be so construed or has such effect.

[U. S. C., title 15, sec. 78z. This section became effective July 1, 1934.]

Jurisdiction of offenses and suits

SEC. 27. The district courts of the United States, the district court of the United States for the District of Columbia, and the United States courts of any Territory or other place subject to the jurisdiction of the United States shall have exclusive jurisdiction of violations of this title or the rules and regulations thereunder, and of all suits in equity and actions at law brought to enforce any liability or duty created by this title or the rules and regulations thereunder. Any criminal proceeding may be brought in the district wherein any act or transaction constituting the violation occurred. Any suit or action to enforce any liability or duty created by this title or rules and regulations thereunder, or to

enjoin any violation of such title or rules and regulations, may be brought in any such district or in the district wherein the defendant is found or is an inhabitant or transacts business, and process in such cases may be served in any other district of which the defendant is an inhabitant or wherever the defendant may be found. Judgments and decrees so rendered shall be subject to review as provided in sections 128 and 240 of the Judicial Code, as amended (U. S. C., title 28, secs. 225 and 347) No costs shall be assessed for or against the Commission in any proceeding under this title brought by or against it in the Supreme Court or such other courts.

[U. S. C., title 15, sec. 78aa. This section became effective July 1, 1934.]

Effect on existing law

SEC. 28. (a) The rights and remedies provided by this title shall be in addition to any and all other rights and remedies that may exist at law or in equity; but no person permitted to maintain a suit for damages under the provisions of this title shall recover, through satisfaction of judgment in one or more actions, a total amount in excess of his actual damages on account of the act complained of. Nothing in this title shall affect the jurisdiction of the securities commission (or any agency or officer performing like functions) of any State over any security or any person insofar as it does not conflict with the provisions of this title or the rules and regulations thereunder.

(b) Nothing in this title shall be construed to modify existing law (1) with regard to the binding effect on any member of any exchange of any action taken by the authorities of such exchange to settle disputes between its members, or (2) with regard to the binding effect of such action on any person who has agreed to be bound thereby, or (3) with regard to the binding effect on any such member of any disciplinary action taken by the authorities of the exchange as a result of violation of any rule of the exchange, insofar as the action taken is not inconsistent with the provisions of this title or the rules and regulations thereunder.

[U. S. C., title 15, sec. 78bb. This section became effective July 1, 1934.]

Validity of contracts

SEC. 29. (a) Any condition, stipulation, or provision binding any person to waive compliance with any provision of this title or of any rule or regulation thereunder, or of any rule of an exchange required thereby shall be void.

(b) Every contract made in violation of any provision of this title or of any rule or regulation thereunder, and every contract (including any contract for listing a security on an exchange) heretofore or hereafter made the performance of which involves the violation of, or the con-

tinuance of any relationship or practice in violation of, any provision of this title or any rule or regulation thereunder, shall be void (1) as regards the rights of any person who, in violation of any such provision, rule, or regulation, shall have made or engaged in the performance of any such contract, and (2) as regards the rights of any person who, not being a party to such contract, shall have acquired any right thereunder with actual knowledge of the facts by reason of which the making or performance of such contract was in violation of any such provision, rule or regulation: *Provided*, (A) That no contract shall be void by reason of this subsection because of any violation of any rule or regulation prescribed pursuant to paragraph (2) or (3) of subsection (c) of section 15 of this title, and (B) that no contract shall be deemed to be void by reason of this subsection in any action maintained in reliance upon this subsection, by any person to or for whom any broker or dealer sells, or from or for whom any broker or dealer purchases, a security in violation of any rule or regulation prescribed pursuant to paragraph (1) of subsection (c) of section 15 of this title, unless such action is brought within one year after the discovery that such sale or purchase involves such violation and within three years after such violation.

(c) Nothing in this title shall be construed (1) to affect the validity of any loan or extension of credit (or any extension or renewal thereof) made or of any lien created prior or subsequent to the enactment of this title, unless at the time of the making of such loan or extension of credit (or extension or renewal thereof) or the creating of such lien, the person making such loan or extension of credit (or extension or renewal thereof) or acquiring such lien shall have actual knowledge of facts by reason of which the making of such loan or extension of credit (or extension or renewal thereof) or the acquisition of such lien is a violation of the provisions of this title or any rule or regulation thereunder, or (2) to afford a defense to the collection of any debt or obligation or the enforcement of any lien by any person who shall have acquired such debt, obligation, or lien in good faith for value and without actual knowledge of the violation of any provision of this title or any rule or regulation thereunder affecting the legality of such debt, obligation, or lien.

[U. S. C., title 15, sec. 78cc. As amended by Act of June 25, 1938 (52 Stat. 1076). This section became effective July 1, 1934.]

Transactions outside United States

SEC. 30.—

* * * * *

(b) The provisions of this title or of any rule or regulation thereunder shall not apply to any person insofar as he transacts a business in securities without the jurisdiction of the United States, unless he trans-

acts such business in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate to prevent the evasion of this title.

[U. S. C., title 15, sec. 78dd. This section became effective October 1, 1934.]

* * * * *

Penalties

SEC. 32. (a) Any person who willfully violates any provision of this title, or any rule or regulation thereunder the violation of which is made unlawful or the observance of which is required under the terms of this title, or any person who willfully and knowingly makes, or causes to be made, any statement in any application, report, or document required to be filed under this title or any rule or regulation thereunder or any undertaking contained in a registration statement as provided in subsection (d) of section 15 of this title, which statement was false or misleading with respect to any material fact, shall upon conviction be fined not more than $10,000, or imprisoned not more than two years, or both, except that when such person is an exchange, a fine not exceeding $500,000 may be imposed; but no person shall be subject to imprisonment under this section for the violation of any rule or regulation if he proves that he had no knowledge of such rule or regulation.

(b) Any issuer which fails to file information, documents, or reports pursuant to an undertaking contained in a registration statement as provided in subsection (d) of section 15 of this title shall forfeit to the United States the sum of $100 for each and every day such failure to file shall continue. Such forfeiture, which shall be in lieu of any criminal penalty for such failure to file which might be deemed to arise under subsection (a) of this section, shall be payable into the Treasury of the United States and shall be recoverable in a civil suit in the name of the United States.

(c) The provisions of this section shall not apply in the case of any violation of any rule or regulation prescribed pursuant to paragraph (3) of subsection (c) of section 15 of this title, except a violation which consists of making, or causing to be made, any statement in any report or document required to be filed under any such rule or regulation, which statement was at the time and in the light of the circumstances under which it was made false or misleading with respect to any material fact.

[U. S. C., title 15, sec. 78ff. As amended by Acts of May 27, 1936 (49 Stat. 1380); and June 25, 1938 (52 Stat. 1076). This section, as originally enacted, became effective July 1, 1934.]

* * * * *

Effective date

SEC. 34. This Act shall become effective on July 1, 1934, except that sections 6 and 12(b), (c), (d), and (e) shall become effective on Septem-

ber 1, 1934; and sections 5, 7, 8, 9(a) (6), 10, 11, 12(a), 13, 14, 15, 16, 17, 18, 19, and 30 shall become effective on October 1, 1934.

[U. S. C., title 15, sec. 78hh.]

* * * * *

BANK ACTING AS TRUSTEE UNDER TRUST INDENTURE

Section 310 of Trust Indenture Act of August 3, 1939 (53 Stat. 1157)

Sec. 310. (a) (1) The indenture to be qualified shall require that there shall at all times be one or more trustees thereunder, at least one of whom shall at all times be a corporation organized and doing business under the laws of the United States or of any State or Territory or of the District of Columbia (referred to in this title as the institutional trustee), which (A) is authorized under such laws to exercise corporate trust powers, and (B) is subject to supervision or examination by Federal, State, Territorial, or District of Columbia authority.

(2) The indenture to be qualified shall require that such institutional trustee shall have at all times a combined capital and surplus of a specified minimum amount, which shall not be less than $150,000. If such institutional trustee publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, the indenture may provide that, for the purposes of this paragraph, the combined capital and surplus of such trustee shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

* * * * *

[U. S. C., title 15, sec. 77jjj.]

Section 26(a) of Investment Company Act of August 22, 1940 (54 Stat. 827)

Sec. 26. (a) No principal underwriter for or depositor of a registered unit investment trust shall sell, except by surrender to the trustee for redemption, any security of which such trust is the issuer (other than short-term paper), unless the trust indenture, agreement of custodianship, or other instrument pursuant to which such security is issued—

(1) designates one or more trustees or custodians, each of which is a bank, and provides that each such trustee or custodian shall have at all times an aggregate capital, surplus, and undivided profits of a specified minimum amount, which shall not be less than $500,000 (but may also provide, if such trustee or custodian publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, that for the purposes of this paragraph the aggregate capital, surplus, and undivided profits

of such trustee or custodian shall be deemed to be its aggregate capital, surplus, and undivided profits as set forth in its most recent report of condition so published); * * *.

* * * * *

[U. S. C., title 15, sec. 80a-26.]

DEFINITIONS OF "INVESTMENT COMPANY" AND "INVESTMENT ADVISER"—EXEMPTIONS

Section 3 of Investment Company Act of August 22, 1940 (54 Stat. 798)

SEC. 3. * * *

(c) Notwithstanding subsections (a) and (b), none of the following persons is an investment company within the meaning of this title:

* * * * *

(3) Any bank or insurance company; any savings and loan association, building and loan association, cooperative bank, homestead association, or similar institution, or any receiver, conservator, liquidator, liquidating agent, or similar official or person thereof or therefor; any common trust fund or similar fund maintained by a bank exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as a trustee, executor, administrator, or guardian; or any common trust fund or similar fund, established before the effective date of the Revenue Act of 1936 by a corporation which is supervised or examined by State or Federal authority having supervision over banks, if a majority of the units of beneficial interest in such fund, other than units owned by charitable or educational institutions, are held under instruments providing for payment of income to one or more persons and of principal to another or others.

(4) Any holding company affiliate, as defined in the Banking Act of 1933, which is under the supervision of the Board of Governors of the Federal Reserve System by reason of the fact that such holding company affiliate holds a general voting permit issued to it by such Board prior to January 1, 1940; and any holding company affiliate which is under such supervision by reason of the fact that it holds a general voting permit thereafter issued to it by the Board of Governors and which is determined by such Board to be primarily engaged, directly or indirectly, in the business of holding the stock of, and managing or controlling, banks, banking associations, savings banks, or trust companies. The Commission shall be given appropriate notice prior to any such determination and shall be entitled to be heard. The definition of the term "control" in section 2(a) shall not apply to this paragraph.

* * * * *

[U. S. C., title 15, sec. 80a-3. The Commission referred to in this section is the Securities and Exchange Commission.]

Section 202(a) of Investment Advisers Act of August 22, 1940 (54 Stat. 848)

Sec. 202(a) * * *.

(11) "Investment adviser" means any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities; but does not include (A) a bank, or any holding company affiliate, as defined in the Banking Act of 1933, which is not an investment company; * * *.

* * * * *

[U. S. C., title 15, sec. 80b-2.]

VII. MISCELLANEOUS

BRETTON WOODS AGREEMENTS ACT

Act of July 31, 1945 (59 Stat. 512)

Short title

SECTION 1. This Act may be cited as the "Bretton Woods Agreements Act".

[U. S. C., title 22, sec. 286, note.]

Acceptance of membership

SEC. 2. The President is hereby authorized to accept membership for the United States in the International Monetary Fund (hereinafter referred to as the "Fund"), and in the International Bank for Reconstruction and Development (hereinafter referred to as the "Bank"), provided for by the Articles of Agreement of the Fund and the Articles of Agreement of the Bank as set forth in the Final Act of the United Nations Monetary and Financial Conference dated July 22, 1944, and deposited in the archives of the Department of State.

[U. S. C., title 22, sec. 286.]

Appointment of governors, executive directors, and alternates

SEC. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a governor of the Fund who shall also serve as a governor of the Bank, and an executive director of the Fund and an executive director of the Bank. The executive directors so appointed shall also serve as provisional executive directors of the Fund and the Bank for the purposes of the respective Articles of Agreement. The

term of office for the governor of the Fund and of the Bank shall be five years. The term of office for the executive directors shall be two years, but the executive directors shall remain in office until their successors have been appointed.

(b) The President, by and with the advice and consent of the Senate, shall appoint an alternate for the governor of the Fund who shall also serve as alternate for the governor of the Bank. The President, by and with the advice and consent of the Senate, shall appoint an alternate for each of the executive directors. The alternate for each executive director shall be appointed from among individuals recommended to the President by the executive director. The terms of office for alternates for the governor and the executive directors shall be the same as the terms specified in subsection (a) for the governor and executive directors.

(c) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, or alternate.

[U. S. C., title 22, sec. 286a.]

National advisory council on international monetary and financial problems

SEC. 4. (a) In order to coordinate the policies and operations of the representatives of the United States on the Fund and the Bank and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange or monetary transactions, there is hereby established the National Advisory Council on International Monetary and Financial Problems (hereinafter referred to as the "Council"), consisting of the Secretary of the Treasury, as Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Trustees of the Export-Import Bank of Washington.

(b) (1) The Council, after consultation with the representatives of the United States on the Fund and the Bank, shall recommend to the President general policy directives for the guidance of the representatives of the United States on the Fund and the Bank.

(2) The Council shall advise and consult with the President and the representatives of the United States on the Fund and the Bank on major problems arising in the administration of the Fund and the Bank.

(3) The Council shall coordinate, by consultation or otherwise, so far as is practicable, the policies and operations of the representatives of the United States on the Fund and the Bank, the Export-Import Bank of Washington and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions.

(4) Whenever, under the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, the approval, consent or agreement of the United States is required before an act may be done by the respective institutions, the decision as to whether such approval, consent, or agreement, shall be given or refused shall (to the extent such decision is not prohibited by section 5 of this Act) be made by the Council, under the general direction of the President. No governor, executive director, or alternate representing the United States shall vote in favor of any waiver of condition under article V, section 4, or in favor of any declaration of the United States dollar as a scarce currency under article VII, section 3, of the Articles of Agreement of the Fund, without prior approval of the Council.

(5) The Council from time to time, but not less frequently than every six months, shall transmit to the President and to the Congress a report with respect to the participation of the United States in the Fund and the Bank.

(6) The Council shall also transmit to the President and to the Congress special reports on the operations and policies of the Fund and the Bank, as provided in this paragraph. The first report shall be made not later than two years after the establishment of the Fund and the Bank, and a report shall be made every two years after the making of the first report. Each such report shall cover and include: The extent to which the Fund and the Bank have achieved the purposes for which they were established; the extent to which the operations and policies of the Fund and the Bank have adhered to, or departed from, the general policy directives formulated by the Council, and the Council's recommendations in connection therewith; the extent to which the operations and policies of the Fund and the Bank have been coordinated, and the Council's recommendations in connection therewith; recommendations on whether the resources of the Fund and the Bank should be increased or decreased; recommendations as to how the Fund and the Bank may be made more effective; recommendations on any other necessary or desirable changes in the Articles of Agreement of the Fund and of the Bank or in this Act; and an over-all appraisal of the extent to which the operations and policies of the Fund and the Bank have served, and in the future may be expected to serve, the interests of the United States and the world in promoting sound international economic cooperation and furthering world security.

(7) The Council shall make such reports and recommendations to the President as he may from time to time request, or as the Council may consider necessary to more effectively or efficiently accomplish the purposes of this Act or the purposes for which the Council is created.

(c) The representatives of the United States on the Fund and the Bank, and the Export-Import Bank of Washington (and all other

agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions) shall keep the Council fully informed of their activities and shall provide the Council with such further information or data in their possession as the Council may deem necessary to the appropriate discharge of its responsibilities under this Act.

[U. S. C., title 22, sec. 286b. For provisions as to membership of Advisory Board to Export-Import Bank, see p.247.]

Certain acts not to be taken without authorization

SEC. 5. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States (a) request or consent to any change in the quota of the United States under article III, section 2, of the Articles of Agreement of the Fund; (b) propose or agree to any change in the par value of the United States dollar under article IV, section 5, or article XX, section 4, of the Articles of Agreement of the Fund, or approve any general change in par values under article IV, section 7; (c) subscribe to additional shares of stock under article II, section 3, of the Articles of Agreement of the Bank; (d) accept any amendment under article XVII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (e) make any loan to the Fund or the Bank. Unless Congress by law authorizes such action, no governor or alternate appointed to represent the United States shall vote for an increase of capital stock of the Bank under article II, section 2, of the Articles of Agreement of the Bank.

[U. S. C., title 22, sec. 286c.]

SEC. 6. * * * [Relates to function of Federal Reserve Banks as fiscal agents; see p. 141.]

SEC. 7. (a) * * * [Amended see 10(c) of Gold Reserve Act of 1934; see p. 206.]

Payment of subscription to Fund and Bank

(b) The Secretary of the Treasury is authorized to pay the balance of $950,000,000 of the subscription of the United States to the Fund not provided for in subsection (a) and to pay the subscription of the United States to the Bank from time to time when payments are required to be made to the Bank. For the purpose of making these payments, the Secretary of the Treasury is authorized to use as a public-debt transaction not to exceed $4,125,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payment under this subsection of the subscription of the United States to the Fund or the Bank

and repayments thereof shall be treated as public-debt transactions of the United States.

(c) For the purpose of keeping to a minimum the cost to the United States of participation in the Fund and the Bank, the Secretary of the Treasury, after paying the subscription of the United States to the Fund, and any part of the subscription of the United States to the Bank required to be made under article II, section 7 (i), of the Articles of Agreement of the Bank, is authorized and directed to issue special notes of the United States from time to time at par and to deliver such notes to the Fund and the Bank in exchange for dollars to the extent permitted by the respective Articles of Agreement. The special notes provided for in this subsection shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include the purposes for which special notes are authorized and directed to be issued under this subsection, but such notes shall bear no interest, shall be non-negotiable, and shall be payable on demand of the Fund or the Bank, as the case may be. The face amount of special notes issued to the Fund under the authority of this subsection and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Fund, and the face amount of such notes issued to the Bank and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Bank under article II, section 7 (i), of the Articles of Agreement of the Bank.

(d) Any payment made to the United States by the Fund or the Bank as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

[U. S. C., title 22, sec. 286e.]

Obtaining and furnishing information

SEC. 8. (a) Whenever a request is made by the Fund to the United States as a member to furnish data under article VIII, section 5, of the Articles of Agreement of the Fund, the President may, through any agency he may designate, require any person to furnish such information as the President may determine to be essential to comply with such request. In making such determination the President shall seek to collect the information only in such detail as is necessary to comply with the request of the Fund. No information so acquired shall be furnished to the Fund in such detail that the affairs of any person are disclosed.

(b) In the event any person refuses to furnish such information when requested to do so, the President, through any designated governmental agency, may by subpoena require such person to appear and testify or to appear and produce records and other documents, or both. In case

of contumacy by, or refusal to obey a subpoena served upon any such person, the district court for any district in which such person is found or resides or transacts business, upon application by the President or any governmental agency designated by him, shall have jurisdiction to issue an order requiring such person to appear and give testimony or appear and produce records and documents, or both; and any failure to obey such order of the court may be punished by such court as a contempt thereof.

(c) It shall be unlawful for any officer or employee of the Government, or for any advisor or consultant to the Government, to disclose, otherwise than in the course of official duty, any information obtained under this section, or to use any such information for his personal benefit. Whoever violates any of the provisions of this subsection shall, upon conviction, be fined not more than $5,000, or imprisoned for not more than five years, or both.

(d) The term "person" as used in this section means an individual, partnership, corporation or association.

[U. S. C., title 22, sec. 286f.]

SEC. 9. * * * [Amended Johnson Act of April 13, 1934; see p. 248.]

Jurisdiction and venue of actions

SEC. 10. For the purpose of any action which may be brought within the United States or its Territories or possessions by or against the Fund or the Bank in accordance with the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, the Fund or the Bank, as the case may be, shall be deemed to be an inhabitant of the Federal judicial district in which its principal office in the United States is located, and any such action at law or in equity to which either the Fund or the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of any such action. When either the Fund or the Bank is a defendant in any such action, it may, at any time before the trial thereof, remove such action from a State court into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.

[U. S. C., title 22, sec. 286g.]

Status, immunities and privileges

SEC. 11. The provisions of article IX, sections 2 to 9, both inclusive, and the first sentence of article VIII, section 2 (b), of the Articles of Agreement of the Fund, and the provisions of article VI, section 5 (i), and article VII, sections 2 to 9, both inclusive, of the Articles of Agree-

ment of the Bank, shall have full force and effect in the United States and its Territories and possessions upon acceptance of membership by the United States in, and the establishment of, the Fund and the Bank, respectively.

[U. S. C., title 22, sec. 286h.]

Stabilization loans by the bank

SEC. 12. The governor and executive director of the Bank appointed by the United States are hereby directed to obtain promptly an official interpretation by the Bank as to its authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans. If the Bank does not interpret its powers to include the making or guaranteeing of such loans, the governor of the Bank representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of explicitly authorizing the Bank, after consultation with the Fund, to make or guarantee such loans. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States.

[U. S. C., title 22, sec. 286i.]

Stabilization operations by the fund

SEC. 13. (a) The governor and executive director of the Fund appointed by the United States are hereby directed to obtain promptly an official interpretation by the Fund as to whether its authority to use its resources extends beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any member for current transactions, and whether it has authority to use its resources to provide facilities for relief, reconstruction, or armaments, or to meet a large or sustained outflow of capital on the part of any member.

(b) If the interpretation by the Fund answers in the affirmative any of the questions stated in subsection (a), the governor of the Fund representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of expressly negativing such interpretation. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States.

[U. S. C., title 22, sec. 286j.]

Further promotion of international economic relations

SEC. 14. In the realization that additional measures of international economic cooperation are necessary to facilitate the expansion and

balanced growth of international trade and render most effective the operations of the Fund and the Bank, it is hereby declared to be the policy of the United States to seek to bring about further agreement and cooperation among nations and international bodies, as soon as possible, on ways and means which will best reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the expansion and balanced growth of international trade and promote the stability of international economic relations. In considering the policies of the United States in foreign lending and the policies of the Fund and the Bank, particularly in conducting exchange transactions, the Council and the United States representatives on the Fund and the Bank shall give careful consideration to the progress which has been made in achieving such agreement and cooperation.

[U. S. C., title 22, sec. 286k.]

ADVISORY BOARD TO EXPORT-IMPORT BANK

Section 3(d) of Export-Import Bank Act of July 31, 1945 (59 Stat. 527)

SEC. 3. * * *

(d) There shall be an Advisory Board consisting of the Chairman of the Export-Import Bank of Washington, who shall serve as Chairman, the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, and the Chairman of the Board of Governors of the Federal Reserve System, which shall meet at the call of the Chairman. The Advisory Board may make such recommendations to the Board of Directors as it deems advisable, and the Board of Directors shall consult the Advisory Board on major questions of policy.

[U. S. C., title 12, sec. 635a. For related provisions regarding membership of National Advisory Council on International Monetary and Financial Problems, see sec. 4 of Bretton Woods Agreements Act of 1945 (p. 241).]

FINANCIAL TRANSACTIONS WITH DEFAULTING FOREIGN GOVERNMENTS (JOHNSON ACT)

Act of April 13, 1934 (48 Stat. 574), as amended

An Act To prohibit financial transactions with any foreign government in default on its obligations to the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf

of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. Any person violating the provisions of this Act shall upon conviction thereof be fined not more than $10,000 or imprisoned for not more than five years, or both.

SEC. 2. As used in this Act the term "person" includes individual, partnership, corporation, or association other than a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the United States has or exercises a controlling interest through stock ownership or otherwise.

[U. S. C., title 31, sec. 804a.]

SEC. 3. While any foreign government is a member both of the International Monetary Fund and of the International Bank for Reconstruction and Development, this Act shall not apply to the sale or purchase of bonds, securities, or other obligations of such government or any political subdivision thereof or of any organization or association acting for or on behalf of such government or political subdivision, or to the making of any loan to such government, political subdivision, organization, or association.

[U. S. C., title 31, sec. 804b. As added by Bretton Woods Agreements Act of July 31, 1945 (59 Stat. 516).]

Section 11 of Export-Import Bank Act of July 31, 1945 (59 Stat. 529)

SEC. 11. Notwithstanding the provisions of the Act of April 13, 1934 (48 Stat., ch. 112, p. 574), any person, including any individual, partnership, corporation, or association, may act for or participate with the Export-Import Bank of Washington in any operation or transaction, or may acquire any obligation issued in connection with any operation or transaction, engaged in by the Bank.

[U. S. C., title 12, sec. 635h.]

ASSIGNMENT OF CLAIMS ACT OF 1940

Act of October 9, 1940 (54 Stat. 1029)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That sections 3477 and 3737 of the Revised Statutes be amended by adding at the end of each such section the following new paragraph:

"The provisions of the preceding paragraph shall not apply in any

case in which the moneys due or to become due from the United States or from any agency or department thereof, under a contract providing for payments aggregating $1,000 or more, are assigned to a bank, trust company, or other financing institution, including any Federal lending agency: *Provided*,

"1. That in the case of any contract entered into prior to the date of approval of the Assignment of Claims Act of 1940, no claim shall be assigned without the consent of the head of the department or agency concerned;

"2. That in the case of any contract entered into after the date of approval of the Assignment of Claims Act of 1940, no claim shall be assigned if it arises under a contract which forbids such assignment;

"3. That unless otherwise expressly permitted by such contract any such assignment shall cover all amounts payable under such contract and not already paid, shall not be made to more than one party, and shall not be subject to further assignment, except that any such assignment may be made to one party as agent or trustee for two or more parties participating in such financing;

"4. That in the event of any such assignment, the assignee thereof shall file written notice of the assignment together with a true copy of the instrument of assignment with—

"(a) the General Accounting Office,

"(b) the contracting officer or the head of his department or agency,

"(c) the surety or sureties upon the bond or bonds, if any, in connection with such contract, and

"(d) the disbursing officer, if any, designated in such contract to make payment.

Notwithstanding any law to the contrary governing the validity of assignments, any assignment pursuant to the Assignment of Claims Act of 1940 shall constitute a valid assignment for all purposes."

Any contract entered into by the War Department or the Navy Department may provide that payments to an assignee of any claim arising under such contract shall not be subject to reduction or set-off, and if it is so provided in such contract, such payments shall not be subject to reduction or set-off for any indebtedness of the assignor to the United States arising independently of such contract.

[U. S. C., title 31, sec. 203; and title 41, sec. 15.]

GUARANTEED LOANS TO VETERANS

Section 500 of Servicemen's Readjustment Act of June 22, 1944 (58 Stat. 291), as amended by Act of December 28, 1945 (59 Stat. 626)

SEC. 500. * * *

(b) Loans guaranteed under this title shall be payable under such terms and conditions as may be agreed upon by the parties thereto, sub-

ject to the conditions and limitations of this title and the regulations issued pursuant to section 504: *Provided*, That the liability under the guaranty within the limitations of this title shall decrease or increase pro rata with any decrease or increase of the amount of the unpaid portion of the obligation: *Provided further*, That loans guaranteed under this title shall bear interest at a rate not exceeding 4 per centum per annum and shall be payable in full in not more than twenty-five years, or in the case of loans on farm realty in not more than forty years: *And provided further*, That (1) the maturity on a non-real-estate loan shall not exceed ten years; (2) any loan for a term in excess of five years shall be amortized in accordance with established procedure; (3) except as provided in section 505 any real-estate loan, other than for repairs, alterations or improvements, shall be secured by a first lien on the realty, and a non-real-estate loan, except as to working or other capital, merchandise, good-will and other intangible assets, shall be secured by personalty to the extent legal and practicable.

* * * * *

(d) Loans guaranteed hereunder may be made by any Federal land bank, national bank, State bank, private bank, building and loan association, insurance company, credit union, or mortgage and loan company, that is subject to examination and supervision by an agency of the United States or of any State or Territory, including the District of Columbia. Any loan at least 20 per centum of which is guaranteed under this title may be made by any national bank, or Federal savings and loan association; or by any bank, trust company, building and loan association or insurance company organized or authorized to do business in the District of Columbia; without regard to the limitations and restrictions of any other statute with respect to—

(1) ratio of amount of loan to the value of the property;
(2) maturity of loan;
(3) requirement for mortgage or other security;
(4) dignity of lien; or
(5) percentage of assets which may be invested in real estate loans.

[U. S. C., title 38, sec. 694. The provisions of law above set forth in effect exempted real estate loans to veterans under this Act from the limitations of section 24 of the Federal Reserve Act (p. 114) with respect to real estate loans by national banks.]

DISTRICT OF COLUMBIA REDEVELOPMENT LOANS

Section 19(b) of Act of August 2, 1946 (Pub. No. 592, 79th Cong.)

SEC. 19. * * *

(b) Any financial institution or other lending organization operating under the laws of the United States or the District of Columbia is

authorized, notwithstanding any other law or regulation, to make loans to redevelopment corporations to finance the improvement of any project area as provided in this Act. * * *

[Not incorporated in U. S. Code at time of publication of this edition. This provision of law in effect set aside the limitation on the total obligations to any national bank of any person, partnership, association or corporation provided for by section 5200 of the Revised Statutes (p. 179) and also exempted real estate loans by national banks from the limitations of section 24 of the Federal Reserve Act.]

FEDERAL REPORTS ACT—EXEMPTION OF BANKS

Section 3(e) of Federal Reports Act of December 24, 1942 (56 Stat. 1079)

SEC. 3. * * *

(e) For the purposes of this Act, the Director is authorized to require any Federal agency to make available to any other Federal agency any information which it has obtained from any person after the date of enactment of this Act, and all such agencies are directed to cooperate to the fullest practicable extent at all times in making such information available to other such agencies: *Provided*, That the provisions of this Act shall not apply to the obtaining or releasing of information by the Bureau of Internal Revenue, the Comptroller of the Currency, the Bureau of the Public Debt, the Bureau of Accounts, and the Division of Foreign Funds Control of the Treasury Department: *Provided further*, That the provisions of this Act shall not apply to the obtaining by any Federal bank supervisory agency of reports and information from banks as provided or authorized by law and in the proper performance of such agency's functions in its supervisory capacity.

[U. S. C., title 5, sec. 139a.]

TAXATION OF COMMON TRUST FUNDS

Sections 104 and 169 of Internal Revenue Code (53 Stat. 36, 68), as amended

SEC. 104. BANKS AND TRUST COMPANIES

(a) DEFINITION.—As used in this section the term "bank" means a bank or trust company incorporated and doing business under the laws of the United States (including laws relating to the District of Columbia), of any State, or of any Territory, a substantial part of the business of which consists of receiving deposits and making loans and discounts, or of exercising fiduciary powers similar to those permitted to national banks under section 11 (k) of the Federal Reserve Act, 38 Stat. 262 (U. S. C., Title 12, §248 k), as amended, and which is subject by law to supervision and examination by State, Territorial or Federal authority having supervision over banking institutions.

* * * * *

[U. S. C., title 26, sec. 104.]

SEC. 169. COMMON TRUST FUNDS

(a) DEFINITIONS.—The term "common trust fund" means a fund maintained by a bank (as defined in section 104)—

(1) exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as a trustee, executor, administrator, or guardian; and

(2) in conformity with the rules and regulations, prevailing from time to time, of the Board of Governors of the Federal Reserve System pertaining to the collective investment of trust funds by national banks.

(b) TAXATION OF COMMON TRUST FUNDS.—A common trust fund shall not be subject to taxation under this chapter, subchapters A or B of chapter 2, or section 105 or 106 of the Revenue Act of 1935, 49 Stat. 1017, 1019, or chapter 6 and for the purposes of such chapters and subchapters shall not be considered a corporation.

(c) INCOME OF PARTICIPANTS IN FUND.—

* * * * *

(d) COMPUTATION OF COMMON TRUST FUND INCOME.—

* * * * *

(e) ADMISSION AND WITHDRAWAL.—

* * * * *

(f) RETURNS BY BANK.—Every bank (as defined in section 104) maintaining a common trust fund shall make a return under oath for each taxable year, stating specifically, with respect to such fund, the items of gross income and the deductions allowed by this chapter, and shall include in the return the names and addresses of the participants who would be entitled to share in the net income if distributed and the amount of the proportionate share of each participant. The return shall be sworn to as in the case of a return filed by the bank under section 52.

(g) DIFFERENT TAXAELE YEARS OF COMMON TRUST FUND AND PARTICIPANT.—

* * * * *

[U. S. C., title 26, sec. 169. As amended by Acts of October 21, 1942 (56 Stat. 824, 825); and May 29, 1944 (58 Stat. 238).]

IMPROPER USE OF CERTAIN WORDS

Act of May 24, 1926 (44 Stat. 628), as amended

An Act To prohibit offering for sale as Federal farm loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words

"Federal," "United States," or "reserve," or a combination of such words, to prohibit false advertising, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That no bank, banking association, trust company, corporation, association, firm, partnership, or person not organized under the provisions of the Act of July 17, 1916, known as the Federal Farm Loan Act, as amended, shall advertise or represent that it makes Federal farm loans or advertise of* offer for sale as Federal farm loan bonds any bond not issued under the provisions of the Federal Farm Loan Act, or make use of the word "Federal" or the words "United States" or any other word or words implying Government ownership, obligation, or supervision in advertising or offering for sale any bond, note, mortgage, or other security not issued by the Government of the United States or under the provisions of the said Federal Farm Loan Act or some other Act of Congress.

[U. S. C., title 12, sec. 584. For other provisions covering improper advertising, see subsec. (v) of sec. 12B of Federal Reserve Act (p. 68).]

SEC. 2. That no bank, banking association, trust company, corporation, association, firm, partnership, or person engaged in the banking, loan, building and loan, brokerage, factorage, insurance, indemnity, or trust business shall use the word "Federal," the words "United States," the words "Deposit Insurance," or the word "reserve," or any combination of such words, as a portion of its corporate, firm, or trade name or title or of the name under which it does business: *Provided, however*, That the provisions of this section shall not apply to the Board of Governors of the Federal Reserve System, the Federal Farm Loan Board, the Federal Trade Commission, or any other department, bureau, or independent establishment of the Government of the United States, nor to any Federal reserve bank, Federal land bank, or Federal reserve agent, nor to the Federal Advisory Council, nor to any corporation organized under the laws of the United States, nor to any new bank organized by the Federal Deposit Insurance Corporation as provided in section 12B of the Federal Reserve Act, as amended, nor to any bank, banking association, trust company, corporation, association, firm, partnership, or person actually engaged in business under such name or title prior to the passage of this Act.

[U. S. C., title 12, sec. 585. As amended by Act of August 23, 1935 (49 Stat. 719).]

SEC. 3. That no bank, banking association, or trust company which is not a member of the Federal Reserve system shall advertise or represent in any way that it is a member of such system or publish or display

* So in statute as enacted.

any sign, symbol, or advertisement reasonably calculated to convey the impression that it is a member of such system.

[U. S. C., title 12, sec. 586.]

SEC. 4. That any bank, banking association, trust company, corporation, association, firm, or partnership violating any of the provisions of this Act shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000. Any person violating any of the provisions of this Act, or any officer of any bank, banking association, trust company, corporation, or association, or member of any firm or partnership violating any of the provisions of this Act who participates in, or knowingly acquiesces in, such violations shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000 or imprisonment not exceeding one year, or both. Any such illegal use of such word or words, or any combination of such words, or any other violation of any of the provisions of this Act, may be enjoined by the United States district court having jurisdiction, at the instance of any United States district attorney, any Federal land bank, joint-stock land bank, Federal reserve bank, or the Federal Farm Loan Board or the Board of Governors of the Federal Reserve System or the Federal Deposit Insurance Corporation.

[U. S. C., title 12, sec. 587. As amended by Act of August 23, 1935 (49 Stat. 719).]

SEC. 5. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph or part thereof directly involved in the controversy in which such judgment shall have been rendered.

[U. S C., title 12, sec. 588.]

Section 5243 of United States Revised Statutes, as amended

SEC. 5243. The use of the word "national", the word "Federal" or the words "United States", separately, in any combination thereof, or in combination with other words or syllables, as part of the name or title used by any person, corporation, firm, partnership, business trust, association or other business entity, doing the business of bankers, brokers, or trust or savings institutions is prohibited except where such institution is organized under the laws of the United States, or is otherwise permitted by the laws of the United States to use such name or title, or is lawfully using such name or title on the date when this section, as amended, takes effect; and any violation of this prohibition committed after the third day of September, eighteen hundred and seventy-three,

shall subject the party chargeable therewith to a penalty of fifty dollars for each day during which it is committed or repeated.

[U. S. C., title 12, sec. 583. As amended by Act of August 23, 1935 (49 Stat. 712).]

ADMINISTRATIVE PROCEDURE ACT

Approved June 11, 1946 (Pub. No. 404, 79th Cong.)

AN ACT

To improve the administration of justice by prescribing fair administrative procedure.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE

SECTION 1. This Act may be cited as the "Administrative Procedure Act".

DEFINITIONS

SEC. 2. As used in this Act—

(a) AGENCY.—"Agency" means each authority (whether or not within or subject to review by another agency) of the Government of the United States other than Congress, the courts, or the governments of the possessions, Territories, or the District of Columbia. Nothing in this Act shall be construed to repeal delegations of authority as provided by law. Except as to the requirements of section 3, there shall be excluded from the operation of this Act (1) agencies composed of representatives of the parties or of representatives of organizations of the parties to the disputes determined by them, (2) courts martial and military commissions, (3) military or naval authority exercised in the field in time of war or in occupied territory, or (4) functions which by law expire on the termination of present hostilities, within any fixed period thereafter, or before July 1, 1947, and the functions conferred by the following statutes: Selective Training and Service Act of 1940; Contract Settlement Act of 1944; Surplus Property Act of 1944.

(b) PERSON AND PARTY.—"Person" includes individuals, partnerships, corporations, associations, or public or private organizations of any character other than agencies. "Party" includes any person or agency named or admitted as a party, or properly seeking and entitled as of right to be admitted as a party, in any agency proceeding; but nothing herein shall be construed to prevent an agency from admitting any person or agency as a party for limited purposes.

(c) RULE AND RULE MAKING.—"Rule" means the whole or any part of any agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy or to describe the organization, procedure, or practice requirements of any agency and includes the approval or prescription for the future of rates, wages, corporate or financial structures or reorganizations thereof, prices, facilities, appliances, services or allowances therefor or of valuations, costs, or accounting, or practices bearing upon any of the foregoing. "Rule making" means agency process for the formulation, amendment, or repeal of a rule.

(d) ORDER AND ADJUDICATION.—"Order" means the whole or any part of the final disposition (whether affirmative, negative, injunctive, or declaratory in form) of any agency in any matter other than rule making but including licensing. "Adjudication" means agency process for the formulation of an order.

(e) LICENSE AND LICENSING.—"License" includes the whole or part of any agency permit, certificate, approval, registration, charter, membership, statutory exemption or other form of permission. "Licensing" includes agency process respecting the grant, renewal, denial, revocation, suspension, annulment, withdrawal, limitation amendment, modification, or conditioning of a license.

(f) SANCTION AND RELIEF.—"Sanction" includes the whole or part of any agency (1) prohibition, requirement, limitation, or other condition affecting the freedom of any person; (2) withholding of relief; (3) imposition of any form of penalty or fine; (4) destruction, taking, seizure, or withholding of property; (5) assessment of damages, reimbursement, restitution, compensation, costs, charges, or fees; (6) requirement, revocation, or suspension of a license; or (7) taking of other compulsory or restrictive action. "Relief" includes the whole or part of any agency (1) grant of money, assistance, license, authority, exemption, exception, privilege, or remedy; (2) recognition of any claim, right, immunity, privilege, exemption, or exception; or (3) taking of any other action upon the application or petition of, and beneficial to, any person.

(g) AGENCY PROCEEDING AND ACTION.—"Agency proceeding" means any agency process as defined in subsections (c), (d), and (e) of this section. "Agency action" includes the whole or part of every agency rule, order, license, sanction, relief, or the equivalent or denial thereof, or failure to act.

[U. S. C., title 5, sec. 1001.]

PUBLIC INFORMATION

SEC. 3. Except to the extent that there is involved (1) any function of the United States requiring secrecy in the public interest or (2) any matter relating solely to the internal management of an agency—

(a) RULES.—Every agency shall separately state and currently publish in the Federal Register (1) descriptions of its central and field organization including delegations by the agency of final authority and the established places at which, and methods whereby, the public may secure information or make submittals or requests; (2) statements of the general course and method by which its functions are channeled and determined, including the nature and requirements of all formal or informal procedures available as well as forms and instructions as to the scope and contents of all papers, reports, or examinations; and (3) substantive rules adopted as authorized by law and statements of general policy or interpretations formulated and adopted by the agency for the guidance of the public, but not rules addressed to and served upon named persons in accordance with law. No person shall in any manner be required to resort to organization or procedure not so published.

(b) OPINIONS AND ORDERS.—Every agency shall publish or, in accordance with published rule, make available to public inspection all final opinions or orders in the adjudication of cases (except those required for good cause to be held confidential and not cited as precedents) and all rules.

(c) PUBLIC RECORDS.—Save as otherwise required by statute, matters of official record shall in accordance with published rule be made available to persons properly and directly concerned except information held confidential for good cause found.

[U. S. C., title 5, sec. 1002.]

RULE MAKING

SEC. 4. Except to the extent that there is involved (1) any military, naval, or foreign affairs function of the United States or (2) any matter relating to agency management or personnel or to public property, loans, grants, benefits, or contracts—

(a) NOTICE.—General notice of proposed rule making shall be published in the Federal Register (unless all persons subject thereto are named and either personally served or otherwise have actual notice thereof in accordance with law) and shall include (1) a statement of the time, place, and nature of public rule making proceedings; (2) reference to the authority under which the rule is proposed; and (3) either the terms or substance of the proposed rule or a description of the subjects and issues involved. Except where notice or hearing is required by statute, this subsection shall not apply to interpretative rules, general statements of policy, rules of agency organization, procedure, or practice, or in any situation in which the agency for good cause finds (and incorporates the finding and a brief statement of the reasons therefor in the rules issued) that notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest.

(b) PROCEDURES.—After notice required by this section, the agen-

cy shall afford interested persons an opportunity to participate in the rule making through submission of written data, views, or arguments with or without opportunity to present the same orally in any manner; and, after consideration of all relevant matter presented, the agency shall incorporate in any rules adopted a concise general statement of their basis and purpose. Where rules are required by statute to be made on the record after opportunity for an agency hearing, the requirements of sections 7 and 8 shall apply in place of the provisions of this subsection.

(c) EFFECTIVE DATES.—The required publication or service of any substantive rule (other than one granting or recognizing exemption or relieving restriction or interpretative rules and statements of policy) shall be made not less than thirty days prior to the effective date thereof except as otherwise provided by the agency upon good cause found and published with the rule.

(d) PETITIONS.—Every agency shall accord any interested person the right to petition for the issuance, amendment, or repeal of a rule.

[U. S. C., title 5, sec. 1003.]

ADJUDICATION

SEC. 5. In every case of adjudication required by statute to be determined on the record after opportunity for an agency hearing, except to the extent that there is involved (1) any matter subject to a subsequent trial of the law and the facts de novo in any court; (2) the selection or tenure of an officer or employee of the United States other than examiners appointed pursuant to section 11; (3) proceedings in which decisions rest solely on inspections, tests, or elections; (4) the conduct of military, naval, or foreign affairs functions; (5) cases in which an agency is acting as an agent for a court; and (6) the certification of employee representatives—

(a) NOTICE.—Persons entitled to notice of an agency hearing shall be timely informed of (1) the time, place, and nature thereof; (2) the legal authority and jurisdiction under which the hearing is to be held; and (3) the matters of fact and law asserted. In instances in which private persons are the moving parties, other parties to the proceeding shall give prompt notice of issues controverted in fact or law; and in other instances agencies may by rule require responsive pleading. In fixing the times and places for hearings, due regard shall be had for the convenience and necessity of the parties or their representatives.

(b) PROCEDURE.—The agency shall afford all interested parties opportunity for (1) the submission and consideration of facts, arguments, offers of settlement, or proposals of adjustment where time, the nature of the proceeding, and the public interest permit, and (2) to the extent that the parties are unable so to determine any controversy by consent, hearing, and decision upon notice and in conformity with sections 7 and 8.

(c) SEPARATION OF FUNCTIONS.—The same officers who preside at the reception of evidence pursuant to section 7 shall make the recommended decision or initial decision required by section 8 except where such officers become unavailable to the agency. Save to the extent required for the disposition of ex parte matters as authorized by law, no such officer shall consult any person or party on any fact in issue unless upon notice and opportunity for all parties to participate; nor shall such officer be responsible to or subject to the supervision or direction of any officer, employee, or agent engaged in the performance of investigative or prosecuting functions for any agency. No officer, employee, or agent engaged in the performance of investigative or prosecuting functions for any agency in any case shall, in that or a factually related case, participate or advise in the decision, recommended decision, or agency review pursuant to section 8 except as witness or counsel in public proceedings. This subsection shall not apply in determining applications for initial licenses or to proceedings involving the validity or application of rates, facilities, or practices of public utilities or carriers; nor shall it be applicable in any manner to the agency or any member or members of the body comprising the agency.

(d) DECLARATORY ORDERS.—The agency is authorized in its sound discretion, with like effect as in the case of other orders, to issue a declaratory order to terminate a controversy or remove uncertainty.

[U. S. C., title 5, sec. 1004.]

ANCILLARY MATTERS

SEC. 6. Except as otherwise provided in this Act—

(a) APPEARANCE.—Any person compelled to appear in person before any agency or representative thereof shall be accorded the right to be accompanied, represented, and advised by counsel or, if permitted by the agency, by other qualified representative. Every party shall be accorded the right to appear in person or by or with counsel or other duly qualified representative in any agency proceeding. So far as the orderly conduct of public business permits, any interested person may appear before any agency or its responsible officers or employees for the presentation, adjustment, or determination of any issue, request, or controversy in any proceeding (interlocutory, summary, or otherwise) or in connection with any agency function. Every agency shall proceed with reasonable dispatch to conclude any matter presented to it except that due regard shall be had for the convenience and necessity of the parties or their representatives. Nothing herein shall be construed either to grant or to deny to any person who is not a lawyer the right to appear for or represent others before any agency or in any agency proceeding.

(b) INVESTIGATIONS.—No process, requirement of a report, inspection, or other investigative act or demand shall be issued, made, or enforced in any manner or for any purpose except as authorized by law.

Every person compelled to submit data or evidence shall be entitled to retain or, on payment of lawfully prescribed costs, procure a copy or transcript thereof, except that in a nonpublic investigatory proceeding the witness may for good cause be limited to inspection of the official transcript of his testimony.

(c) SUBPENAS.—Agency subpenas authorized by law shall be issued to any party upon request and, as may be required by rules of procedure, upon a statement or showing of general relevance and reasonable scope of the evidence sought. Upon contest the court shall sustain any such subpena or similar process or demand to the extent that it is found to be in accordance with law and, in any proceeding for enforcement, shall issue an order requiring the appearance of the witness or the production of the evidence or data within a reasonable time under penalty of punishment for contempt in case of contumacious failure to comply.

(d) DENIALS.—Prompt notice shall be given of the denial in whole or in part of any written appliction, petition, or other request of any interested person made in connection with any agency proceeding. Except in affirming a prior denial or where the denial is self-explanatory, such notice shall be accompanied by a simple statement of procedural or other grounds.

[U. S. C., title 5, Sec. 1005.]

HEARINGS

SEC. 7. In hearings which section 4 or 5 requires to be conducted pursuant to this section—

(a) PRESIDING OFFICERS.—There shall preside at the taking of evidence (1) the agency, (2) one or more members of the body which comprises the agency, or (3) one or more examiners appointed as provided in this Act; but nothing in this Act shall be deemed to supersede the conduct of specified classes of proceedings in whole or part by or before boards or other officers specially provided for by or designated pursuant to statute. The functions of all presiding officers and of officers participating in decisions in conformity with section 8 shall be conducted in an impartial manner. Any such officer may at any time withdraw if he deems himself disqualified; and, upon the filing in good faith of a timely and sufficient affidavit of personal bias or disqualification of any such officer, the agency shall determine the matter as a part of the record and decision in the case.

(b) HEARING POWERS.—Officers presiding at hearings shall have authority, subject to the published rules of the agency and within its powers, to (1) administer oaths and affirmations, (2) issue subpenas authorized by law, (3) rule upon offers of proof and receive relevant evidence, (4) take or cause depositions to be taken whenever the ends of justice would be served thereby, (5) regulate the course of the hearing,

(6) hold conferences for the settlement or simplification of the issues by consent of the parties, (7) dispose of procedural requests or similar matters, (8) make decisions or recommend decisions in conformity with section 8, and (9) take any other action authorized by agency rule consistent with this Act.

(c) EVIDENCE.—Except as statutes otherwise provide, the proponent of a rule or order shall have the burden of proof. Any oral or documentary evidence may be received, but every agency shall as a matter of policy provide for the exclusion of irrelevant, immaterial, or unduly repetitious evidence and no sanction shall be imposed or rule or order be issued except upon consideration of the whole record or such portions thereof as may be cited by any party and as supported by and in accordance with the reliable, probative, and substantial evidence. Every party shall have the right to present his case or defense by oral or documentary evidence, to submit rebuttal evidence, and to conduct such cross-examination as may be required for a full and true disclosure of the facts. In rule making or determining claims for money or benefits or applications for initial licenses any agency may, where the interest of any party will not be prejudiced thereby, adopt procedures for the submission of all or part of the evidence in written form.

(d) RECORD.—The transcript of testimony and exhibits, together with all papers and requests filed in the proceeding, shall constitute the exclusive record for decision in accordance with section 8 and, upon payment of lawfully prescribed costs, shall be made available to the parties. Where any agency decision rests on official notice of a material fact not appearing in the evidence in the record, any party shall on timely request be afforded an opportunity to show the contrary.

[U. S. C., title 5, Sec. 1006.]

DECISIONS

SEC. 8. In cases in which a hearing is required to be conducted in conformity with section 7,—

(a) ACTION BY SUBORDINATES.—In cases in which the agency has not presided at the reception of the evidence, the officer who presided (or, in cases not subject to subsection (c) of section 5, any other officer or officers qualified to preside at hearings pursuant to section 7) shall initially decide the case or the agency shall require (in specific cases or by general rule) the entire record to be certified to it for initial decision. Whenever such officers make the initial decision and in the absence of either an appeal to the agency or review upon motion of the agency within time provided by rule, such decision shall without further proceedings then become the decision of the agency. On appeal from or review of the initial decisions of such officers the agency shall, except as it may limit the issues upon notice or by rule, have all the powers which it would have in making the initial decision. Whenever the agency makes

the initial decision without having presided at the reception of the evidence, such officers shall first recommend a decision except that in rule making or determining applications for initial licenses (1) in lieu thereof the agency may issue a tentative decision or any of its responsible officers may recommend a decision or (2) any such procedure may be omitted in any case in which the agency finds upon the record that due and timely execution of its functions imperatively and unavoidably so requires.

(b) SUBMITTALS AND DECISIONS.—Prior to each recommended, initial, or tentative decision, or decision upon agency review of the decision of subordinate officers the parties shall be afforded a reasonable opportunity to submit for the consideration of the officers participating in such decisions (1) proposed findings and conclusions, or (2) exceptions to the decisions or recommended decisions of subordinate officers or to tentative agency decisions, and (3) supporting reasons for such exceptions or proposed findings or conclusions. The record shall show the ruling upon each such finding, conclusion, or exception presented. All decisions (including initial, recommended, or tentative decisions) shall become a part of the record and include a statement of (1) findings and conclusions, as well as the reasons or basis therefor, upon all the material issues of fact, law, or discretion presented on the record; and (2) the appropriate rule, order, sanction, relief, or denial thereof.

[U. S. C., title 5, Sec. 1007.]

SANCTIONS AND POWERS

SEC. 9. In the exercise of any power or authority—

(a) IN GENERAL.—No sanction shall be imposed or substantive rule or order be issued except within jurisdiction delegated to the agency and as authorized by law.

(b) LICENSES.—In any case in which application is made for a license required by law the agency, with due regard to the rights or privileges of all the interested parties or adversely affected persons and with reasonable dispatch, shall set and complete any proceedings required to be conducted pursuant to sections 7 and 8 of this Act or other proceedings required by law and shall make its decision. Except in cases of willfulness or those in which public health, interest, or safety requires otherwise, no withdrawal, suspension, revocation, or annulment of any license shall be lawful unless, prior to the institution of agency proceedings therefor, facts or conduct which may warrant such action shall have been called to the attention of the licensee by the agency in writing and the licensee shall have been accorded opportunity to demonstrate or achieve compliance with all lawful requirements. In any case in which the licensee has, in accordance with agency rules, made timely and sufficient application for a renewal or a new license, no license with

reference to any activity of a continuing nature shall expire until such application shall have been finally determined by the agency.

[U. S. C., title 5, Sec. 1008.]

JUDICIAL REVIEW

SEC. 10. Except so far as (1) statutes preclude judicial review or (2) agency action is by law committed to agency discretion—

(a) RIGHT OF REVIEW.—Any person suffering legal wrong because of any agency action, or adversely affected or aggrieved by such action within the meaning of any relevant statute, shall be entitled to judicial review thereof.

(b) FORM AND VENUE OF ACTION.—The form of proceeding for judicial review shall be any special statutory review proceeding relevant to the subject matter in any court specified by statute or, in the absence or inadequacy thereof, any applicable form of legal action (including actions for declaratory judgments or writs of prohibitory or mandatory injunction or habeas corpus) in any court of competent jurisdiction. Agency action shall be subject to judicial review in civil or criminal proceedings for judicial enforcement except to the extent that prior, adequate, and exclusive opportunity for such review is provided by law.

(c) REVIEWABLE ACTS.—Every agency action made reviewable by statute and every final agency action for which there is no other adequate remedy in any court shall be subject to judicial review. Any preliminary, procedural, or intermediate agency action or ruling not directly reviewable shall be subject to review upon the review of the final agency action. Except as otherwise expressly required by statute, agency action otherwise final shall be final for the purposes of this subsection whether or not there has been presented or determined any application for a declaratory order, for any form of reconsideration, or (unless the agency otherwise requires by rule and provides that the action meanwhile shall be inoperative) for an appeal to superior agency authority.

(d) INTERIM RELIEF.—Pending judicial review any agency is authorized, where it finds that justice so requires, to postpone the effective date of any action taken by it. Upon such conditions as may be required and to the extent necessary to prevent irreparable injury, every reviewing court (including every court to which a case may be taken on appeal from or upon application for certiorari or other writ to a reviewing court) is authorized to issue all necessary and appropriate process to postpone the effective date of any agency action or to preserve status or rights pending conclusion of the review proceedings.

(e) SCOPE OF REVIEW.—So far as necessary to decision and where presented the reviewing court shall decide all relevant questions of law, interpret constitutional and statutory provisions, and determine the meaning or applicability of the terms of any agency action. It

shall (A) compel agency action unlawfully withheld or unreasonably delayed; and (B) hold unlawful and set aside agency action, findings, and conclusions found to be (1) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law; (2) contrary to constitutional right, power, privilege, or immunity; (3) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right; (4) without observance of procedure required by law; (5) unsupported by substantial evidence in any case subject to the requirements of sections 7 and 8 or otherwise reviewed on the record of an agency hearing provided by statute; or (6) unwarranted by the facts to the extent that the facts are subject to trial de novo by the reviewing court. In making the foregoing determinations the court shall review the whole record or such portions thereof as may be cited by any party, and due account shall be taken of the rule of prejudicial error.

[U. S. C., title 5, Sec. 1009.]

EXAMINERS

SEC. 11. Subject to the civil-service and other laws to the extent not inconsistent with this Act, there shall be appointed by and for each agency as many qualified and competent examiners as may be necessary for proceedings pursuant to sections 7 and 8, who shall be assigned to cases in rotation so far as practicable and shall perform no duties inconsistent with their duties and responsibilities as examiners. Examiners shall be removable by the agency in which they are employed only for good cause established and determined by the Civil Service Commission (hereinafter called the Commission) after opportunity for hearing and upon the record thereof. Examiners shall receive compensation prescribed by the Commission independently of agency recommendations or ratings and in accordance with the Classification Act of 1923, as amended, except that the provisions of paragraphs (2) and (3) of subsection (b) of section 7 of said Act, as amended, and the provisions of section 9 of said Act, as amended, shall not be applicable. Agencies occasionally or temporarily insufficiently staffed may utilize examiners selected by the Commission from and with the consent of other agencies. For the purposes of this section, the Commission is authorized to make investigations, require reports by agencies, issue reports, including an annual report to the Congress, promulgate rules, appoint such advisory committees as may be deemed necessary, recommend legislation, subpena witnesses or records, and pay witness fees as established for the United States courts.

[U. S. C., title 5, Sec. 1010.]

CONSTRUCTION AND EFFECT

SEC. 12. Nothing in this Act shall be held to diminish the constitutional rights of any person or to limit or repeal additional requirements imposed by statute or otherwise recognized by law. Except as other-

wise required by law, all requirements or privileges relating to evidence or procedure shall apply equally to agencies and persons. If any provision of this Act or the application thereof is held invalid, the remainder of this Act or other applications of such provision shall not be affected. Every agency is granted all authority necessary to comply with the requirements of this Act through the issuance of rules or otherwise. No subsequent legislation shall be held to supersede or modify the provisions of this Act except to the extent that such legislation shall do so expressly. This Act shall take effect three months after its approval except that sections 7 and 8 shall take effect six months after such approval, the requirement of the selection of examiners pursuant to section 11 shall not become effective until one year after such approval, and no procedural requirement shall be mandatory as to any agency proceeding initiated prior to the effective date of such requirement.

[U. S. C., title 5, Sec. 1011.]

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FEDERAL RESERVE ACT OF 1913

WITH AMENDMENTS AND LAWS RELATING TO BANKING

Compiled by
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House of Representatives

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[PUBLIC—No. 43—63D CONGRESS.]

[H. R. 7837.]

An Act To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall he held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS.

SEC. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital

required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than $25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital less than $4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of $100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES.

SEC. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

SEC. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors, such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Directors of class A and class B shall be chosen in the following manner:

The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman

of the board of directors of the Federal reserve bank he shall be required to maintain under regulations to be established by the Federal Reserve Board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.

SEC. 5. The capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said sub-

scription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

SEC. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

SEC. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of

the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

SEC. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

Provided, however, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS.

SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as

it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board. No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking Act.

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice

cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD.

SEC. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of $12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of $7,000 annually for his services as a member of said Board.

The members of said board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

The Federal Reserve Board shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking

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institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire thirty days after the next session of the Senate convenes.

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

SEC. 11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding

fifteen days, any reserve requirement specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large,

page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided,* That nothing herein shall prevent the President from placing said employees in the classified service.

FEDERAL ADVISORY COUNCIL.

SEC. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies, shall serve for the unexpired term.

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

POWERS OF FEDERAL RESERVE BANKS.

SEC. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise

from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

OPEN-MARKET OPERATIONS.

SEC. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or

foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS.

SEC. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: *Provided, however*, That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES.

SEC. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills, accepted for rediscount under the provisions of section thirteen of this Act, and the Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasury, otherwise than for redemption, may be exchanged for gold out of the redemption fund

hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board, and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing, with the Federal reserve agent, its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of $5, $10, $20, $50, $100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the

distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, and so forth, and regulations relating to such examination of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however*, That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to

exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

SEC. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking associations shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds is hereby repealed.

REFUNDING BONDS.

SEC. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: *Provided*, That Federal reserve banks shall not be permitted to purchase an amount to exceed $25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

Provided further, That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law, shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited. Such notes

shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided*, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

BANK RESERVES.

SEC. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows:

(a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date five-twelfths thereof and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date six-fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve months after the date aforesaid at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank seven-eighteenths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as

described in section fourteen properly indorsed and acceptable to the said reserve bank.

If a State bank or trust company is required by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company, such reserve deposits so kept in such State bank or trust company shall be construed, within the meaning of this section, as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however*, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

In estimating the reserves required by this Act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this Act.

SEC. 20. So much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

BANK EXAMINATIONS.

SEC. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine

every member bank at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

SEC. 22. No member bank or any officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform

any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

Other than the usual salary or director's fee paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank. No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this section shall be punished by a fine of not exceeding $5,000 or by imprisonment not exceeding one year, or both.

Except as provided in existing laws, this provision shall not take effect until sixty days after the passage of this Act.

SEC. 23. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

LOANS ON FARM LANDS.

SEC. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

FOREIGN BRANCHES.

SEC. 25. Any national banking association possessing a capital and surplus of $1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the place or places where the banking operations proposed are to be carried on, and the amount of capital set aside for the conduct of its foreign business. The Federal Reserve Board shall have power to approve or to reject such application if, in its judgment, the amount of capital proposed to be set aside for the conduct of foreign business is inadequate, or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish foreign branches shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

SEC. 26. All provisions of law inconsistent with or superseded by any of the provisions of this Act are to that extent and to that extent only hereby repealed: *Provided*, Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

SEC. 27. The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen

hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: *Provided, however*, That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes.

SEC. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

SEC. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

SEC. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved, December 23, 1913.

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INDEX TO FEDERAL RESERVE ACT.

[PUBLIC—No. 163—63D CONGRESS.]

[S. 6192.]

An Act To amend section twenty-seven of an Act approved December twenty-third, nineteen hundred and thirteen, and known as the Federal Reserve Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section twenty-seven of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act is hereby amended and reenacted to read as follows:

"SEC. 27. The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: *Provided, however,* That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

"National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes: *Provided further,* That whenever in his judgment he may deem it desirable, the Secretary of the Treasury shall have power to suspend the limitations imposed by section one and section three of the Act referred to in this section, which prescribe that such additional circulation secured otherwise than by bonds of the United States shall be issued only to National banks having circulating notes outstanding secured by the deposit of bonds of the United States to an amount not less than forty per centum of the capital stock of such banks, and to suspend also the conditions and limitations of section five of said Act except that no bank shall be permitted to issue circulating notes in excess of one hundred and twenty-five per centum of its unimpaired capital and surplus. He shall require each bank and currency association to maintain on deposit in the Treasury of the United States a sum in gold sufficient in his judgment for the redemption of such notes, but in no event less than

five per centum. He may permit National banks, during the period for which such provisions are suspended, to issue additional circulation under the terms and conditions of the Act referred to as herein amended: *Provided further*, That the Secretary of the Treasury, in his discretion, is further authorized to extend the benefits of this Act to all qualified State banks and trust companies, which have joined the Federal reserve system, or which may contract to join within fifteen days after the passage of this Act."

Approved, August 4, 1914.

[PUBLIC—No. 171—63D CONGRESS.]

[S. 4966.]

An Act Proposing an amendment to section nineteen of the Federal reserve Act relating to reserves, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section nineteen, subsections (b) and (c) of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve Act, be amended and reenacted so as to read as follows:

"(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

"In its vaults for a period of thirty-six months after said date, six-fifteenths thereof, and permanently thereafter five-fifteenths.

"In the Federal reserve bank of its district for a period of twelve months after the date aforesaid, at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

"For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in central reserve cities, as now defined by law.

"After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank or in both, at the option of the member bank.

"(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

"In its vaults, six-eighteenths thereof.

"In the Federal reserve bank, seven-eighteenths.

"The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

"Any Federal reserve bank may receive from the member banks as reserves not exceeding one-half of each installment, eligible paper as described in section thirteen properly indorsed and acceptable to the said reserve bank.

"If a State bank or trust company is required or permitted by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company or with a national bank, such reserve deposits so kept in such State bank, trust company, or national bank shall be construed within the meaning of this section as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust

company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

"The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

"In estimating the reserves required by this Act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the bank deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

"National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this Act."

Approved, August 15, 1914.

(EXTRACT FROM)

[PUBLIC—No. 212—63D CONGRESS.]

[H. R. 15657.]

An Act To supplement existing laws against unlawful restraints and monopolies, and for other purposes.

SEC. 8. That from and after two years from the date of the approval of this Act no person shall at the same time be a director or other officer or employee of more than one bank, banking association or trust company, organized or operating under the laws of the United States, either of which has deposits, capital, surplus, and undivided profits aggregating more than $5,000,000; and no private banker or person who is a director in any bank or trust company, organized and operating under the laws of a State, having deposits, capital, surplus, and undivided profits aggregating more than $5,000,000, shall be eligible to be a director in any bank or banking association organized or operating under the laws of the United States. The eligibility of a director, officer, or employee under the foregoing provisions shall be determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of this Act it shall be lawful for him to continue as such for one year thereafter under said election or employment.

No bank, banking association or trust company, organized or operating under the laws of the United States, in any city or incorporated town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or other officer or employee any private banker or any director or other officer or employee of any other bank, banking association or trust company located in the same place: *Provided*, That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares: *Provided further*, That a director or other officer or employee of such bank, banking association, or trust company may be a director or other officer or employee of not more than one other bank or trust company organized under the laws of the United States or any State where the entire capital stock of one is owned by stockholders in the other: *And provided further*, That nothing contained in this section shall forbid a director of class A of a Federal reserve bank, as defined in the Federal Reserve Act, from being an officer or director or both an officer and director in one member bank.

That from and after two years from the date of the approval of this Act no person at the same time shall be a director in any two or more corporations, any one of which has capital, surplus, and undivided profits aggregating more than $1,000,000, engaged in whole or in part in commerce, other than banks, banking associations, trust companies and common carriers subject to the Act to regulate commerce, ap-

proved February fourth, eighteen hundred and eighty-seven, if such corporations are or shall have been theretofore, by virtue of their business and location of operation, competitors, so that the elimination of competition by agreement between them would constitute a violation of any of the provisions of any of the antitrust laws. The eligibility of a director under the foregoing provision shall be determined by the aggregate amount of the capital, surplus, and undivided profits, exclusive of dividends declared but not paid to stockholders, at the end of the fiscal year of said corporation next preceding the election of directors, and when a director has been elected in accordance with the provisions of this Act it shall be lawful for him to continue as such for one year thereafter.

When any person elected or chosen as a director or officer or selected as an employee of any bank or other corporation subject to the provisions of this Act is eligible at the time of his election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

(EXTRACT FROM)

[PUBLIC—No. 81—64TH CONGRESS.]

[H. R. 562.]

An Act To amend the Act approved June twenty-fifth, nineteen hundred and ten, authorizing the postal savings system, and for other purposes.

SEC. 2. That postal savings funds received under the provisions of this Act shall be deposited in solvent banks, whether organized under National or State laws, and whether member banks or not of the Federal reserve system established by the Act approved December twenty-third, nineteen hundred and thirteen, being subject to National or State supervision and examination, and the sums deposited shall bear interest at the rate of not less than two and one-fourth per centum per annum, which rate shall be uniform throughout the United States and Territories thereof; but five per centum of such funds shall be withdrawn by the board of trustees and kept with the Treasurer of the United States, who shall be treasurer of the board of trustees, in lawful money as a reserve. The board of trustees shall take from such banks such security in public bonds or other securities, authorized by Act of Congress or supported by the taxing power, as the board may prescribe, approve, and deem sufficient and necessary to insure the safety and prompt payment of such deposits on demand. The funds received at the postal savings depository offices in each city, town, village, and other locality shall be deposited in banks located therein (substantially in proportion to the capital and surplus of each such bank) willing to receive such deposits under the terms of this Act and the regulations made by authority thereof: *Provided, however,* If one or more member banks of the Federal reserve system established by the Act approved December twenty-third, nineteen hundred and thirteen, exists in the city, town, village, or locality where the postal savings deposits are made, such deposits shall be placed in such qualified member banks substantially in proportion to the capital and surplus of each such bank, but if such member banks fail to qualify to receive such deposits, then any other bank located therein may, as hereinbefore provided, qualify and receive the same. If no such member bank and no other qualified bank exists in any city, town, village, or locality, or if none where such deposits are made will receive such deposits on the terms prescribed, then such funds shall be deposited under the terms of this Act in the bank most convenient to such locality. If no such bank in any State or Territory is willing to receive such deposits on the terms prescribed, then such funds shall be deposited with the treasurer of the board of trustees and shall be counted in making up the reserve of five per centum. Such funds may be withdrawn from the treasurer of said board of trustees, and all other postal savings funds, or any part of such funds, may be at any time withdrawn from the banks and savings depository offices for the repayment of postal savings depositors when required for that purpose. If at any time the postal savings deposits in any State or Territory shall exceed the amount which the qualified banks therein are willing to receive under the terms of this Act, and such excess

amount is not required to make up the reserve fund of five per centum hereinbefore provided for, the board of trustees may invest all or any part of such excess amount in bonds or other securities of the United States. When, in the judgment of the President, the general welfare and interests of the United States so require, the board of trustees may invest all or any part of the postal savings funds, except the reserve fund of five per centum herein provided for, in bonds or other securities of the United States. The board of trustees may in its discretion purchase from the holders thereof bonds which have been or may be issued under the provisions of section ten of the Act of June twenty-fifth, nineteen hundred and ten. Interest and profit accruing from the deposits or investment of postal savings funds shall be applied to the payment of interest due to postal savings depositors, as hereinbefore provided, and the excess thereof, if any, shall be covered into the Treasury of the United States as a part of the postal revenue: *Provided further*, That postal savings funds in the treasury of said board shall be subject to disposition as provided in this Act, and not otherwise: *And provided further*, That the board of trustees may at any time dispose of bonds held as postal savings investments and use the proceeds to meet withdrawals of deposits by depositors. For the purposes of this Act the word "Territory" as used herein shall be held to include the District of Columbia, the District of Alaska, and Porto Rico, and the word "bank" shall be held to include savings banks and trust companies doing a banking business.

[PUBLIC—No. 270—64TH CONGRESS.]

[H. R. 13391.]

An Act To amend certain sections of the Act entitled "Federal reserve Act," approved December twenty-third, nineteen hundred and thirteen.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act entitled "Federal reserve Act," approved December twenty-third, nineteen hundred and thirteen, be, and is hereby, amended as follows:

At the end of section eleven insert a new clause as follows:

"(m) Upon the affirmative vote of not less than five of its members the Federal Reserve Board shall have power, from time to time, by general ruling, covering all districts alike, to permit member banks to carry in the Federal reserve banks of their respective districts any portion of their reserves now required by section nineteen of this Act to be held in their own vaults."

That section thirteen be, and is hereby, amended to read as follows:

"Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing bills; or solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing bills payable within its district.

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: *Provided,* That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of

the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

"The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

"Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank.

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per cent of its paid-up and unimpaired capital stock and surplus unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus.

"Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States."

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: "No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

"First. Notes of circulation.

"Second. Moneys deposited with or collected by the association.

"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

"Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

"Fifth. Liabilities incurred under the provisions of the Federal reserve Act.

"The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and

foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

"That in addition to the powers now vested by law in national banking associations organized under the laws of the United States any such association located and doing business in any place the population of which does not exceed five thousand inhabitants, as shown by the last preceding decennial census, may, under such rules and regulations as may be prescribed by the Comptroller of the Currency, act as the agent for any fire, life, or other insurance company authorized by the authorities of the State in which said bank is located to do business in said State, by soliciting and selling insurance and collecting premiums on policies issued by such company; and may receive for services so rendered such fees or commissions as may be agreed upon between the said association and the insurance company for which it may act as agent; and may also act as the broker or agent for others in making or procuring loans on real estate located within one hundred miles of the place in which said bank may be located, receiving for such services a reasonable fee or commission: *Povided, however,* That no such bank shall in any case guarantee either the principal or interest of any such loans or assume or guarantee the payment of any premium on insurance policies issued through its agency by its principal: *And provided further,* That the bank shall not guarantee the truth of any statement made by an assured in filing his application for insurance.

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal reserve banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Federal Reserve Board: *Provided, however,* That no member bank shall accept such drafts or bills of exchange referred to this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security: *Provided further,* That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus."

That subsection (e) of section fourteen, be, and is hereby, amended to read as follows:

"(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies bills of exchange arising out of actual commercial transactions which have not more

than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies."

That the second paragraph of section sixteen be, and is hereby, amended to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances rediscounted under the provisions of section thirteen of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section fourteen of this Act, or bankers' acceptances purchased under the provisions of said section fourteen. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

That section twenty-four be, and is hereby, amended to read as follows:

"SEC. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

"The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section."

That section twenty-five be, and is hereby, amended to read as follows:

"SEC. 25. Any national banking association possessing a capital and surplus of $1,000,000 or more may file application with the Federal Reserve Board for permission to exercise, upon such conditions

and under such regulations as may be prescribed by the said board, either or both of the following powers:

"First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

"Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

"Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking operations proposed are to be carried on. The Federal Reserve Board shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

"Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described under subparagraph two of the first paragraph of this section shall be required to furnish information concerning the condition of such banks or corporations to the Federal Reserve Board upon demand, and the Federal Reserve Board may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

"Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Federal Reserve Board to restrict its operations or conduct its business in such manner or under such limitations and restrictions as the said board may prescribe for the place or places wherein such business is to be conducted. If at any time the Federal Reserve Board shall ascertain that the regulations prescribed by it are not being complied with, said board is hereby authorized and empowered to institute an investigation of the matter and to send for persons and papers, subpœna witnesses, and administer oaths in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Federal Reserve Board, such national banks may be required to dispose of stock holdings in the said corporation upon reasonable notice.

"Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

"Any director or other officer, agent, or employee of any member bank may, with the approval of the Federal Reserve Board, be a director or other officer, agent, or employee of any such bank or corporation above mentioned in the capital stock of which such member bank shall have invested as hereinbefore provided, without being subject to the provisions of section eight of the Act approved October fifteenth, nineteen hundred and fourteen, entitled 'An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes.' "

Approved, September 7, 1916.

[PUBLIC—No. 25—65TH CONGRESS.]

[H. R. 3673.]

An Act To amend the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve Act, as amended by the Acts of August fourth, nineteen hundred and fourteen, August fifteenth, nineteen hundred and fourteen, March third, nineteen hundred and fifteen, and September seventh, nineteen hundred and sixteen.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section three of the Act known as the Federal reserve Act be amended and reenacted so as to read as follows:

"SEC. 3. The Federal Reserve Board may permit or require any Federal reserve bank to establish branch banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal reserve bank of the district, and the remaining directors by the Federal Reserve Board. Directors of branch banks shall hold office during the pleasure of the Federal Reserve Board."

SEC. 2. That section four in the paragraph relating to the appointment of class C directors and prescribing their duties be amended and reenacted so as to read as follows:

"Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as 'Federal reserve agent.' He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain, under regulations to be established by the Federal Reserve Board, a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C shall be appointed by the Federal Reserve Board as deputy chairman to exercise the powers of the chairman of the board when necessary. In case of the absence of the chairman and deputy chairman, the third class C director shall preside at meetings of the board.

"Subject to the approval of the Federal Reserve Board, the Federal reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the Federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence

or disability. The Federal Reserve Board shall require such bonds of the assistant Federal reserve agents as it may deem necessary for the protection of the United States. Assistants to the Federal reserve agent shall receive an annual compensation, to be fixed and paid in the same manner as that of the Federal reserve agent."

SEC. 3. That section nine be amended and reenacted so as to read as follows:

"SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.

"In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this Act.

"Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Federal Reserve Board, and stock issued to it shall be held subject to the provisions of this Act.

"All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this Act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relate to the payment of unearned dividends. Such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the Revised Statutes, and shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of $100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal reserve bank by suit or otherwise.

"As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board.

"Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: *Provided, however,* That when it deems it necessary the board may

order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, shall be assessed against and paid by the banks examined.

"If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

"Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Federal Reserve Board, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: *Provided, however*, That no Federal reserve bank shall, except under express authority of the Federal Reserve Board, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the board. Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

"No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national-bank Act.

"Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this Act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this Act. Subject to the provisions of this Act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks: *Provided, however*, That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed

money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section. The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank.

"It shall be unlawful for any officer, clerk, or agent of any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk, or agent in violation of this section may subject such bank to a forfeiture of its membership in the Federal Reserve System upon hearing by the Federal Reserve Board."

SEC. 4. That the first paragraph of section thirteen be further amended and reenacted so as to read as follows:

"Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this Act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks."

SEC. 5. That the fifth paragraph of section thirteen be further amended and reenacted so as to read as follows:

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months sight to run, exclusive of

days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: *Provided, however,* That the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: *Provided, further,* That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus."

SEC. 6. That section fourteen, subsection (e), be amended and reenacted so as to read as follows:

"(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board."

SEC. 7. That section sixteen, paragraphs two, three, four, five, six, and seven, be further amended and reenacted so as to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of

collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section thirteen of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section fourteen of this Act, or bankers' acceptances purchased under the provisions of said section fourteen, or gold or gold certificates; but in no event shall such collateral security, whether gold, gold certificates, or eligible paper, be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

"Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation: *Provided, however,* That when the Federal reserve agent holds gold or gold certificates as collateral for Federal reserve notes issued to the bank such gold or gold certificates shall be counted as part of the gold reserve which such bank is required to maintain against its Federal reserve notes in actual circulation. Notes so paid out shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank, they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued or, upon direction of such Federal reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

"The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less the amount of gold or gold certificates held by the Federal reserve agent as collateral security; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant, in whole or in part, or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal reserve notes less the amount of gold or gold certificates held by the Federal reserve agent as collateral security. Federal reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing with the Federal reserve agent its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit to the Treasurer of the United States so much of the gold held by him as collateral security for Federal reserve notes as may be required for the exclusive purpose of the redemption of such Federal reserve notes, but such gold when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal reserve agent.

"Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes issued to it and shall at the same time substitute therefor other collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board. Any Federal reserve bank may retire any of its Federal reserve notes by depositing them with the Federal reserve agent or with the Treasurer of the United States, and such Federal reserve bank shall thereupon be entitled to receive back the collateral deposited with the Federal reserve agent for the security of such notes. Federal reserve banks shall not be required to maintain the reserve or the redemption fund heretofore provided for against Federal reserve notes which have been retired. Federal reserve notes

so deposited shall not be reissued except upon compliance with the conditions of an original issue."

All Federal reserve notes and all gold, gold certificates, and lawful money issued to or deposited with any Federal reserve agent under the provisions of the Federal reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal reserve agent from depositing gold or gold certificates with the Federal Reserve Board, to be held by such board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.

SEC. 8. That section sixteen be further amended by adding at the end of the section the following:

"That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin or of gold certificates with the Treasurer or any assistant treasurer of the United States when tendered by any Federal reserve bank or Federal reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal reserve bank or Federal reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any assistant treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold coin or gold certificates on the order of the Federal Reserve Board to any Federal reserve bank or Federal reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal reserve bank or such Federal reserve agent: *Provided, however,* That any expense incurred in shipping gold to or from the Treasury or Subtreasuries in order to make such payments, or as a result of making such payments, shall be paid by the Federal Reserve Board and assessed against the Federal reserve banks. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

"The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid by the Federal Reserve Board and included in its assessments against the several Federal reserve banks.

"Gold deposits standing to the credit of any Federal reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal reserve notes, or as a part of the reserve it is required to maintain against deposits.

"Nothing in this section shall be construed as amending section six of the Act of March fourteenth, nineteen hundred, as amended by the Acts of March fourth, nineteen hundred and seven, March second,

nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of this section be construed to apply to the deposits made or to the receipts or certificates issued under those Acts."

SEC. 9. That section seventeen be amended and reenacted so as to read as follows:

"SEC. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking association now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed."

SEC. 10. That section nineteen be further amended and reenacted so as to read as follows:

"SEC. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

"Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

"(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

"The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked

against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however*, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

"In estimating the balances required by this Act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.

"National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act."

SEC. 11. That that part of section twenty-two which reads as follows: "Other than the usual salary or director's fees paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for service rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank," be amended and reenacted so as to read as follows:

"Other than the usual salary or director's fee paid to any officer, director, employee, or attorney of a member bank, and other than a reasonable fee paid by said bank to such officer, director, employee, or attorney for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank: *Provided, however*, That nothing in this Act contained shall be construed to prohibit a director, officer, employee, or attorney from receiving the same rate of interest paid to other depositors for similar deposits made with such bank: *And provided, further*, That notes, drafts, bills of exchange, or other evidences of debt executed or indorsed by directors or attorneys of a member bank may be discounted with such member bank on the same terms and conditions as other notes, drafts, bills of exchange, or evidences of debt upon the affirmative vote or written assent of at least a majority of the members of the board of directors of such member bank."

Approved, June 21, 1917.

[PUBLIC—No. 139—65TH CONGRESS.]

[S. 4292.]

An Act To conserve the gold supply of the United States; to permit the settlement in silver of trade balances adverse to the United States; to provide silver for subsidiary coinage and for commercial use; to assist foreign governments at war with the enemies of the United States; and for the above purposes to stabilize the price and encourage the production of silver.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is hereby authorized from time to time to melt or break up and to sell as bullion not in excess of three hundred and fifty million standard silver dollars now or hereafter held in the Treasury of the United States. Any silver certificates which may be outstanding against such standard silver dollars so melted or broken up shall be retired at the rate of $1 face amount of such certificates for each standard silver dollar so melted or broken up. Sales of such bullion shall be made at such prices not less than $1 per ounce of silver one thousand fine and upon such terms as shall be established from time to time by the Secretary of the Treasury.

SEC. 2. That upon every such sale of bullion from time to time the Secretary of the Treasury shall immediately direct the Director of the Mint to purchase in the United States, of the product of mines situated in the United States and of reduction works so located, an amount of silver equal to three hundred and seventy-one and twenty-five hundredths grains of pure silver in respect of every standard silver dollar so melted or broken up and sold as bullion. Such purchases shall be made in accordance with the then existing regulations of the Mint and at the fixed price of $1 per ounce of silver one thousand fine, delivered at the option of the Director of the Mint at New York, Philadelphia, Denver, or San Francisco. Such silver so purchased may be resold for any of the purposes hereinafter specified in section three of this Act, under rules and regulations to be established by the Secretary of the Treasury, and any excess of such silver so purchased over and above the requirements for such purposes, shall be coined into standard silver dollars or held for the purpose of such coinage, and silver certificates shall be issued to the amount of such coinage. The net amount of silver so purchased, after making allowance for all resales, shall not exceed at any one time the amount needed to coin an aggregate number of standard silver dollars equal to the aggregate number of standard silver dollars theretofore melted or broken up and sold as bullion under the provisions of this Act, but such purchases of silver shall continue until the net amount of silver so purchased, after making allowance for all resales, shall be sufficient to coin therefrom an aggregate number of standard silver dollars equal to the aggregate number of standard silver dollars theretofore so melted or broken up and sold as bullion.

SEC. 3. That sales of silver bullion under authority of this Act may be made for the purpose of conserving the existing stock of gold in the United States, of facilitating the settlement in silver of trade

balances adverse to the United States, of providing silver for subsidiary coinage and for commercial use, and of assisting foreign governments at war with the enemies of the United States. The allocation of any silver to the Director of the Mint for subsidiary coinage shall, for the purposes of this Act, be regarded as a sale or resale.

SEC. 4. That the Secretary of the Treasury is authorized, from any moneys in the Treasury not otherwise appropriated, to reimburse the Treasurer of the United States for the difference between the nominal or face value of all standard silver dollars so melted or broken up and the value of the silver bullion, at $1 per ounce of silver one thousand fine, resulting from the melting or breaking up of such standard silver dollars.

SEC. 5. That in order to prevent contraction of the currency, the Federal reserve banks may be either permitted or required by the Federal Reserve Board, at the request of the Secretary of the Treasury, to issue Federal reserve bank notes, in any denominations (including denominations of $1 and $2) authorized by the Federal Reserve Board, in an aggregate amount not exceeding the amount of standard silver dollars melted or broken up and sold as bullion under authority of this Act, upon deposit as provided by law with the Treasurer of the United States as security therefor, of United States certificates of indebtedness, or of United States one-year gold notes. The Secretary of the Treasury may, at his option, extend the time of payment of any maturing United States certificates of indebtedness deposited as security for such Federal reserve bank notes for any period not exceeding one year at any one extension and may at his option, pay such certificates of indebtedness prior to maturity, whether or not so extended. The deposit of United States certificates of indebtedness by Federal reserve banks as security for Federal reserve bank notes under authority of this Act shall be deemed to constitute an agreement on the part of the Federal reserve bank making such deposit that the Secretary of the Treasury may so extend the time of payment of such certificates of indebtedness beyond the original maturity date or beyond any maturity date to which such certificates of indebtedness may have been extended, and that the Secretary of the Treasury may pay such certificates in advance of maturity, whether or not so extended.

SEC. 6. That as and when standard silver dollars shall be coined out of bullion purchased under authority of this Act, the Federal reserve banks shall be required by the Federal Reserve Board to retire Federal reserve bank notes issued under authority of section five of this Act, if then outstanding, in an amount equal to the amount of standard silver dollars so coined, and the Secretary of the Treasury shall pay off and cancel any United States certificates of indebtedness deposited as security for Federal reserve bank notes so retired.

SEC. 7. That the tax on any Federal reserve bank notes issued under authority of this Act, secured by the deposit of United States certificates of indebtedness or United States one-year gold notes, shall be so adjusted that the net return on such certificates of indebtedness, or such one-year gold notes, calculated on the face value thereof, shall be equal to the net return on United States two per cent bonds, used to secure Federal reserve bank notes, after deducting the amount of the tax upon such Federal reserve bank notes so secured.

SEC. 8. That except as herein provided, Federal reserve bank notes issued under authority of this Act, shall be subject to all existing provisions of law relating to Federal reserve bank notes.

SEC. 9. That the provisions of Title VII of an Act approved June fifteenth, nineteen hundred and seventeen, entitled "An Act to punish acts of interference with the foreign relations, the neutrality, and the foreign commerce of the United States, to punish espionage, and better to enforce the criminal laws of the United States, and for other purposes," and the powers conferred upon the President by subsection (b) of section five of an Act approved October sixth, nineteen hundred and seventeen, known as the "Trading with the Enemy Act," shall, in so far as applicable to the exportation from or shipment from or taking out of the United States of silver coin or silver bullion, continue until the net amount of silver required by section two of this Act shall have been purchased as therein provided.

Approved, April 23, 1918.

[PUBLIC—No. 218—65TH CONGRESS.]

[H. R. 11283.]

An Act To amend and reenact sections four, eleven, sixteen, nineteen, and twenty-two of the Act approved December twenty-third, nineteen hundred and thirteen, and known as the Federal reserve Act, and sections fifty-two hundred and eight and fifty-two hundred and nine, Revised Statutes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section four of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve Act, be amended and reenacted by striking out that part of such section which reads as follows:

"Directors of Class A and Class B shall be chosen in the following manner:

"The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district, and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

"At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

"Each member bank shall be permitted to nominate to the chairman one candidate for director of Class A and one candidate for director of Class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

"Every director shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of Class A and Class B, respectively, upon a preferencial ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of Class A and for a director of Class B, but shall not vote more than one choice for any one candidate," and by substituting therefor the following:

"Directors of Class A and Class B shall be chosen in the following manner:

"The Federal Reserve Board shall classify the member banks of the district into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be

permitted to nominate to the chairman of the board of directors of the Federal reserve bank of the district one candidate for director of Class A and one candidate for director of Class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the elections of Class A and Class B directors.

"Within fifteen days after receipt of the list of candidates the duly authorized officer of a member bank shall certify to the chairman his first, second, and other choices for director of Class A and Class B, respectively, upon a preferential ballot upon a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each such officer shall make a cross opposite the name of the first, second, and other choices for a director of Class A and for a director of Class B, but shall not vote more than one choice for any one candidate. No officer or director of a member bank shall be eligible to serve as a Class A director unless nominated and elected by banks which are members of the same group as the member bank of which he is an officer or director.

"Any person who is an officer or director of more than one member bank shall not be eligible for nomination as a Class A director except by banks in the same group as the bank having the largest aggregate resources of any of those of which such person is an officer or director."

SEC. 2. That section eleven (k) of the Federal reserve Act be amended and reenacted to read as follows:

"(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

"Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this Act.

"National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but nothing in this Act shall be construed as authorizing the State authorities to examine the books, records, and assets of the national bank which are not held in trust under authority of this subsection.

"No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

"In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

"Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

"National banks in such cases shall not be required to execute the bond usually required of individuals if State corporations under similar circumstances are exempt from this requirement.

"National banks shall have power to execute such bond when so required by the laws of the State.

"In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

"It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than $5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

"In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: *Provided*, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers."

SEC. 3. That the ninth paragraph of section sixteen of the Federal reserve Act, as amended by the Acts approved September seventh, nineteen hundred and sixteen, and June twenty-first, nineteen hundred and seventeen, be further amended and reenacted so as to read as follows:

"In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and

fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of $5, $10, $20, $50, $100, $500, $1,000, $5,000, $10,000 as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued."

SEC. 4. That paragraphs (b) and (c) of section nineteen of the Federal reserve Act, as amended by the Acts approved August fifteenth, nineteen hundred and fourteen, and June twenty-first, nineteen hundred and seventeen, be further amended and reenacted to read as follows:

"(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however*, That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraph (a) hereof.

"(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however*, That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof."

SEC. 5. That section twenty-two of the Federal Reserve Act, as amended by the Act of June twenty-first, nineteen hundred and seventeen, be further amended and reenacted to read as follows:

"(a) No member bank and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given.

"Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned one year or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as a national bank examiner.

"(b) No national bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

"No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained

the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress, or of either House duly authorized. Any bank examiner violating the provisions of this subsection shall be imprisoned not more than one year or fined not more than $5,000, or both.

"(c) Except as herein provided, any officer, director, employee, or attorney of a member bank who stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value from any person, firm, or corporation, for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation, any loan from or the purchase or discount of any paper, note, draft, check, or bill of exchange by such member bank shall be deemed guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than $5,000, or both.

"(d) Any member bank may contract for, or purchase from, any of its directors or from any firm of which any of its directors is a member, any securities or other property, when (and not otherwise) such purchase is made in the regular course of business upon terms not less favorable to the bank than those offered to others, or when such purchase is authorized by a majority of the board of directors not interested in the sale of such securities or property, such authority to be evidenced by the affirmative vote or written assent of such directors: *Provided, however,* That when any director, or firm of which any director is a member, acting for or on behalf of others, sells securities or other property to a member bank, the Federal Reserve Board by regulation may, in any or all cases, require a full disclosure to be made, on forms to be prescribed by it, of all commissions or other considerations received, and whenever such director or firm, acting in his or its own behalf, sells securities or other property to the bank the Federal Reserve Board, by regulation, may require a full disclosure of all profit realized from such sale.

"Any member bank may sell securities or other property to any of its directors, or to a firm of which any of its directors is a member, in the regular course of business on terms not more favorable to such director or firm than those offered to others, or when such sale is authorized by a majority of the board of directors of a member bank to be evidenced by their affirmative vote or written assent: *Provided, however,* That nothing in this subsection contained shall be construed as authorizing member banks to purchase or sell securities or other property which such banks are not otherwise authorized by law to purchase or sell.

"(e) No member bank shall pay to any director, officer, attorney, or employee a greater rate of interest on the deposits of such director, officer, attorney, or employee than that paid to other depositors on similar deposits with such member bank.

"(f) If the directors or officers of any member bank shall knowingly violate or permit any of the agents, officers, or directors of any member bank to violate any of the provisions of this section or regulations of the board made under authority thereof, every director and officer participating in or assenting to such violation shall be held liable in his personal and individual capacity for all damages

which the member bank, its shareholders, or any other persons shall have sustained in consequence of such violation."

SEC. 7. That section fifty-two hundred and eight of the Revised Statutes as amended by the Act of July twelfth, eighteen hundred and eighty-two, and section fifty-two hundred and nine of the Revised Statutes as amended by the Acts of April sixth, eighteen hundred and sixty-nine, and July eighth, eighteen hundred and seventy, be, and the same are hereby, amended and reenacted to read as follows:

"SEC. 5208. It shall be unlawful for any officer, director, agent, or employee of any Federal reserve bank, or of any member bank as defined in the Act of December twenty-third, nineteen hundred and thirteen, known as the Federal reserve Act, to certify any check drawn upon such Federal reserve bank or member bank unless the person, firm, or corporation drawing the check has on deposit with such Federal reserve bank or member bank, at the times such check is certified, an amount of money not less than the amount specified in such check. Any check so certified by a duly authorized officer, director, agent, or employee shall be a good and valid obligation against such Federal reserve bank or member bank; but the act of any officer, director, agent, or employee of any such Federal reserve bank or member bank in violation of this section shall, in the discretion of the Federal Reserve Board, subject such Federal reserve bank to the penalties imposed by section eleven, subsection (h), of the Federal reserve Act, and shall subject such member bank if a national bank to the liabilities and proceedings on the part of the Comptroller of the Currency provided for in section fifty-two hundred and thirty-four, Revised Statutes, and shall, in the discretion of the Federal Reserve Board, subject any other member bank to the penalties imposed by section nine of said Federal reserve Act for the violation of any of the provisions of said Act. Any officer, director, agent, or employee of any Federal reserve bank or member bank who shall willfully violate the provisions of this section, or who shall resort to any device, or receive any fictitious obligation, directly or collaterally, in order to evade the provisions thereof, or who shall certify a check before the amount thereof shall have been regularly entered to the credit of the drawer upon the books of the bank, shall be deemed guilty of a misdemeanor and shall, on conviction thereof in any district court of the United States, be fined not more than $5,000, or shall be imprisoned for not more than five years, or both, in the discretion of the court.

"SEC. 5209. Any officer, director, agent, or employee of any Federal reserve bank, or of any member bank as defined in the Act of December twenty-third, nineteen hundred and thirteen, known as the Federal reserve Act, who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of such Federal reserve bank or member bank, or who, without authority from the directors of such Federal reserve bank or member bank, issues or puts in circulation any of the notes of such Federal reserve bank or member bank, or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or who makes any false entry in any book, report, or statement of such Federal reserve bank or member bank, with intent in any case to injure or defraud such Federal reserve bank or member bank, or any

other company, body politic or corporate, or any individual person, or to deceive any officer of such Federal reserve bank or member bank, or the Comptroller of the Currency, or any agent or examiner appointed to examine the affairs of such Federal reserve bank or member bank, or the Federal Reserve Board; and every receiver of a national banking association who, with like intent to defraud or injure, embezzles, abstracts, purloins, or willfully misapplies any of the moneys, funds, or assets of his trust, and every person who, with like intent, aids or abets any officer, director, agent, employee, or receiver in any violation of this section shall be deemed guilty of a misdemeanor, and upon conviction thereof in any district court of the United States shall be fined not more than $5,000 or shall be imprisoned for not more than five years, or both, in the discretion of the court.

"Any Federal reserve agent, or any agent or employee of such Federal reserve agent, or of the Federal Reserve Board, who embezzles, abstracts, or willfully misapplies any moneys, funds, or securities intrusted to his care, or without complying with or in violation of the provisions of the Federal reserve Act, issues or puts in circulation any Federal reserve notes shall be guilty of a misdemeanor and upon conviction in any district court of the United States shall be fined not more than $5,000 or imprisoned for not more than five years, or both, in the discretion of the court."

Approved, September 26, 1918.

[PUBLIC—No. 329—65TH CONGRESS.]

[S. 5236.]

An Act To amend sections seven, ten, and eleven of the Federal reserve Act, and section fifty-one hundred and seventy-two, Revised Statutes of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That that part of the first paragraph of section seven of the Federal reserve Act which reads as follows: "After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank," be amended to read as follows:

"After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December thirty-first, nineteen hundred and eighteen, shall be paid into a surplus fund until it shall amount to one hundred per centum of the subscribed capital stock of such bank, and that thereafter ten per centum of such net earnings shall be paid into the surplus."

SEC. 2. That that part of section ten of the Federal reserve Act which reads as follows: "The members of said board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency, shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank," be amended to read as follows:

"The Secretary of the Treasury and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed."

SEC. 3. That section eleven of the Federal reserve Act as amended by the Act of September seventh, nineteen hundred and sixteen, be further amended by striking out the whole of subsection (m) and by substituting therefor a subsection to read as follows:

"(m) Upon the affirmative vote of not less than five of its members, the Federal Reserve Board shall have power to permit Federal reserve banks to discount for any member bank notes, drafts, or bills of exchange bearing the signature or endorsement of any one borrower in excess of the amount permitted by section nine and section thirteen of this Act, but in no case to exceed twenty per centum of the member bank's capital and surplus: *Provided, however*, That all such notes, drafts, or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds

or notes of the United States issued since April twenty-fourth, nineteen hundred and seventeen, or certificates of indebtedness of the United States: *Provided further*, That the provisions of this subsection (m) shall not be operative after December thirty-first, nineteen hundred and twenty."

SEC. 4. That section fifty-one hundred and seventy-two, Revised Statutes of the United States, be amended to read as follows:

"SEC. 5172. That in order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom and numbered such quantity of circulating notes in blank, or bearing engraved signatures of officers as herein provided, of the denominations of $1, $2, $5, $10, $20, $50, $100, $500, and $1,000, as may be required to supply the associations entitled to receive the same. Such notes shall express upon their face that they are secured by United States bonds deposited with the Treasurer of the United States, by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasury; and shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the written or engraved signatures of the president or vice president and cashier; and shall bear such devices and such other statements and shall be in such form as the Secretary of the Treasury shall, by regulation, direct."

Approved, March 3, 1919.

[PUBLIC—No. 62—66TH CONGRESS.]

[H. R. 7478.]

An Act To amend sections 5200 and 5202 of the Revised Statutes of the United States as amended by Acts of June 22, 1906, and September 24, 1918.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5200 of the Revised Statutes of the United States as amended by the Acts of June 22, 1906, and September 24, 1918, be further amended to read as follows:

SEC. 5200. The total liabilities to any association of any person or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed 10 per centum of the amount of the capital stock of such association, actually paid in and unimpaired, and 10 per centum of its unimpaired surplus fund: *Provided, however,* That (1) the discount of bills of exchange drawn in good faith against actually existing values, including drafts and bills of exchange secured by shipping documents conveying or securing title to goods shipped, and including demand obligations when secured by documents covering commodities in actual process of shipment, and also including bankers' acceptances of the kinds described in section 13 of the Federal Reserve Act, (2) the discount of commercial or business paper actually owned by the person, company, corporation, or firm negotiating the same, (3) the discount of notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable nonperishable staples, including live stock, when the actual market value of the property securing the obligation is not at any time less than 115 per centum of the face amount of the notes secured by such documents and when such property is fully covered by insurance, and (4) the discount of any note or notes secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, shall not be considered as money borrowed within the meaning of this section. The total liabilities to any association, of any person or of any corporation, or firm, or company, or the several members thereof upon any note or notes purchased or discounted by such association and secured by bonds, notes, or certificates of indebtedness as described in (4) hereof shall not exceed (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) 10 per centum of such capital stock and surplus fund of such association and the total liabilities to any association of any person or or of any corporation, or firm, or company, or the several members thereof for money borrowed, including the liabilities upon notes secured in the manner described under (3) hereof, except transactions (1), (2), and (4), shall not at any time exceed 25 per centum of the amount of the association's paid-in and unimpaired capital stock and surplus. The exception made under (3) hereof shall not apply

to the notes of any one person, corporation or firm or company, or the several members thereof for more than six months in any consecutive twelve months."

SEC. 2. That section 5202 of the Revised Statutes of the United States as amended by section 20, Title I, of the Act approved April 5, 1918, be further amended so as to read as follows:

"SEC. 5202. No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

"First. Notes of circulation.

"Second. Moneys deposited with or collected by the association.

"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

"Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

"Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

"Sixth. Liabilities incurred under the provisions of the War Finance Corporation Act.

"Seventh. Liabilities created by the indorsement of accepted bills of exchange payable abroad actually owned by the indorsing bank and discounted at home or abroad."

Approved, October 22, 1919.

[PUBLIC—No. 48—66TH CONGRESS.]

[S. 2395.]

An Act Amending section 25 of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended by the Act approved September 7, 1916.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 25 of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended by the Act approved September 7, 1916, be further amended by the addition of the following paragraph at the end of subparagraph 2 of the first paragraph, after the word "possessions":

"Until January 1, 1921, any national banking association, without regard to the amount of its capital and surplus, may file application with the Federal Reserve Board for permission, upon such conditions and under such regulations as may be prescribed by said board, to invest an amount not exceeding in the aggregate 5 per centum of its paid-in capital and surplus in the stock of one or more corporations chartered or incorporated under the laws of the United States or of any State thereof and, regardless of its location, principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares, or merchandise from the United States or any of its dependencies or insular possessions to any foreign country: *Provided, however,* That in no event shall the total investments authorized by this section by any one national bank exceed 10 per centum of its capital and surplus."

SEC. 2. That paragraph 2 of said section be amended by adding after the word "banking," in line three, the words "or financial," so that the sentence will read: "Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking or financial operations proposed are to be carried on."

SEC. 3. That paragraph 3 of said section be amended by striking out the words "subparagraph 2 of the first paragraph of this section" and inserting in lieu thereof the word "above," so that the paragraph will read:

"Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described above shall be required to furnish information concerning the condition of such banks or corporations to the Federal Reserve Board upon demand, and the Federal Reserve Board may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best."

Approved, September 17, 1919.

[PUBLIC—No. 106—66TH CONGRESS.]
[S. 2472.]

An Act To amend the Act approved December 23, 1913, known as the Federal Reserve Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act approved December 23, 1913, known as the Federal Reserve Act, as amended, be further amended by adding a new section as follows:

"BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS.

"SEC. 25 (a). Corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required by the Secretary of the Treasury as fiscal agents of the United States, may be formed by any number of natural persons, not less in any case than five.

"Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

"Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the Federal Reserve Board and shall be filed and preserved in its office. The persons signing the said articles of association shall, under their hands, make an organization certificate which shall specifically state:

"First. The name assumed by such corporation, which shall be subject to the approval of the Federal Reserve Board.

"Second. The place or places where its operations are to be carried on.

"Third. The place in the United States where its home office is to be located.

"Fourth. The amount of its capital stock and the number of shares into which the same shall be divided.

"Fifth. The names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed.

"Sixth. The fact that the certificate is made to enable the persons subscribing the same, and all other persons, firms, companies, and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this section.

"The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be forwarded to the Federal Reserve Board to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate, and after the Federal Reserve Board has approved the same and issued a permit to begin business, the association shall become and be a body corporate, and as such and in the name designated therein shall have power to adopt and use a corporate seal, which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors, all of whom shall be citizens of the United States; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Federal Reserve Board regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

"Each corporation so organized shall have power, under such rules and regulations as the Federal Reserve Board may prescribe:

"(a) To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell, with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Federal Reserve Board may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Federal Reserve Board may prescribe, but in no event having liabilities outstanding thereon at any one time exceeding ten times its capital stock and surplus; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Federal Reserve Board, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Federal Reserve Board, under its power to prescribe rules and regu-

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lations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the Federal Reserve Board may prescribe, but in no event less than 10 per centum of its deposits.

"(b) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies, and in the dependencies or insular possessions of the United States, at such places as may be approved by the Federal Reserve Board and under such rules and regulations as it may prescribe, including countries or dependencies not specified in the original organization certificate.

"(c) With the consent of the Federal Reserve Board to purchase and hold stock or other certificates of ownership in any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency, or insular possession of the United States but not engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States, and not transacting any business in the United States except such as in the judgment of the Federal Reserve Board may be incidental to its international or foreign business: *Provided, however*, That, except with the approval of the Federal Reserve Board, no corporation organized hereunder shall invest in any one corporation an amount in excess of 10 per centum of its own capital and surplus, except in a corporation engaged in the business of banking, when 15 per centum of its capital and surplus may be so invested: *Provided further*, That no corporation organized hereunder shall purchase, own, or hold stock or certificates of ownership in any other corporation organized hereunder or under the laws of any State which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing corporation.

"Nothing contained herein shall prevent corporations organized hereunder from purchasing and holding stock in any corporation where such purchase shall be necessary to prevent a loss upon a debt previously contracted in good faith; and stock so purchased or acquired in corporations organized under this section shall within six months from such purchase be sold or disposed of at public or private sale unless the time to so dispose of same is extended by the Federal Reserve Board.

"No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Federal Reserve Board, shall be incidental to its international or foreign business: *And provided further*, That except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Federal Reserve Board to commence business as a corporation organized under the provisions of this section.

"No corporation organized under this section shall engage in commerce or trade in commodities except as specifically provided in this section, nor shall it either directly or indirectly control or fix or attempt

to control or fix the price of any such commodities. The charter of any corporation violating this provision shall be subject to forfeiture in the manner hereinafter provided in this section. It shall be unlawful for any director, officer, agent, or employee of any such corporation to use or to conspire to use the credit, the funds, or the power of the corporation to fix or control the price of any such commodities, and any such person violating this provision shall be liable to a fine of not less than $1,000 and not exceeding $5,000 or imprisonment not less than one year and not exceeding five years, or both, in the discretion of the court.

"No corporation shall be organized under the provisions of this section with a capital stock of less than $2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business, and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in. The capital stock of any such corporation may be increased at any time, with the approval of the Federal Reserve Board, by a vote of two-thirds of its shareholders or by unanimous consent in writing of the shareholders without a meeting and without a formal vote, but any such increase of capital shall be fully paid in within ninety days after such approval; and may be reduced in like manner, provided that in no event shall it be less than $2,000,000. No corporation, except as herein provided, shall during the time it shall continue its operations withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended shall not exceed 10 per centum of the subscribing bank's capital and surplus.

"A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States. The provisions of section 8 of the act approved October 15, 1914, entitled 'An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes,' as amended by the acts of May 15, 1916, and September 7, 1916, shall be construed to apply to the directors, other officers, agents, or employees of corporations organized under the provisions of this section: *Provided, however*, That nothing herein contained shall (1) prohibit any director or other officer, agent or employee of any member bank, who has procured the approval of the Federal Reserve Board from serving at the same time as a director or other officer, agent or employee of any corporation organized under the provisions of this section in whose capital stock such member bank shall have invested; or (2) prohibit any director or other officer, agent, or employee of any corporation organized under the provisions of this section, who

has procured the approval of the Federal Reserve Board, from serving at the same time as a director or other officer, agent or employee of any other corporation in whose capital stock such first-mentioned corporation shall have invested under the provisions of this section.

"No member of the Federal Reserve Board shall be an officer or director of any corporation organized under the provisions of this section, or of any corporation engaged in similar business organized under the laws of any State, nor hold stock in any such corporation, and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement.

"Shareholders in any corporation organized under the provisions of this section shall be liable for the amount of their unpaid stock subscriptions. No such corporation shall become a member of any Federal reserve bank.

"Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges, and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Federal Reserve Board or the Attorney General. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders, or officers for any liability or penalty previously incurred.

"Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

"Whenever the Federal Reserve Board shall become satisfied of the insolvency of any such corporation, it may appoint a receiver who shall take possession of all of the property and assets of the corporation and exercise the same rights, privileges, powers, and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller of the Currency of the United States: *Provided, however,* That the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

"Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the Federal Reserve Board. Every such corporation shall make reports to the Federal Reserve Board at such times and in such form as it may require; and shall be subject to examination once a year and at such other times as may be deemed necessary by the Federal Reserve Board by examiners

appointed by the Federal Reserve Board, the cost of such examinations, including the compensation of the examiners, to be fixed by the Federal Reserve Board and to be paid by the corporation examined.

"The directors of any corporation organized under the provisions of this section may, semiannually, declare a dividend of so much of the net profits of the corporation as they shall judge expedient; but each corporation shall, before the declaration of a dividend, carry one-tenth of its net profits of the preceding half year to its surplus fund until the same shall amount to 20 per centum of its capital stock.

"Any corporation organized under the provisions of this section shall be subject to tax by the State within which its home office is located in the same manner and to the same extent as other corporations organized under the laws of that State which are transacting a similar character of business. The shares of stock in such corporation shall also be subject to tax as the personal property of the owners or holders thereof in the same manner and to the same extent as the shares of stock in similar State corporations.

"Any corporation organized under the provisions of this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Federal Reserve Board for its approval to extend the period of its corporate existence for a term of not more than twenty years, and upon certified approval of the Federal Reserve Board such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited by some violation of law.

"Any bank or banking institution, principally engaged in foreign business, incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a corporation under the provisions of this section may, by the vote of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, with the approval of the Federal Reserve Board, be converted into a Federal corporation of the kind authorized by this section with any name approved by the Federal Reserve Board: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of at least two-thirds of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a Federal corporation. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a Federal corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected or appointed in accordance with the provisions of this section. When the Federal Reserve Board has

given to such corporation a certificate that the provisions of this section have been complied with, such corporation and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by this section for corporations originally organized hereunder.

"Every officer, director, clerk, employee, or agent of any corporation organized under this section who embezzles, abstracts, or willfully misapplies any of the moneys, funds, credits, securities, evidences of indebtedness or assets of any character of such corporation; or who, without authority from the directors, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, debenture, draft, bill of exchange, mortgage, judgment, or decree; or who makes any false entry in any book, report, or statement of such corporation with intent, in either case, to injure or defraud such corporation or any other company, body politic or corporate, or any individual person, or to deceive any officer of such corporation, the Federal Reserve Board, or any agent or examiner appointed to examine the affairs of any such corporation; and every receiver of any such corporation and every clerk or employee of such receiver who shall embezzle, abstract, or willfully misapply or wrongfully convert to his own use any moneys, funds, credits, or assets of any character which may come into his possession or under his control in the execution of his trust or the performance of the duties of his employment; and every such receiver or clerk or employee of such receiver who shall, with intent to injure or defraud any person, body politic or corporate, or to deceive or mislead the Federal Reserve Board, or any agent or examiner appointed to examine the affairs of such receiver, shall make any false entry in any book, report, or record of any matter connected with the duties of such receiver; and every person who with like intent aids or abets any officer, director, clerk, employee, or agent of any corporation organized under this section, or receiver or clerk or employee of such receiver as aforesaid in any violation of this section, shall upon conviction thereof be imprisoned for not less than two years nor more than ten years, and may also be fined not more than $5,000, in the discretion of the court.

"Whoever being connected in any capacity with any corporation organized under this section represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon, issued or incurred by any corporation organized hereunder, or that the United States incurs any liability in respect of any act or omission of the corporation, shall be punished by a fine or not more than $10,000 and by imprisonment for not more than five years."

Approved, December 24, 1919.

stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the six members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate by granting commissions which shall expire with the next session of the Senate.

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows:

"SEC. 324. There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal Reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

"No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any building of any kind or character, or to authorize the erection of any building, in excess of $250,000, without the consent of Congress having previously been given therefor in express terms: *Provided*, That nothing herein shall apply to any building now under construction."

Approved, June 3, 1922.

[PUBLIC—No. 279—67TH CONGRESS.]

[S. 831.]

An Act To amend the proviso in paragraph 10 of section 9 of the Federal Reserve Act amended by the Act of June 21, 1917, amending the Federal Reserve Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the proviso in paragraph 10 of section 9 of the Federal Reserve Act amended by section 3 of the Act of June 21, 1917, amending the Federal Reserve Act be amended to read as follows:

"*Provided, however*, That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association."

Approved, July 1, 1922.

[PUBLIC—No. 405—67TH CONGRESS.]

[S. 4390.]

An Act To amend the last paragraph of section 10 of the Federal Reserve Act as amended by the Act of June 3, 1922.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the last paragraph of section 10 of the Federal Reserve Act as amended by the Act of June 3, 1922, is amended to read as follows:

"No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures, is in excess of $250,000: *Provided*, That nothing herein shall apply to any building under construction prior to June 3, 1922."

Approved, February 6, 1923.

(EXTRACT FROM)

[PUBLIC—No. 503—67TH CONGRESS.]

[S. 4280.]

An Act To provide additional credit facilities for the agricultural and live-stock industries of the United States; to amend the Federal Farm Loan Act; to amend the Federal Reserve Act; and for other purposes.

TITLE IV.—AMENDMENTS TO THE FEDERAL RESERVE ACT.

SEC. 401. That the ninth paragraph of section 9 of the Federal Reserve Act is amended to read as follows:

"No applying bank shall be admitted to membership in a Federal reserve bank unless (a) it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act, or (b) it possesses a paid-up, unimpaired capital of at least 60 per centum of the amount sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act and, under penalty of loss of membership complies with rules and regulations which the Federal Reserve Board shall prescribe fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital which would have been required if such bank had been admitted to membership under the provisions of clause (a) of this paragraph: *Provided*, That every such rule or regulation shall require the applying bank to set aside annually not less than 20 per centum of its net income of the preceding year as a fund exclusively applicable to such capital increase."

SEC. 402. That the second paragraph of section 13 of the Federal Reserve Act is amended and divided into two paragraphs to read as follows:

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount, and the notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount; but such definition shall not include notes, drafts, or bills covering

merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than 90 days, exclusive of grace.

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations and limitations to be prescribed by the Federal Reserve Board, any Federal reserve bank may discount or purchase bills of exchange payable at sight or on demand which are drawn to finance the domestic shipment of nonperishable, readily marketable staple agricultural products and are secured by bills of lading or other shipping documents conveying or securing title to stuch staples: *Provided*, That all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: *Provided further*, That no such bill shall in any event be held by or for the account of a Federal reserve bank for a period in excess of 90 days. In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the discount after payment of such bills to conform to the actual life thereof."

SEC. 403. That the fourth paragraph of section 13 of the Federal Reserve Act is amended to read as follows:

"Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than 90 days' sight, exclusive of days of grace, and which are indorsed by at least one member bank: *Provided*, That such acceptances if drawn for an agricultural purpose and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with a maturity at the time of discount of not more than six months' sight exclusive of days of grace."

SEC. 404. That the Federal Reserve Act is amended by adding at the end of section 13 a new section to read as follows:

"SEC. 13a. Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Federal Reserve Board, discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity, at the time of discount, exclusive of days of grace, not exceeding nine months, and such notes, drafts, and bills of exchange may be offered as collateral security for the issuance of Federal reserve notes under the provisions of section 16 of this Act: *Provided*, That notes, drafts, and bills of exchange with maturities in excess of six months shall not be eligible as a basis for the issuance of Federal reserve notes unless secured by warehouse receipts or other such negotiable documents conveying or securing title to readily marketable staple agricultural products or by chattel mortgage upon live stock which is being fattened for market.

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"That any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Federal Reserve Board, rediscount such notes, drafts, and bills for any Federal Intermediate Credit Bank, except that no Federal reserve bank shall rediscount for a Federal Intermediate Credit Bank any such note or obligation which bears the indorsement of a nonmember State bank or trust company which is eligible for membership in the Federal reserve system, in accordance with section 9 of this Act.

"Any Federal reserve bank may also buy and sell debentures and other such obligations issued by a Federal Intermediate Credit Bank or by a National Agricultural Credit Corporation, but only to the same extent as and subject to the same limitations as those upon which it may buy and sell bonds issued under Title I of the Federal Farm Loan Act.

"Notes, drafts, bills of exchange or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or are to be advanced by such association to any members thereof for an agricultural purpose, or have been or are to be used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or if such proceeds have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members: *Provided*, That the express enumeration in this paragraph of certain classes of paper of cooperative marketing associations as eligible for rediscount shall not be construed as rendering ineligible any other class of paper of such associations which is now eligible for rediscount.

"The Federal Reserve Board may, by regulation, limit to a percentage of the assets of a Federal reserve bank the amount of notes, drafts, acceptances, or bills having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, bills, or acceptances having a maturity in excess of six months, but not exceeding nine months, which may be rediscounted by such bank."

SEC. 405. That section 14 of the Federal Reserve Act is amended by adding at the end thereof a new paragraph to read as follows:

"(f) To purchase and sell in the open market, either from or to domestic banks, firms, corporations, or individuals, acceptances of Federal Intermediate Credit Banks and of National Agricultural Credit Corporations, whenever the Federal Reserve Board shall declare that the public interest so requires."

SEC. 406. That section 15 of the Federal Reserve Act is amended by adding at the end thereof a new paragraph to read as follows:

"The Federal reserve banks are hereby authorized to act as depositories for and fiscal agents of any National Agricultural Credit Corporation or Federal Intermediate Credit Bank."

SEC. 407. That the Act entitled "An act to amend the act approved December 23, 1913, known as the Federal reserve act," approved April 13, 1920, is repealed.

[PUBLIC—No. 75—69TH CONGRESS]

[S. 3377]

An Act To amend section 5219 of the Revised Statutes of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5219 of the Revised Statutes of the United States be, and the same is hereby, amended so as to read as follows:

"SEC. 5219. The legislature of each State may determine and direct, subject to the provisions of this section, the manner and place of taxing all the shares of national banking associations located within its limits. The several States may (1) tax said shares, or (2) include dividends derived therefrom in the taxable income of an owner or holder thereof, or (3) tax such associations on their net income, or (4) according to or measured by their net income, provided the following conditions are complied with:

"1. (a) The imposition by any State of any one of the above four forms of taxation shall be in lieu of the others, except as hereinafter provided in subdivision (c) of this clause.

"(b) In the case of a tax on said shares the tax imposed shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such State coming into competition with the business of national banks: *Provided*, That bonds, notes, or other evidences of indebtedness in the hands of individual citizens not employed or engaged in the banking or investment business and representing merely personal investments not made in competition with such business, shall not be deemed moneyed capital within the meaning of this section.

"(c) In case of a tax on or according to or measured by the net income of an association, the taxing State may, except in case of a tax on net income, include the entire net income received from all sources, but the rate shall not be higher than the rate assessed upon other financial corporations nor higher than the highest of the rates assessed by the taxing State upon mercantile, manufacturing, and business corporations doing business within its limits: *Provided, however*, That a State which imposes a tax on or according to or measured by the net income of, or a franchise or excise tax on, financial, mercantile, manufacturing, and business corporations organized under its own laws or laws of other States and also imposes a tax upon the income of individuals, may include in such individual income dividends from national banking associations located within the State on condition that it also includes dividends from domestic corporations and may likewise include dividends from national banking associations located without the State on condition that it also includes dividends from foreign corporations, but at no higher rate than is imposed on dividends from such other corporations.

"(d) In case the dividends derived from the said shares are taxed, the tax shall not be at a greater rate than is assessed upon the net income from other moneyed capital.

"2. The shares of any national banking association owned by nonresidents of any State, shall be taxed by the taxing district or by the State where the association is located and not elsewhere; and such association shall make return of such shares and pay the tax thereon as agent of such nonresident shareholders.

"3. Nothing herein shall be construed to exempt the real property of associations from taxation in any State or in any subdivision thereof, to the same extent, according to its value, as other real property is taxed.

"4. The provisions of section 5219 of the Revised Statutes of the United States as heretofore in force shall not prevent the legalizing, ratifying, or confirming by the States of any tax heretofore paid, levied, or assessed upon the shares of national banks, or the collecting thereof, to the extent that such tax would be valid under said section."

Approved, March 25, 1926.

[PUBLIC—No. 413—69TH CONGRESS]

[H. R. 8034]

An Act To authorize the destruction of paid United States checks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury and the Comptroller General of the United States, respectively, are hereby authorized and directed to cause to be destroyed all United States Government checks and warrants issued by the Secretary of the Treasury, the Postmaster General, the Treasurer and Assistant Treasurers of the United States, or by disbursing officers and agents of the United States, eight full fiscal years prior to the date of destruction, which checks and warrants have been paid and form the paid check files of the Treasury Department and of the General Accounting Office wherever stored under their respective control, after all unpaid checks and warrants have been listed as outstanding as now required by law: *Provided*, That such checks and warrants as, in their discretion, respectively, may be deemed necessary in the public interests or the legality of the negotiation of which has been questioned in any material respect by any party in interest may be preserved: *Provided further*, That such checks as may be of historic or sentimental interest may also be preserved.

SEC. 2. All claims on account of any check, checks, warrant, or warrants appearing to have been paid shall be barred if not presented to the General Accounting Office within six years after the date of issuance of the check, checks, warrant, or warrants involved.

Approved, June 22, 1926.

[PUBLIC—No. 639—69TH CONGRESS]

[H. R. 2]

An Act To further amend the national banking laws and the Federal Reserve Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act entitled "An Act to provide for the consolidation of national banking associations," approved November 7, 1918, be amended by adding at the end thereof a new section to read as follows:

"SEC. 3. That any bank incorporated under the laws of any State, or any bank incorporated in the District of Columbia, may be consolidated with a national banking association located in the same county, city, town, or village under the charter of such national banking association on such terms and conditions as may be lawfully agreed upon by a majority of the board of directors of each association or bank proposing to consolidate, and which agreement shall be ratified and confirmed by the affirmative vote of the shareholders of each such association or bank owning at least two-thirds of its capital stock outstanding, or by a greater proportion of such capital stock in the case of such State bank if the laws of the State where the same is organized so require, at a meeting to be held on the call of the directors after publishing notice of the time, place, and object of the meeting for four consecutive weeks in some newspaper of general circulation published in the place where the said association or bank is situated, and in the legal newspaper for the publication of legal notices or advertisements if any such paper has been designated by the rules of a court in the county where such association or bank is situated, and if no newspaper is published in the place, then in a paper of general circulation published nearest thereto, unless such notice of meeting is waived in writing by all stockholders of any such association or bank, and after sending such notice to each shareholder of record by registered mail at least ten days prior to said meeting, but any additional notice shall be given to the shareholders of such State bank which may be required by the laws of the State where the same is organized. The capital stock of such consolidated association shall not be less than that required under existing law for the organization of a national banking association in the place in which such consolidated association is located; and all the rights, franchises, and interests of such State or District bank so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests including the right of succession as trustee, executor, or in any other fiduciary capacity in the same manner and to the same extent as was held and enjoyed by such State or District

bank so consolidated with such national banking association. When such consolidation shall have been effected and approved by the comptroller any shareholder of either the association or of the State or District bank so consolidated, who has not voted for such consolidation, may give notice to the directors of the consolidated association within twenty days from the date of the certificate of approval of the comptroller that he dissents from the plan of consolidation as adopted and approved, whereupon he shall be entitled to receive the value of the shares so held by him, to be ascertained by an appraisal made by a committee of three persons, one to be selected by the shareholder, one by the directors of the consolidated association, and the third by the two so chosen; and in case the value so fixed shall not be satisfactory to such shareholder he may within five days after being notified of the appraisal appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and the consolidated association shall pay the expenses of reappraisal, and the value as ascertained by such appraisal or reappraisal shall be deemed to be a debt due and shall be forthwith paid to said shareholder by said consolidated association, and the shares so paid for shall be surrendered and, after due notice, sold at public auction within thirty days after the final appraisement provided for in this Act; and if the shares so sold at public auction shall be sold at a price greater than the final appraised value, the excess in such sale price shall be paid to the said shareholder; and the consolidated association shall have the right to purchase such shares at public auction, if it is the highest bidder therefor, for the purpose of reselling such shares within thirty days thereafter to such person or persons and at such price as its board of directors by resolution may determine. The liquidation of such shares of stock in any State bank shall be determined in the manner prescribed by the law of the State in such cases if such provision is made in the State law; otherwise as hereinbefore provided. No such consolidation shall be in contravention of the law of the State under which such bank is incorporated.

"The words 'State bank,' 'State banks,' 'bank,' or 'banks,' as used in this section, shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws."

SEC. 2. (a) That section 5136 of the Revised Statutes of the United States, subsection "second" thereof as amended, be amended to read as follows:

"Second. To have succession from the date of the approval of this Act, or from the date of its organization if organized after such date of approval until such time as it be dissolved by the act of its shareholders owning two-thirds of its stock, or until its franchise becomes forfeited by reason of violation of law, or until terminated by either a general or a special Act of Congress or until its affairs be placed in the hands of a receiver and finally wound up by him."

(b) That section 5136 of the Revised Statutes of the United States, subsection "seventh" thereof, be further amended by adding at the end of the first paragraph thereof the following:

"*Provided*, That the business of buying and selling investment securities shall hereafter be limited to buying and selling without

recourse marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation, in the form of bonds, notes and/or debentures, commonly known as investment securities, under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency, and the total amount of such investment securities of any one obligor or maker held by such association shall at no time exceed 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, but this limitation as to total amount shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act: *And provided further*, That in carrying on the business commonly known as the safe-deposit business no such association shall invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of such association actually paid in and unimpaired and 15 per centum of its unimpaired surplus," so that the subsection as amended shall read as follows:

" Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title: *Provided*, That the business of buying and selling investment securities shall hereafter be limited to buying and selling without recourse marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation, in the form of bonds, notes and/or debentures, commonly known as investment securities, under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency, and the total amount of such investment securities of any one obligor or maker held by such association shall at no time exceed 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, but this limitation as to total amount shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act: *And provided further*, That in carrying on the business commonly known as the safe deposit business no such association shall invest in the capital stock of a corporation organized under the law of any State to conduct a safe deposit business in an amount in excess of 15 per centum of the capital stock of such association actually paid in and unimpaired and 15 per centum of its unimpaired surplus.

" But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence the business of banking."

SEC. 3. That section 5137 of the Revised Statutes of the United States, subsection "First" thereof, be amended to read as follows:

"First. Such as shall be necessary for its accommodation in the transaction of its business."

SEC. 4. That section 5138 of the Revised Statutes of the United States, as amended, be amended to read as follows:

"SEC. 5138. No national banking association shall be organized with a less capital than $100,000, except that such associations with a capital of not less than $50,000 may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that such associations with a capital of not less than $25,000 may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants. No such association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than $200,000, except that in the outlying districts of such a city where the State laws permit the organization of State banks with a capital of $100,000 or less, national banking associations now organized or hereafter organized may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000."

SEC. 5. That section 5142 of the Revised Statutes of the United States, as amended, be amended to read as follows:

"SEC. 5142. Any national banking association may, with the approval of the Comptroller of the Currency, and by a vote of shareholders owning two-thirds of the stock of such associations, increase its capital stock to any sum approved by the said comptroller, but no increase in capital shall be valid until the whole amount of such increase is paid in and notice thereof, duly acknowledged before a notary public by the president, vice president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate obtained specifying the amount of such increase in capital stock and his approval thereof, and that it has been duly paid in as part of the capital of such association: *Provided, however*, That a national banking association may, with the approval of the Comptroller of the Currency, and by the vote of shareholders owning two-thirds of the stock of such association, increase its capital stock by the declaration of a stock dividend, provided that the surplus of said association, after the approval of the increase, shall be at least equal to 20 per centum of the capital stock as increased. Such increase shall not be effective until a certificate certifying to such declaration of dividend, signed by the president, vice president, or cashier of said association and duly acknowledged before a notary public, shall have been forwarded to the Comptroller of the Currency and his certificate obtained specifying the amount of such increase of capital stock by stock dividend, and his approval thereof."

SEC. 6. That section 5150 of the Revised Statutes of the United States be amended to read as follows:

"SEC. 5150. The president of the bank shall be a member of the board and shall be the chairman thereof, but the board may designate

a director in lieu of the president to be chairman of the board, who shall perform such duties as may be designated by the board."

SEC. 7. That section 5155 of the Revised Statutes of the United States be amended to read as follows:

"SEC. 5155. The conditions upon which a national banking association may retain or establish and operate a branch or branches are the following:

"(a) A national banking association may retain and operate such branch or branches as it may have in lawful operation at the date of the approval of this Act, and any national banking association which has continuously maintained and operated not more than one branch for a period of more than twenty-five years immediately preceding the approval of this Act may continue to maintain and operate such branch.

"(b) If a State bank is hereafter converted into or consolidated with a national banking association, or if two or more national banking associations are consolidated, such converted or consolidated association may, with respect to any of such banks, retain and operate any of their branches which may have been in lawful operation by any bank at the date of the approval of the Act.

"(c) A national banking association may, after the date of the approval of this Act, establish and operate new branches within the limits of the city, town, or village in which said association is situated if such establishment and operation are at the time permitted to State banks by the law of the State in question.

"(d) No branch shall be established after the date of the approval of this Act within the limits of any city, town, or village of which the population by the last decennial census was less than twenty-five thousand. No more than one such branch may be thus established where the population, so determined, of such municipal unit does not exceed fifty thousand; and not more than two such branches where the population does not exceed one hundred thousand. In any such municipal unit where the population exceeds one hundred thousand the determination of the number of branches shall be within the discretion of the Comptroller of the Currency.

"(e) No branch of any national banking association shall be established or moved from one location to another without first obtaining the consent and approval of the Comptroller of the Currency.

"(f) The term 'branch' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received, or checks paid, or money lent.

"(g) This section shall not be construed to amend or repeal section 25 of the Federal Reserve Act, as amended, authorizing the establishment by national banking associations of branches in foreign countries, or dependencies, or insular possessions of the United States.

"(h) The words 'State bank,' 'State banks,' 'bank,' or 'banks,' as used in this section, shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws."

SEC. 8. That section 5190 of the Revised Statutes of the United States be amended to read as follows:

"SEC. 5190. The general business of each national banking association shall be transacted in the place specified in its organization certificate and in the branch or branches, if any, established or maintained by it in accordance with the provisions of section 5155 of the Revised Statutes, as amended by this Act."

SEC. 9. That the first paragraph of section 9 of the Federal Reserve Act, as amended, be amended so as to read as follows:

"SEC. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal reserve system, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a stockholder of such Federal reserve bank.

"Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated."

SEC. 10. That section 5200 of the Revised Statutes of the United States, as amended, be amended to read as follows:

"SEC. 5200. The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. The term 'obligations' shall mean the direct liability of the maker or acceptor of paper discounted with or sold to such association and the liability of the indorser, drawer, or guarantor who obtains a loan from or discounts paper with or sells paper under his guaranty to such association and shall include in the case of obligations of a copartnership or association the obligations of the several members thereof. Such limitation of 10 per centum shall be subject to the following exceptions:

"(1) Obligations in the form of drafts or bills of exchange drawn in good faith against actually existing values shall not be subject under this section to any limitation based upon such capital and surplus.

"(2) Obligations arising out of the discount of commercial or business paper actually owned by the person, copartnership, association, or corporation negotiating the same shall not be subject under this section to any limitation based upon such capital and surplus.

"(3) Obligations drawn in good faith against actually existing values and secured by goods or commodities in process of shipment shall not be subject under this section to any limitation based upon such capital and surplus.

"(4) Obligations as indorser or guarantor of notes, other than commercial or business paper excepted under (2) hereof, having a maturity of not more than six months, and owned by the person, corporation, association, or copartnership indorsing and negotiating the same, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(5) Obligations in the form of banker's acceptances of other banks of the kind described in section 13 of the Federal Reserve Act shall not be subject under this section to any limitation based upon such capital and surplus.

"(6) Obligations of any person, copartnership, association or corporation, in the form of notes or drafts secured by shipping documents, warehouse receipts or other such documents transferring or securing title covering readily marketable nonperishable staples when such property is fully covered by insurance, if it is customary to insure such staples, shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus when the market value of such staples securing such obligation is not at any time less than 115 per centum of the face amount of such obligation, and to an additional increase of limitation of 5 per centum of such capital and surplus in addition to such 25 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 120 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 30 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 125 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 35 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 130 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 40 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 135 per centum of the face amount of such additional obligation, and to a further additional increase of limitation of 5 per centum of such capital and surplus in addition to such 45 per centum of such capital and surplus when the market value of such staples securing such additional obligation is not at any time less than 140 per centum of the face amount of such additional obligation, but this exception shall not apply to obligations of any one person, copartnership, association or corporation arising from the same transactions and/or secured upon the identical staples for more than ten months.

"(7) Obligations of any person, copartnership, association, or corporation in the form of notes or drafts secured by shipping documents or instruments transferring or securing title covering livestock or giving a lien on livestock when the market value of the livestock securing the obligation is not at any time less than 115 per centum of the face amount of the notes covered by such documents shall be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus.

"(8) Obligations of any person, copartnership, association, or corporation in the form of notes secured by not less than a like amount of bonds or notes of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, shall (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) be subject under this section to a limitation of 15 per centum of such capital and surplus in addition to such 10 per centum of such capital and surplus."

SEC. 11. That section 5202 of the Revised Statutes of the United States as amended be amended by adding at the end thereof a new paragraph to read as follows:

"Eighth. Liabilities incurred under the provisions of section 202 of Title II of the Federal Farm Loan Act, approved July 17, 1916, as amended by the Agricultural Credits Act of 1923."

SEC. 12. That section 5208 of the Revised Statutes of the United States as amended be amended by striking out the words "or who shall certify a check before the amount thereof shall have been regularly entered to the credit of the drawer upon the books of the bank," and in lieu thereof inserting the following: "or who shall certify a check before the amount thereof shall have been regularly deposited in the bank by the drawer thereof," so that the section as amended shall read as follows:

"SEC. 5208. It shall be unlawful for any officer, director, agent, or employee of any Federal reserve bank, or any member bank as defined in the Act of December 23, 1913, known as the Federal Reserve Act, to certify any check drawn upon such Federal reserve bank or member bank unless the person, firm, or corporation drawing the check has on deposit with such Federal reserve bank or member bank, at the time such check is certified, an amount of money not less than the amount specified in such check. Any check so certified by a duly authorized officer, director, agent, or employee shall be a good and valid obligation against such Federal reserve bank or member bank; but the act of any officer, director, agent, or employee of any such Federal reserve bank or member bank in violation of this section shall, in the discretion of the Federal Reserve Board, subject such Federal reserve bank to the penalties imposed by section 11, subsection (h) of the Federal Reserve Act, and shall subject such member bank, if a national bank, to the liabilities and proceedings on the part of the Comptroller of the Currency provided for in section 5234, Revised Statutes, and shall, in the discretion of the Federal Reserve Board, subject any other member bank to the penalties imposed by section 9 of said Federal Reserve Act for the violation of any of the provi-

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sions of said Act. Any officer, director, agent, or employee of any Federal reserve bank or member bank who shall willfully violate the provisions of this section, or who shall resort to any device, or receive any fictitious obligation, directly or collaterally, in order to evade the provisions thereof, or who shall certify a check before the amount thereof shall have been regularly deposited in the bank by the drawer thereof, shall be deemed guilty of a misdemeanor and shall, on conviction thereof in any district court of the United States, be fined not more than $5,000, or shall be imprisoned for not more than five years, or both, in the discretion of the court."

SEC. 13. That section 5211 of the Revised Statutes of the United States as amended be amended to read as follows:

"SEC. 5211. Every association shall make to the Comptroller of the Currency not less than three reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president, or of the cashier, or of a vice president, or of an assistant cashier of the association designated by its board of directors to verify such reports in the absence of the president and cashier, taken before a notary public properly authorized and commissioned by the State in which such notary resides and the association is located, or any other officer having an official seal, authorized in such State to administer oaths, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the association at the close of business on any past day by him specified, and shall be transmitted to the comptroller within five days after the receipt of a request or requisition therefor from him; and the statement of resources and liabilities, together with acknowledgment and attestation in the same form in which it is made to the comptroller, shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the comptroller. The comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of its condition."

SEC. 15. That section 22 of the Federal Reserve Act, subsection (a), paragraph 2 thereof, be amended to read as follows:

"(a) No member bank and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned or gratuity given.

"Any examiner or assistant examiner who shall accept a loan or gratuity from any bank examined by him, or from an officer, director, or employee thereof, or who shall steal, or unlawfully take, or unlawfully conceal any money, note, draft, bond, or security or any other property of value in the possession of any member bank or from any safe deposit box in or adjacent to the premises of such

bank, shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any district court of the United States, be imprisoned for not exceeding one year, or fined not more than $5,000, or both, and may be fined a further sum equal to the money so loaned, gratuity given, or property stolen, and shall forever thereafter be disqualified from holding office as a national bank examiner."

SEC. 16. That section 24 of the Federal Reserve Act be amended to read as follows:

"SEC. 24. Any national banking association may make loans secured by first lien upon improved real estate, including improved farm land, situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate when the entire amount of such obligation or obligations is made or is sold to such association. The amount of any such loan shall not exceed 50 per centum of the actual value of the real estate offered for security, but no such loan upon such security shall be made for a longer term than five years. Any such bank may make such loans in an aggregate sum including in such aggregate any such loans on which it is liable as indorser or guarantor or otherwise equal to 25 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund, or to one-half of its savings deposits, at the election of the association, subject to the general limitation contained in section 5200 of the Revised Statutes of the United States. Such banks may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such banks may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located."

SEC. 16. That section 5139 of the Revised Statutes of the United States be amended by inserting in the first sentence thereof the following words: "or into shares of such less amount as may be provided in the articles of association" so that the section as amended shall read as follows:

"SEC. 5139. The capital stock of each association shall be divided into shares of $100 each, or into shares of such less amount as may be provided in the articles of association, and be deemed personal property, and transferable on the books of the association in such manner as may be prescribed in the by-laws or articles of association. Every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all rights and liabilities of the prior holder of such shares; and no change shall be made in the articles of association by which the rights, remedies, or security of the existing creditors of the association shall be impaired."

SEC 17. That section 5146 of the Revised Statutes of the United States as amended be amended by inserting in lieu of the second

sentence thereof the following: "Every director must own in his own right shares of the capital stock of the association of which he is a director the aggregate par value of which shall not be less than $1,000, unless the capital of the bank shall not exceed $25,000 in which case he must own in his own right shares of such capital stock the aggregate value of which shall not be less than $500," so that the section as amended shall read as follows:

"SEC. 5146. Every director must during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located, or within fifty miles of the location of the office of the association, for at least one year immediately preceding their election, and must be residents of such State or within a fifty-mile territory of the location of the association during their continuance in office. Every director must own in his own right shares of the capital stock of the association of which he is a director the aggregate par value of which shall not be less than $1,000, unless the capital of the bank shall not exceed $25,000 in which case he must own in his own right shares of such capital stock the aggregate par value of which shall not be less than $500. Any director who ceases to be the owner of the required number of shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place."

SEC. 18. That the second subdivision of the fourth paragraph of section 4 of the Federal Reserve Act be amended to read as follows:

"Second. To have succession after the approval of this Act until dissolved by Act of Congress or until forfeiture of franchise for violation of law."

SEC. 19. That section 8 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following:

"The Federal Reserve Board may at any time require any Federal Reserve Bank to discontinue any branch of such Federal Reserve Bank established under this section. The Federal Reserve Bank shall thereupon proceed to wind up the business of such branch bank, subject to such rules and regulations as the Federal Reserve Board may prescribe."

Approved, February 25, 1927.

[PUBLIC—No. 134—71ST CONGRESS]

[H. R. 8877]

An Act To amend section 9 of the Federal Reserve Act, as amended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the ninth paragraph of section 9 of the Federal Reserve Act (United States Code, title 12, section 328), as amended, be further amended by inserting therein, immediately before the proviso now contained therein, the following: "*Provided*, That the Federal Reserve Board, in its discretion and subject to such conditions as it may prescribe, may waive such six months' notice in individual cases and may permit any such State bank or trust company to withdraw from membership in a Federal reserve bank prior to the expiration of six months from the date of the written notice of its intention to withdraw."

Approved, April 17, 1930.

[PUBLIC—No. 163—71ST CONGRESS]

[H. R. 6604]

An Act To amend sections 6 and 9 of the Federal Reserve Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6 of the Act of December 23, 1913, known as the Federal Reserve Act (United States Code, title 12, section 288), be amended and reenacted to read as follows:

"SEC. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank.

"If any national bank which has not gone into liquidation as provided in section 5220 of the Revised Statutes (United States Code, title 12, section 181) and for which a receiver has not already been appointed for other lawful cause, shall discontinue its banking operations for a period of sixty days the Comptroller of the Currency may, if he deems it advisable, appoint a receiver for such bank. The stock held by the said national bank in the Federal reserve bank of its district shall thereupon be canceled and said national bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares canceled and one-half of 1 per centum a month from the period of the last dividend, if earned, not to exceed the book value thereof, less any liability of such national bank to the Federal reserve bank.

"Whenever the capital stock of a Federal reserve bank is reduced either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank or on account of the appointment of a receiver for a national bank following discontinuance of its banking operations as provided in this section, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank."

SEC. 2. That the eighth paragraph of section 9 of the Federal Reserve Act as amended (United States Code, title 12, section 327), be amended and reenacted to read as follows:

"If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, or has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section."

Approved, April 23, 1930.

(EXTRACT FROM)

[PUBLIC—No. 302—72D CONGRESS]

[H. R. 9642]

AN ACT

To relieve destitution, to broaden the lending powers of the Reconstruction Finance Corporation, and to create employment by providing for and expediting a public-works program.

(e) The Reconstruction Finance Corporation is further authorized to create in any of the twelve Federal land-bank districts where it may deem the same to be desirable a regional agricultural credit corporation with a paid-up capital of not less than $3,000,000, to be subscribed for by the Reconstruction Finance Corporation and paid for out of the unexpended balance of the amounts allocated and made available to the Secretary of Agriculture under section 2 of the Reconstruction Finance Corporation Act. Such corporations shall be managed by officers and agents to be appointed by the Reconstruction Finance Corporation under such rules and regulations as its board of directors may prescribe. Such corporations are hereby authorized and empowered to make loans or advances to farmers and stockmen, the proceeds of which are to be used for an agricultural purpose (including crop production), or for the raising, breeding, fattening, or marketing of livestock, to charge such rates of interest or discount thereon as in their judgment are fair and equitable, subject to the approval of the Reconstruction Finance Corporation, and to rediscount with the Reconstruction Finance Corporation and the various Federal reserve banks and Federal intermediate credit banks any paper that they acquire which is eligible for such purpose. All expenses incurred in connection with the operation of such corporations shall be supervised and paid by the Reconstruction Finance Corporation under such rules and regulations as its board of directors may prescribe.

SEC. 204. Section 8 of the Reconstruction Finance Corporation Act is amended to read as follows:

"SEC. 8. In order to enable the corporation to carry out the provisions of this Act and the Emergency Relief and Construction Act of 1932, the Treasury Department, the Federal Farm Loan Board, the Comptroller of the Currency, the Federal Reserve Board, the Federal reserve banks, and the Interstate Commerce Commission are hereby authorized, under such conditions as they may prescribe, to make available to the corporation, in confidence, such reports, records, or other information as they may have available relating to the condition of applicants with respect to whom the corporation has had or contemplates having transactions under either of such Acts, or relating to individuals, associations, partnerships, corporations, or

other obligors whose obligations are offered to or held by the corporation as security for loans under either of such Acts, and to make, through their examiners or other employees for the confidential use of the corporation, examinations of applicants for loans. Every applicant for a loan under either of such Acts shall, as a condition precedent thereto, consent to such examination as the corporation may require for the purposes of either of such Acts and that reports of examinations by constituted authorities may be furnished by such authorities to the corporation upon request therefor."

SEC. 210. Section 13 of the Federal Reserve Act, as amended, is further amended by adding after the second paragraph thereof the following new paragraph:

"In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: *Provided*, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Federal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe."

Approved, July 21, 1932.

(EXTRACT FROM)

[PUBLIC—No. 304—72D CONGRESS]

[H. R. 12280]

AN ACT

To create Federal Home Loan Banks, to provide for the supervision thereof, and for other purposes.

SEC. 22. (a) In order to enable the board to carry out the provisions of this Act, the Treasury Department, the Comptroller of the Currency, the Federal Reserve Board, and the Federal reserve banks are hereby authorized, under such conditions as they may prescribe, to make available to the board in confidence for its use and the use of any Federal Home Loan Bank such reports, records, or other information as may be available, relating to the condition of institutions with respect to which any such Federal Home Loan Bank has had or contemplates having transactions under this Act or relating to persons whose obligations are offered to or held by any Federal Home Loan Bank, and to make through their examiners or other employees, for the confidential use of the board or any Federal Home Loan Bank, examinations of such institutions.

(b) Every institution which shall apply for advances under this Act shall, as a condition precedent thereto, consent to such examination as the bank or the board may require for the purposes of this Act and/or that reports of examinations by constituted authorities may be furnished by such authorities to the bank or the board upon request therefor.

Approved, July 22, 1932.

[PUBLIC—No. 44—72D CONGRESS]

[H. R. 9203]

AN ACT

To improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act, as amended, is further amended by inserting, between sections 10 and 11 thereof, a new section reading as follows:

"SEC. 10. (a) Upon receiving the consent of not less than five members of the Federal Reserve Board, any Federal reserve bank may make advances, in such amount as the board of directors of such Federal reserve bank may determine, to groups of five or more member banks within its district, a majority of them independently owned and controlled, upon their time or demand promissory notes, provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amounts of eligible and acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal reserve bank through rediscounts or advances other than as provided in section 10 (b). The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their number and in such amount as they may agree upon, but before so doing they shall require such recipient banks to deposit with a suitable trustee, representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon. Any Federal reserve bank making such advance shall charge interest or discount thereon at a rate not less than 1 per centum above its discount rate in effect at the time of making such advance. No such note upon which advances are made by a Federal reserve bank under this section shall be eligible under section 16 of this Act as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

"Member banks are authorized to obligate themselves in accordance with the provisions of this section."

SEC. 2. The Federal Reserve Act, as amended, is further amended by adding, immediately after such new section 10 (a), an additional new section reading as follows:

"SEC. 10. (b) Until March 3, 1933, and in exceptional and exigent circumstances, and when any member bank, having a capital of not exceeding $5,000,000, has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by section 10 (a), any Federal reserve bank, subject in each case to affirmative action by not less than five members of the Federal Reserve Board, may make advances to such member bank on its time or demand promissory notes secured to the satisfaction of such Federal reserve bank: *Provided*, That (1) each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note; (2) the Federal Reserve Board may by regulation limit and define the classes of assets which may be accepted as security for advances made under authority of this section; and (3) no note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section."

SEC. 3. The second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold or gold certificates: *Provided, however*, That until March 3, 1933, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as such collateral security, direct obligations of the United States. On March 3, 1933, or sooner should the Federal Reserve Board so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal reserve notes. In no event shall such collateral security be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

Approved, February 27, 1932.

[PUBLIC—No. 245—72D CONGRESS]

[H. R. 8694]

AN ACT

To amend section 5240, United States Revised Statutes, as amended (U. S. C., title 12, ch. 2, sec. 82), and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5240, United States Revised Statutes, as amended (U. S. C., title 12, ch. 3, secs. 481, 482, 483, 484, 485), be amended by adding thereto a new paragraph reading:

"In addition to the expense of examination to be assessed by the Comptroller of the Currency as heretofore provided, all national banks exercising fiduciary powers under the provisions of section 11 (k) of the Federal Reserve Act, as amended (U. S. C., title 12, ch. 3, sec. 248 (k)), and all banks or trust companies exercising fiduciary powers in the District of Columbia shall be assessed by the Comptroller of the Currency for the examinations of such fiduciary powers, a fee in proportion to the amount of individual trust assets under administration and the total bonds and/or notes outstanding under corporate bond and/or note issues for which the banks or trust companies are acting as trustees upon the dates of examination of the various banks or trust companies."

Approved, July 2, 1932.

[PUBLIC—No. 434—72D CONGRESS]

[H. R. 6402]

AN ACT

To further regulate banking, banks, trust companies, and building and loan associations in the District of Columbia, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act of April 26, 1922 (42 Stat. L., pt. 1, p. 500; D. C. Code, title 5, sec. 300), be amended to read as follows:

"(a) That after the enactment of this Act no banking business shall be done in the District of Columbia except by corporations organized in accordance with the provisions of the Act of March 3, 1901, entitled 'An Act to establish a code of law for the District of Columbia,' as amended, or by national-banking associations organized in accordance with the laws of the United States, except that this paragraph shall not apply to (1) corporations engaged in and doing a banking business on the date of the enactment of this Act, (2) individuals, partnerships, associations, or corporations primarily engaged as brokers in buying, selling, exchanging, and/or otherwise dealing in stocks, bonds, and/or other securities, for the account of others, and incidentally thereto conducts banking transactions, (3) individuals, partnerships, associations, or corporations not doing a bank of deposit business.

"(b) That no corporation shall engage in or do the business of a bank of deposit or a fiduciary business in the District of Columbia nor shall any branch be established to carry on any phase of such banking or fiduciary business in the District of Columbia until the approval and consent of the Comptroller of the Currency is secured. The term 'branch' as used in this Act shall be held to include any branch bank, branch office, branch agency, additional office, or any place of business located in the District of Columbia, at which deposits are received, or checks paid, or money lent, or at which the public is served or any phase of business conducted by the parent institution.

"(c) That after the passage of this Act no building association, incorporated or unincorporated, shall do a building-association business or maintain any office in the District of Columbia until it shall have secured the approval and consent of the Comptroller of the Currency; and the Comptroller of the Currency shall not give consent or approval to any building association to maintain any office or place of business in the District of Columbia where such association is not incorporated under the laws of the District of Columbia in accordance with the Act of March 4, 1909 (35 Stat. L., pt. 1, p. 1058; D. C. Code, title 5, ch. 3, sec. 41–54), except that this paragraph shall not apply to associations, incorporated or unincorporated, engaged in and doing a building-association business on the date of the passage of this Act.

"(d) Any solvent financial institution in the District of Columbia under the supervision of the Comptroller of the Currency may go

into liquidation and discontinue business by the vote of its shareholders owning two-thirds of its stock. Whenever a vote is taken to go into liquidation it shall be the duty of the board of directors to cause notice of this fact to be certified, under the seal of the institution, by its president, secretary, or cashier, to the Comptroller of the Currency, and publication thereof to be made for a period of two weeks in a newspaper published in the District of Columbia, that the institution has discontinued business and is winding up its affairs, and notifying its creditors to present claims against the institution for payment. The shareholders shall at the time of going into liquidation elect a committee or liquidating agent who shall liquidate the institution. No institution which has gone into voluntary liquidation shall be permitted to resume business but until its liquidation is complete shall remain a legal corporation or association for the purpose of suing or being sued. The liquidating agent shall give satisfactory surety bond to the board of directors of the institution and shall annually, on request of the Comptroller of the Currency, render such reports to the Comptroller as he shall require. Any such institution in liquidation may be examined by the Comptroller of the Currency who if he finds such institution insolvent may appoint a receiver and wind up its affairs in the same manner as provided by law for national banking associations.

"(e) If any financial institution under the supervision of the Comptroller of the Currency, which has not gone into liquidation and for which a receiver has not already been appointed for other lawful cause, shall discontinue its operations for a period of sixty days, the Comptroller of the Currency may, if he deems it advisable, appoint a receiver for such institution.

"(f) Any financial institution over which the Comptroller of the Currency has or had supervision which prior to the passage of this Act has in any manner ceased to do a banking business shall not resume such banking business and shall advise the Comptroller of the Currency when its business has been fully liquidated whereupon by operation of this Act its charter is terminated. Such financial institution may in the discretion of the Comptroller of the Currency be subject to all the provisions of paragraph (d) of section 1 of this Act.

"(g) Each person, copartnership, each director, liquidating committee or liquidating agent, and each one of the officers and employees of an association or corporation violating any of the provisions of this section shall be punished by a fine not exceeding $1,000, or imprisonment not exceeding one year, or by both fine and imprisonment, in the discretion of the court."

SEC. 2. That the last proviso of section 713 of the Act of March 3, 1901, entitled "An Act to establish a Code of Law for the District of Columbia" (D. C. Code, Title 5, sec. 298), as amended, be amended to read as follows: "*And provided further*, That all publications authorized or required by section 5211, Revised Statutes, and all other publications authorized or required by existing law to be made in the District of Columbia, shall be printed in one or more daily newspapers of general circulation, published in the city of Washington."

SEC. 3. That section 714 of the Act of March 3, 1901, entitled "An

Act to establish a Code of Law for the District of Columbia" (D. C. Code, title 5, sec. 299), as amended, be amended to read as follows:

"SEC. 714. (a) The Comptroller of the Currency, in addition to the powers now conferred upon him by law for the examination of national banks, is hereby further authorized, whenever he may deem it advisable, to cause examination to be made into the condition of any bank mentioned in the preceding section. The expense of such examination shall be paid in the manner provided by section 5240 of the Revised Statutes relating to the examination of national banks.

"(b) The provision of section 5200 of the Revised Statutes, as amended (12 U. S. C. 84), are hereby extended to apply to all banks and trust companies doing business in the District of Columbia.

"(c) Each bank and trust company doing business in the District of Columbia and not a member of the Federal reserve system shall within six months from the enactment of this section, establish and maintain reserves on the same basis and subject to the same conditions as may by law now or hereafter be prescribed for national banks located in the District of Columbia, except that such reserves shall be established and maintained at such agency or agencies which shall have the approval of the Comptroller of the Currency: *Provided, however*, (1) That the required reserves carried by such bank or trust company with an agency or agencies may, under the regulations and subject to such penalties as may be prescribed by the Comptroller of the Currency, be checked against and withdrawn by such bank or trust company for the purpose of meeting existing liabilities; and (2) that no such bank or trust company shall at any time make new loans or shall pay any dividends unless and until the total reserves required by law shall be fully restored."

SEC. 4. (a) The shareholders of every savings bank or savings company other than building associations now or hereafter organized under authority of any Act of Congress to do business in the District of Columbia and of every banking institution organized by virtue of the laws of any of the States of the Union to do or doing a banking business in the District of Columbia, who acquire in any manner the shares of any such savings bank or savings company or such banking institutions other than building associations after the enactment of this Act, shall be held individually responsible equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank or company, to the extent of the amount of their stock so acquired therein, at the par value thereof, in addition to the amount invested in such shares.

(b) The shareholders, at the date of the enactment of this Act, of every savings bank or savings company other than building associations organized under authority of any Act of Congress to do business in the District of Columbia, and of every banking institution organized by virtue of the laws of any of the States of this Union to do or doing a banking business in the District of Columbia, shall be held individually responsible, equally and ratably, and not one for another for all contracts, debts, and engagements of such savings bank, savings company, or banking institution, entered into or incurred subsequent to the date of the enactment of this Act to the extent of the amount of their stock therein at the par value

thereof, in addition to the amount invested in such shares. The words "entered into or incurred" as used in this section, shall be held to include any extension or renewal of any contracts, debt, and engagement renewed or extended after the enactment of this Act.

(c) The provisions of section 5205 of the Revised Statutes of the United States as amended (U. S. C., title 12, ch. 2, sec. 55); sections 5234, 5235, and 5236 of the Revised Statutes of the United States as amended (U. S. C., title 12, ch. 2, secs. 192, 193, and 194); the Act of March 29, 1886 (ch. 28, secs. 1, 2, and 3; 24 Stat. 8; U. S. C., title 12, ch. 2, secs. 198, 199, and 200); the Act of February 25, 1930 (ch. 58, 46 Stat. 74; U. S. C., title 12, ch. 2, sec. 67); the Act of June 30, 1876 (ch. 156, secs. 1, 2, and 3; 19 Stat. 63; U. S. C., title 12, ch. 2, secs. 191, 65, and 197); and section 5210 of the Revised Statutes of the United States (U. S. C., title 12, ch. 2, sec. 62) are extended to apply to any bank, savings bank, or trust company organized, hereafter organized, or doing a banking business in the District of Columbia and to the shareholders of such institutions, except as limited by the provisions of paragraph (b) of this section: *Provided, however*, That the provisions of section 713 of the Act of March 3, 1901, entitled "An Act to establish a code of law for the District of Columbia" (D. C. Code, title 5, sec. 298), as amended, shall not be construed to be repealed by this Act but shall have application to the banks, savings banks, savings companies, other than building associations, and trust companies embraced within this Act.

(d) That portion of section 24 of the Judicial Code, as amended, applying to suits against national-banking associations (U. S. C., title 28, ch. 2, sec. 41, par. 16) shall be extended and shall apply to all actions arising under the provisions of this Act.

SEC. 5. Section 747 of the Act of March 3, 1901, entitled "An Act to establish a code of law for the District of Columbia" (D. C. Code, title 5, sec. 374), as amended, is amended to read as follows:

"SEC. 747. No corporation or company organized by virtue of the laws of any of the States of this Union shall carry on in the District of Columbia any of the kinds of business named in this subchapter without strict compliance in all particulars with the provisions of this subchapter for the government of such corporations formed under it, and each one of the officers of the corporation or company so offending shall be punished by a fine not exceeding $1,000 or imprisonment not exceeding one year, or by both fine and imprisonment, in the discretion of the court."

SEC. 6. No corporation, association, partnership, or individual shall carry on any business in the District of Columbia under any name or title containing the word "bank" or the words "trust company" unless (1) the business is being carried on under the name or title at the time of the approval of this Act, or (2) the business is carried on under the supervision of the Comptroller of the Currency and the name or title is approved by the Comptroller of the Currency. Any individual who, or corporation, association, or partnership which, violates any of the provisions of this section, and any officer of any such corporation or association and any officer or member of any such partnership, who assents to any such violation, shall, upon conviction thereof, be fined not more than $5,000.

SEC. 7. Any person who maliciously makes or repeats to, or in the hearing of, or under such circumstances that it becomes known to, any other person any false statement imputing insolvency or unsound financial condition to any bank, trust company, or building and loan association in the District of Columbia, or tending to cause a general withdrawal of deposits or funds from any such institution, shall, upon conviction thereof, be fined not more than $5,000 or imprisoned not more than five years, or both: *Provided*, That the truth of said statement, established by the maker thereof, shall be a complete defense in any prosecution under the provisions of this Act.

SEC. 8. All acts prohibited by the provisions of sections 5208 and 5209 of the Revised Statutes, as amended, and section 22 of the Federal Reserve Act, as amended, in the case of Federal reserve banks or member banks thereof, or of directors, officers, or employees of such banks, are likewise prohibited, respectively, in the case of banks in the District of Columbia which are not members of a Federal reserve bank, or of directors, officers, or employees of such banks, and shall be punishable by the respective penalties provided in such section.

SEC. 9. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

Approved, March 4, 1933.

[PUBLIC—No. 94—73D CONGRESS]

[S. 2465]

AN ACT

To amend the Act of March 4, 1933, relating to the regulation of banking in the District of Columbia.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled, That subsection (a) of section 4 of the Act entitled "An Act to further regulate banking, banks, trust companies, and building and loan associations in the District of Columbia, and for other purposes", approved March 4, 1933, is hereby repealed.

SEC. 2. The additional liability imposed by subsection (b) of section 4 of such Act upon the shareholders of the savings banks, savings companies, and banking institutions specified in such subsection (b), shall not apply with respect to shares in any such savings bank, savings company, or banking institution issued after the date of enactment of this Act.

Approved, February 16, 1934.

[PUBLIC RESOLUTION—No. 70—72D CONGRESS]

[S. J. Res. 261]

JOINT RESOLUTION

Authorizing the Comptroller of the Currency to prescribe regulations respecting the conduct of banking business in the District of Columbia.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That with the approval of the Secretary of the Treasury, the Comptroller of the Currency, whenever he is of the opinion that such action is necessary for the protection of the interests of the depositors and other creditors of any incorporated bank and/or trust company doing business in the District of Columbia and that such action is in the public interest, is hereby authorized and empowered to prescribe such rules and regulations as he deems advisable governing the receipt and withdrawal of deposits by and from any such bank and trust company, which rules and regulations shall be binding upon said banks and trust companies.

That it shall be lawful for any incorporated bank and trust company in said District to comply with such rules and regulations promulgated by the Comptroller of the Currency.

Nothing herein shall be construed to impair any power otherwise possessed by the Comptroller of the Currency, the Secretary of the Treasury, or the Federal Reserve Board.

That all powers herein conferred shall terminate six months from the approval of this Joint Resolution by the President of the United States, but he may extend the force of the provisions hereof by proclamation for an additional six months.

This Resolution is hereby declared to be an emergency law necessary for the immediate preservation of the public peace, health, and safety.

Approved, March 3, 1933.

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[PUBLIC—No. 1—73D CONGRESS]

[H. R. 1491]

AN ACT

To provide relief in the existing national emergency in banking, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress hereby declares that a serious emergency exists and that it is imperatively necessary speedily to put into effect remedies of uniform national application.

TITLE I

SECTION 1. The actions, regulations, rules, licenses, orders and proclamations heretofore or hereafter taken, promulgated, made, or issued by the President of the United States or the Secretary of the Treasury since March 4, 1933, pursuant to the authority conferred by subdivision (b) of section 5 of the Act of October 6, 1917, as amended, are hereby approved and confirmed.

SEC. 2. Subdivision (b) of section 5 of the Act of October 6, 1917 (40 Stat. L. 411), as amended, is hereby amended to read as follows:

"(b) During time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit between or payments by banking institutions as defined by the President, and export, hoarding, melting, or earmarking of gold or silver coin or bullion or currency, by any person within the United States or any place subject to the jurisdiction thereof; and the President may require any person engaged in any transaction referred to in this subdivision to furnish under oath, complete information relative thereto, including the production of any books of account, contracts, letters or other papers, in connection therewith in the custody or control of such person, either before or after such transaction is completed. Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than $10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both. As used in this subdivision the term 'person' means an individual, partnership, association, or corporation."

SEC. 3. Section 11 of the Federal Reserve Act is amended by adding at the end thereof the following new subsection:

"(n) Whenever in the judgment of the Secretary of the Treasury such action is necessary to protect the currency system of the United States, the Secretary of the Treasury, in his discretion, may require

any or all individuals, partnerships, associations and corporations to pay and deliver to the Treasurer of the United States any or all gold coin, gold bullion, and gold certificates owned by such individuals, partnerships, associations and corporations. Upon receipt of such gold coin, gold bullion or gold certificates, the Secretary of the Treasury shall pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States. The Secretary of the Treasury shall pay all costs of the transportation of such gold bullion, gold certificates, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any individual, partnership, association, or corporation failing to comply with any requirement of the Secretary of the Treasury made under this subsection shall be subject to a penalty equal to twice the value of the gold or gold certificates in respect of which such failure occurred, and such penalty may be collected by the Secretary of the Treasury by suit or otherwise."

SEC. 4. In order to provide for the safer and more effective operation of the National Banking System and the Federal Reserve System, to preserve for the people the full benefits of the currency provided for by the Congress through the National Banking System and the Federal Reserve System, and to relieve interstate commerce of the burdens and obstructions resulting from the receipt on an unsound or unsafe basis of deposits subject to withdrawal by check, during such emergency period as the President of the United States by proclamation may prescribe, no member bank of the Federal Reserve System shall transact any banking business except to such extent and subject to such regulations, limitations and restrictions as may be prescribed by the Secretary of the Treasury, with the approval of the President. Any individual, partnership, corporation, or association, or any director, officer or employee thereof, violating any of the provisions of this section shall be deemed guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $10,000 or, if a natural person, may, in addition to such fine, be imprisoned for a term not exceeding ten years. Each day that any such violation continues shall be deemed a separate offense.

TITLE II

SEC. 201. This title may be cited as the "Bank Conservation Act."

SEC. 202. As used in this title, the term "bank" means (1) any national banking association, and (2) any bank or trust company located in the District of Columbia and operating under the supervision of the Comptroller of the Currency; and the term "State" means any State, Territory, or possession of the United States, and the Canal Zone.

SEC. 203. Whenever he shall deem it necessary in order to conserve the assets of any bank for the benefit of the depositors and other creditors thereof, the Comptroller of the Currency may appoint a conservator for such bank and require of him such bond and security as the Comptroller of the Currency deems proper. The conservator, under the direction of the Comptroller, shall take possession of the books, records, and assets of every description of such bank,

and take such action as may be necessary to conserve the assets of such bank pending further disposition of its business as provided by law. Such conservator shall have all the rights, powers, and privileges now possessed by or hereafter given receivers of insolvent national banks and shall be subject to the obligations and penalties, not inconsistent with the provisions of this title, to which receivers are now or may hereafter become subject. During the time that such conservator remains in possession of such bank, the rights of all parties with respect thereto shall, subject to the other provisions of this title, be the same as if a receiver had been appointed therefor. All expenses of any such conservatorship shall be paid out of the assets of such bank and shall be a lien thereon which shall be prior to any other lien provided by this Act or otherwise. The conservator shall receive as salary an amount no greater than that paid to employees of the Federal Government for similar services.

SEC. 204. The Comptroller of the Currency shall cause to be made such examinations of the affairs of such bank as shall be necessary to inform him as to the financial condition of such bank, and the examiner shall make a report thereon to the Comptroller of the Currency at the earliest practicable date.

SEC. 205. If the Comptroller of the Currency becomes satisfied that it may safely be done and that it would be in the public interest, he may, in his discretion, terminate the conservatorship and permit such bank to resume the transaction of its business subject to such terms, conditions, restrictions and limitations as he may prescribe.

SEC. 206. While such bank is in the hands of the conservator appointed by the Comptroller of the Currency, the Comptroller may require the conservator to set aside and make available for withdrawal by depositors and payment to other creditors, on a ratable basis, such amounts as in the opinion of the Comptroller may safely be used for this purpose; and the Comptroller may, in his discretion, permit the conservator to receive deposits, but deposits received while the bank is in the hands of the conservator shall not be subject to any limitation as to payment or withdrawal, and such deposits shall be segregated and shall not be used to liquidate any indebtedness of such bank existing at the time that a conservator was appointed for it, or any subsequent indebtedness incurred for the purpose of liquidating any indebtedness of such bank existing at the time such conservator was appointed. Such deposits received while the bank is in the hands of the conservator shall be kept on hand in cash, invested in the direct obligations of the United States, or deposited with a Federal reserve bank. The Federal reserve banks are hereby authorized to open and maintain separate deposit accounts for such purpose, or for the purpose of receiving deposits from State officials in charge of State banks under similar circumstances.

SEC. 207. In any reorganization of any national banking association under a plan of a kind which, under existing law, requires the consent, as the case may be, (a) of depositors and other creditors or (b) of stockholders or (c) of both depositors and other creditors and stockholders, such reorganization shall become effective only (1) when the Comptroller of the Currency shall be satisfied that the plan of reorganization is fair and equitable as to all depositors, other cred-

itors and stockholders and is in the public interest and shall have approved the plan subject to such conditions, restrictions and limitations as he may prescribe and (2) when, after reasonable notice of such reorganization, as the case may require, (A) depositors and other creditors of such bank representing at least 75 per cent in amount of its total deposits and other liabilities as shown by the books of the national banking association or (B) stockholders owning at least two-thirds of its outstanding capital stock as shown by the books of the national banking association or (C) both depositors and other creditors representing at least 75 per cent in amount of the total deposits and other liabilities and stockholders owning at least two-thirds of its outstanding capital stock as shown by the books of the national banking association, shall have consented in writing to the plan of reorganization: *Provided, however*, That claims of depositors or other creditors which will be satisfied in full under the provisions of the plan of reorganization shall not be included among the total deposits and other liabilities of the national banking association in determining the 75 per cent thereof as above provided. When such reorganization becomes effective, all books, records, and assets of the national banking association shall be disposed of in accordance with the provisions of the plan and the affairs of the national banking association shall be conducted by its board of directors in the manner provided by the plan and under the conditions, restrictions and limitations which may have been prescribed by the Comptroller of the Currency. In any reorganization which shall have been approved and shall have become effective as provided herein, all depositors and other creditors and stockholders of such national banking association, whether or not they shall have consented to such plan of reorganization, shall be fully and in all respects subject to and bound by its provisions, and claims of all depositors and other creditors shall be treated as if they had consented to such plan of reorganization.

SEC. 208. After fifteen days after the affairs of a bank shall have been turned back to its board of directors by the conservator, either with or without a reorganization as provided in section 207 hereof, the provisions of section 206 of this title with respect to the segregation of deposits received while it is in the hands of the conservator and with respect to the use of such deposits to liquidate the indebtedness of such bank shall no longer be effective: *Provided*, That before the conservator shall turn back the affairs of the bank to its board of directors he shall cause to be published in a newspaper published in the city, town or county in which such bank is located, and if no newspaper is published in such city, town or county, in a newspaper to be selected by the Comptroller of the Currency published in the State in which the bank is located, a notice in form approved by the Comptroller, stating the date on which the affairs of the bank will be returned to its board of directors and that the said provisions of section 206 will not be effective after fifteen days after such date; and on the date of the publication of such notice the conservator shall immediately send to every person who is a depositor in such bank under section 206 a copy of such notice by registered mail addressed to the last known address of such person as shown by the records of the bank, and the conservator shall send similar notice in

like manner to every person making deposit in such bank under section 206 after the date of such newspaper publication and before the time when the affairs of the bank are returned to its directors.

SEC. 209. Conservators appointed pursuant to the provisions of this title shall be subject to the provisions of and to the penalties prescribed by section 5209 of the Revised Statutes (U. S. C., Title 12, sec. 592); and sections 112, 113, 114, 115, 116 and 117 of the Criminal Code of the United States (U. S. C., Title 18, secs. 202, 203, 204, 205, 206 and 207), in so far as applicable, are extended to apply to contracts, agreements, proceedings, dealings, claims and controversies by or with any such conservator or the Comptroller of the Currency under the provisions of this title.

SEC. 210. Nothing in this title shall be construed to impair in any manner any powers of the President, the Secretary of the Treasury, the Comptroller of the Currency, or the Federal Reserve Board.

SEC. 211. The Comptroller of the Currency is hereby authorized and empowered, with the approval of the Secretary of the Treasury, to prescribe such rules and regulations as he may deem necessary in order to carry out the provisions of this title. Whoever violates any rule or regulation made pursuant to this section shall be deemed guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $5,000, or imprisoned not more than one year, or both.

TITLE III

SEC. 301. Notwithstanding any other provision of law, any national banking association may, with the approval of the Comptroller of the Currency and by vote of shareholders owning a majority of the stock of such association, upon not less than five days' notice, given by registered mail pursuant to action taken by its board of directors, issue preferred stock in such amount and with such par value as shall be approved by said Comptroller, and make such amendments to its articles of association as may be necessary for this purpose; but, in the case of any newly organized national banking association which has not yet issued common stock, the requirement of notice to and vote of shareholders shall not apply. No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid in.

SEC. 302. (a) The holders of such preferred stock shall be entitled to cumulative dividends at a rate not exceeding 6 per centum per annum, but shall not be held individually responsible as such holders for any debts, contracts, or engagements of such association and shall not be liable for assessments to restore impairments in the capital of such association as now provided by law with reference to holders of common stock. Notwithstanding any other provision of law, the holders of such preferred stock shall have such voting rights, and such stock shall be subject to retirement in such manner and on such terms and conditions, as may be provided in the articles of association with the approval of the Comptroller of the Currency.

(b) No dividends shall be declared or paid on common stock until the cumulative dividends on the preferred stock shall have been paid in full; and, if the association is placed in voluntary liquidation or a conservator or a receiver is appointed therefor, no payments shall be made to the holders of the common stock until the holders of the

preferred stock shall have been paid in full the par value of such stock plus all accumulated dividends.

SEC. 303. The term "common stock" as used in this title means stock of national banking associations other than preferred stock issued under the provisions of this title. The term "capital" as used in provisions of law relating to the capital of national banking associations shall mean the amount of unimpaired common stock plus the amount of preferred stock outstanding and unimpaired; and the term "capital stock", as used in section 12 of the Act of March 14, 1900, shall mean only the amount of common stock outstanding.

SEC. 304. If in the opinion of the Secretary of the Treasury any national banking association or any State bank or trust company is in need of funds for capital purposes either in connection with the organization or reorganization of such association, State bank or trust company or otherwise, he may, with the approval of the President, request the Reconstruction Finance Corporation to subscribe for preferred stock in such association, State bank or trust company, or to make loans secured by such stock as collateral, and the Reconstruction Finance Corporation may comply with such request. The Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury, and under such rules and regulations as he may prescribe, sell in the open market or otherwise the whole or any part of the preferred stock of any national banking association, State bank or trust company acquired by the Corporation pursuant to this section. The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by an amount sufficient to carry out the provisions of this section.

TITLE IV

SEC. 401. The sixth paragraph of Section 18 of the Federal Reserve Act is amended to read as follows:

"Upon the deposit with the Treasurer of the United States, (a) of any direct obligations of the United States or (b) of any notes, drafts, bills of exchange, or bankers' acceptances acquired under the provisions of this Act, any Federal reserve bank making such deposit in the manner prescribed by the Secretary of the Treasury shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, duly registered and countersigned. When such circulating notes are issued against the security of obligations of the United States, the amount of such circulating notes shall be equal to the face value of the direct obligations of the United States so deposited as security; and, when issued against the security of notes, drafts, bills of exchange and bankers' acceptances acquired under the provisions of this Act, the amount thereof shall be equal to not more than 90 per cent of the estimated value of such notes, drafts, bills of exchange and bankers' acceptances so deposited as security. Such notes shall be the obligations of the Federal reserve bank procuring the same, shall be in form prescribed by the Secretary of the Treasury, shall be receivable at par in all parts of the United States for the same purposes as are national bank notes,

and shall be redeemable in lawful money of the United States on presentation at the United States Treasury or at the bank of issue. The Secretary of the Treasury is authorized and empowered to prescribe regulations governing the issuance, redemption, replacement, retirement and destruction of such circulating notes and the release and substitution of security therefor. Such circulating notes shall be subject to the same tax as is provided by law for the circulating notes of national banks secured by 2 per cent bonds of the United States. No such circulating notes shall be issued under this paragraph after the President has declared by proclamation that the emergency recognized by the President by proclamation of March 6, 1933, has terminated, unless such circulating notes are secured by deposits of bonds of the United States bearing the circulation privilege. When required to do so by the Secretary of the Treasury, each Federal reserve agent shall act as agent of the Treasurer of the United States or of the Comptroller of the Currency, or both, for the performance of any of the functions which the Treasurer or the Comptroller may be called upon to perform in carrying out the provisions of this paragraph. Appropriations available for distinctive paper and printing United States currency or national bank currency are hereby made available for the production of the circulating notes of Federal reserve banks herein provided; but the United States shall be reimbursed by the Federal reserve bank to which such notes are issued for all expenses necessarily incurred in connection with the procuring of such notes and all other expenses incidental to their issue, redemption, replacement, retirement and destruction."

SEC. 402. Section 10(b) of the Federal Reserve Act, as amended, is further amended to read as follows:

"SEC. 10(b). In exceptional and exigent circumstances, and when any member bank has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by section 10 (a), any Federal reserve bank, under rules and regulations prescribed by the Federal Reserve Board, may make advances to such member bank on its time or demand notes secured to the satisfaction of such Federal reserve bank. Each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note. No advance shall be made under this section after March 3, 1934, or after the expiration of such additional period not exceeding one year as the President may prescribe."

SEC. 403. Section 13 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following new paragraph:

"Subject to such limitations, restrictions and regulations as the Federal Reserve Board may prescribe, any Federal reserve bank may make advances to any individual, partnership or corporation on the promissory notes of such individual, partnership or corporation secured by direct obligations of the United States. Such advances shall be made for periods not exceeding 90 days and shall bear interest at rates fixed from time to time by the Federal reserve bank, subject to the review and determination of the Federal Reserve Board."

TITLE V

SEC. 501. There is hereby appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $2,000,000, which shall be available for expenditure, under the direction of the President and in his discretion, for any purpose in connection with the carrying out of this Act.

SEC. 502. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Approved March 9th 1933 8.30 p. m.

[PUBLIC—No. 4—73D CONGRESS]

[H. R. 3757]

AN ACT

To provide for direct loans by Federal reserve banks to State banks and trust companies in certain cases, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Title IV of the Act entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes," approved March 9, 1933, is amended by adding at the end thereof the following new section:

"SEC. 404. During the existing emergency in banking, or until this section shall be declared no longer operative by proclamation of the President, but in no event beyond the period of one year from the date this section takes effect, any State bank or trust company not a member of the Federal reserve system may apply to the Federal reserve bank in the district in which it is located and said Federal reserve bank, in its discretion and after inspection and approval of the collateral and a thorough examination of the applying bank or trust company, may make direct loans to such State bank or trust company under the terms provided in section 10 (b) of the Federal Reserve Act, as amended by section 402 of this Act: *Provided*, That loans may be made to any applying nonmember State bank or trust company upon eligible security. All applications for such loans shall be accompanied by the written approval of the State banking department or commission of the State from which the State bank or trust company has received its charter and a statement from the said State banking department or commission that in its judgment said State bank or trust company is in a sound condition. The notes representing such loans shall be eligible as security for circulating notes issued under the provisions of the sixth paragraph of section 18 of the Federal Reserve Act, as amended by section 401 of this Act, to the same extent as notes, drafts, bills of exchange, or bankers' acceptances acquired under the provisions of the Federal Reserve Act. During the time that such bank or trust company is indebted in any way to a Federal Reserve bank it shall be required to comply in all respects to the provisions of the Federal Reserve Act applicable to member State banks and the regulations of the Federal Reserve Board issued thereunder: *Provided*, That in lieu of subscribing to stock in the Federal reserve bank it shall maintain the reserve balance required by section 19 of the Federal Reserve Act during the existence of such indebtedness. As used in this section and in section 304, the term 'State bank or trust company' shall include a bank or trust company organized under the laws of any State, Territory, or possession of the United States, or the Canal Zone."

SEC. 2. (a) Section 304 of such Act of March 9, 1933, is amended by adding after the first sentence thereof the following new sen-

tences: "Nothing in this section shall be construed to authorize the Reconstruction Finance Corporation to subscribe for preferred stock in any State bank or trust company if under the laws of the State in which said State bank or trust company is located the holders of such preferred stock are not exempt from double liability. In any case in which under the laws of the State in which it is located a State bank or trust company is not permitted to issue preferred stock exempt from double liability, or if such laws permit such issue of preferred stock only by unanimous consent of stockholders, the Reconstruction Finance Corporation is authorized, for the purposes of this section, to purchase the legally issued capital notes or debentures of such State bank or trust company."

(b) The second sentence of said section 304 is amended to read as follows: "The Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury, and under such rules and regulations as he may prescribe, sell in the open market the whole or any part of the preferred stock, capital notes, or debentures of any national banking association, State bank or trust company acquired by the corporation pursuant to this section."

Such section 304 is further amended by adding at the end thereof the following new sentence: (c) "As used in this section, the term 'State bank or trust company' shall include other banking corporations engaged in the business of industrial banking and under the supervision of State banking departments or of the Comptroller of the Currency."

Approved March 24th, 1933

(EXTRACT FROM)

[PUBLIC—No. 10—73D CONGRESS]

FEDERAL FARM-LOAN BONDS AS SECURITY FOR ADVANCES BY FEDERAL RESERVE BANKS

SEC. 28. The eighth paragraph of section 13 of the Federal Reserve Act, as amended, is amended by inserting before the period at the end thereof a comma and the following: "or by the deposit or pledge of bonds issued pursuant to the paragraph added to section 32 of the Federal Farm Loan Act, as amended by section 21 of the Emergency Farm Mortgage Act of 1933."

TITLE III—FINANCING—AND EXERCISING POWER CONFERRED BY SECTION 8 OF ARTICLE I OF THE CONSTITUTION: TO COIN MONEY AND TO REGULATE THE VALUE THEREOF

SEC. 43. Whenever the President finds, upon investigation, that (1) the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government or governments in relation to the present standard value of gold, or (2) action under this section is necessary in order to regulate and maintain the parity of currency issues of the United States, or (3) an economic emergency requires an expansion of credit, or (4) an expansion of credit is necessary to secure by international agreement a stabilization at proper levels of the currencies of various governments, the President is authorized, in his discretion—

(a) To direct the Secretary of the Treasury to enter into agreements with the several Federal Reserve banks and with the Federal Reserve Board whereby the Federal Reserve Board will, and it is hereby authorized to, notwithstanding any provisions of law or rules and regulations to the contrary, permit such reserve banks to agree that they will, (1) conduct, pursuant to existing law, throughout specified periods, open market operations in obligations of the United States Government or corporations in which the United States is the majority stockholder, and (2) purchase directly and hold in portfolio for an agreed period or periods of time Treasury bills or other obligations of the United States Government in an aggregate sum of $3,000,000,000 in addition to those they may then hold, unless prior to the termination of such period or periods the Secretary shall consent to their sale. No suspension of reserve requirements of the Federal Reserve banks, under the terms of section 11(c) of the Federal Reserve Act, necessitated by reason of operations under this section, shall require the imposition of the graduated tax upon any deficiency in reserves as provided in said section 11(c). Nor shall it require any automatic increase in the rates of interest or discount charged by any Federal Reserve bank, as otherwise specified in that section. The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal Reserve banks to take such action as may be necessary,

in the judgment of the Board and of the Secretary of the Treasury, to prevent undue credit expansion.

(b) If the Secretary, when directed by the President, is unable to secure the assent of the several Federal Reserve banks and the Federal Reserve Board to the agreements authorized in this section, or if operations under the above provisions prove to be inadequate to meet the purposes of this section, or if for any other reason additional measures are required in the judgment of the President to meet such purposes, then the President is authorized—

(1) To direct the Secretary of the Treasury to cause to be issued in such amount or amounts as he may from time to time order, United States notes, as provided in the Act entitled "An Act to authorize the issue of United States notes and for the redemption of funding thereof and for funding the floating debt of the United States", approved February 25, 1862, and Acts supplementary thereto and amendatory thereof, in the same size and of similar color to the Federal Reserve notes heretofore issued and in denominations of $1, $5, $10, $20, $50, $100, $500, $1,000, and $10,000; but notes issued under this subsection shall be issued only for the purpose of meeting maturing Federal obligations to repay sums borrowed by the United States and for purchasing United States bonds and other interest-bearing obligations of the United States: *Provided*, That when any such notes are used for such purpose the bond or other obligation so acquired or taken up shall be retired and canceled. Such notes shall be issued at such times and in such amounts as the President may approve but the aggregate amount of such notes outstanding at any time shall not exceed $3,000,000,000. There is hereby appropriated, out of any money in the Treasury not otherwise appropriated, an amount sufficient to enable the Secretary of the Treasury to retire and cancel 4 per centum annually of such outstanding notes, and the Secretary of the Treasury is hereby directed to retire and cancel annually 4 per centum of such outstanding notes. Such notes and all other coins and currencies heretofore or hereafter coined or issued by or under the authority of the United States shall be legal tender for all debts public and private.

(2) By proclamation to fix the weight of the gold dollar in grains nine tenths fine and also to fix the weight of the silver dollar in grains nine tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon, and such gold dollar, the weight of which is so fixed, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such

parity, but in no event shall the weight of the gold dollar be fixed so as to reduce its present weight by more than 50 per centum.

SEC. 44. The Secretary of the Treasury, with the approval of the President, is hereby authorized to make and promulgate rules and regulations covering any action taken or to be taken by the President under subsection (a) or (b) of section 43.

SEC. 45. (a) The President is authorized, for a period of six months from the date of the passage of this Act, to accept silver in payment of the whole or any part of the principal or interest now due, or to become due within six months after such date, from any foreign government or governments on account of any indebtedness to the United States, such silver to be accepted at not to exceed the price of 50 cents an ounce in United States currency. The aggregate value of the silver accepted under this section shall not exceed $200,000,000.

(b) The silver bullion accepted and received under the provisions of this section shall be subject to the requirements of existing law and the regulations of the mint service governing the methods of determining the amount of pure silver contained, and the amount of the charges or deductions, if any, to be made; but such silver bullion shall not be counted as part of the silver bullion authorized or required to be purchased and coined under the provisions of existing law.

(c) The silver accepted and received under the provisions of this section shall be deposited in the Treasury of the United States, to be held, used, and disposed of as in this section provided.

(d) The Secretary of the Treasury shall cause silver certificates to be issued in such denominations as he deems advisable to the total number of dollars for which such silver was accepted in payment of debts. Such silver certificates shall be used by the Treasurer of the United States in payment of any obligations of the United States.

(e) The silver so accepted and received under this section shall be coined into standard silver dollars and subsidiary coins sufficient, in the opinion of the Secretary of the Treasury, to meet any demands for redemption of such silver certificates issued under the provisions of this section, and such coins shall be retained in the Treasury for the payment of such certificates on demand. The silver so accepted and received under this section, except so much thereof as is coined under the provisions of this section, shall be held in the Treasury for the sole purpose of aiding in maintaining the parity of such certificates as provided in existing law. Any such certificates or reissued certificates, when presented at the Treasury, shall be redeemed in standard silver dollars, or in subsidiary silver coin, at the option of the holder of the certificates: *Provided*, That, in the redemption of such silver certificates issued under this section, not to exceed one third of the coin required for such redemption may in the judgment of the Secretary of the Treasury be made in subsidiary coins, the balance to be made in standard silver dollars.

(f) When any silver certificates issued under the provisions of this section are redeemed or received into the Treasury from any source whatsoever, and belong to the United States, they shall not be retired, canceled, or destroyed, but shall be reissued and paid out

again and kept in circulation; but nothing herein shall prevent the cancelation and destruction of mutilated certificates and the issue of other certificates of like denomination in their stead, as provided by law.

(g) The Secretary of the Treasury is authorized to make rules and regulations for carrying out the provisions of this section.

SEC. 46. Section 19 of the Federal Reserve Act, as amended, is amended by inserting immediately after paragraph (c) thereof the following new paragraph:

"Notwithstanding the foregoing provisions of this section, the Federal Reserve Board, upon the affirmative vote of not less than five of its members and with the approval of the President, may declare that an emergency exists by reason of credit expansion, and may by regulation during such emergency increase or decrease from time to time, in its discretion, the reserve balances required to be maintained against either demand or time deposits."

Approved May 12th 1933

[PUBLIC—No. 19—73D CONGRESS]

[S. 1410]

AN ACT

To amend section 207 of the Bank Conservation Act with respect to bank reorganizations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 207 of the Bank Conservation Act is amended by striking out "national banking association" wherever it appears therein and inserting in lieu thereof the word "bank."

Approved May 20th 1933

[PUBLIC RESOLUTION—NO. 10—73D CONGRESS]

[H.J.Res. 192]

JOINT RESOLUTION

To assure uniform value to the coins and currencies of the United States.

Whereas the holding of or dealing in gold affect the public interest, and are therefore subject to proper regulation and restriction; and

Whereas the existing emergency has disclosed that provisions of obligations which purport to give the obligee a right to require payment in gold or a particular kind of coin or currency of the United States, or in an amount in money of the United States measured thereby, obstruct the power of the Congress to regulate the value of the money of the United States, and are inconsistent with the declared policy of the Congress to maintain at all times the equal power of every dollar, coined or issued by the United States, in the markets and in the payment of debts. Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) every provision contained in or made with respect to any obligation which purports to give the obligee a right to require payment in gold or a particular kind of coin or currency, or in an amount in money of the United States measured thereby, is declared to be against public policy; and no such provision shall be contained in or made with respect to any obligation hereafter incurred. Every obligation, heretofore or hereafter incurred, whether or not any such provision is contained therein or made with respect thereto, shall be discharged upon payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender for public and private debts. Any such provision contained in any law authorizing obligations to be issued by or under authority of the United States, is hereby repealed, but the repeal of any such provision shall not invalidate any other provision or authority contained in such law.

(b) As used in this resolution, the term "obligation" means an obligation (including every obligation of and to the United States, excepting currency) payable in money of the United States; and the term "coin or currency" means coin or currency of the United States, including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations.

SEC. 2. The last sentence of paragraph (1) of subsection (b) of section 43 of the Act entitled "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended to read as follows:

"All coins and currencies of the United States (including Federal Reserve notes and circulating notes of Federal Reserve banks

and national banking associations) heretofore or hereafter coined or issued, shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, except that gold coins, when below the standard weight and limit of tolerance provided by law for the single piece, shall be legal tender only at valuation in proportion to their actual weight."

Approved, June 5, 1933, 4.40 p.m.

[PUBLIC—No. 41—73D CONGRESS]

[S. 1634]

AN ACT

To provide for the redemption of national-bank notes, Federal Reserve bank notes, and Federal Reserve notes which cannot be identified as to the bank of issue.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever any national-bank notes, Federal Reserve bank notes, or Federal Reserve notes are presented to the Treasurer of the United States for redemption and such notes cannot be identified as to the bank of issue or the bank through which issued, the Treasurer of the United States may redeem such notes under such rules and regulations as the Secretary of the Treasury may prescribe, and the notes so redeemed shall be forwarded to the Comptroller of the Currency for cancelation and destruction.

SEC. 2. National-bank notes and Federal Reserve bank notes redeemed by the Treasurer of the United States under this Act shall be charged against the balance of deposits for the retirement of national-bank notes and Federal Reserve bank notes under the provisions of section 6 of the Act entitled "An Act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes", approved July 14, 1890 (U.S.C., title 12, sec. 122), and section 18 of the Federal Reserve Act (U.S.C., title 12, sec. 445); and charges for Federal Reserve notes redeemed by the Treasurer of the United States under this Act shall be apportioned among the twelve Federal Reserve banks in proportion to the amount of Federal Reserve notes of each Federal Reserve bank in circulation on the 31st day of December of the year preceding the date of redemption, and the amount so apportioned to each bank shall be charged by the Treasurer of the United States against deposit in the gold-redemption fund made by such bank or its Federal Reserve agent.

Approved, June 13, 1933.

[PUBLIC—No. 56—73D CONGRESS]

[S. 1425]

AN ACT

To amend the Act entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933, is amended by—

(a) striking out the whole of section 301 of title III thereof and inserting in lieu thereof the following:

"SEC. 301. Notwithstanding any other provision of law, any national banking association may, with the approval of the Comptroller of the Currency and by vote of shareholders owning a majority of the stock of such association, upon not less than five days' notice, given by registered mail pursuant to action taken by its board of directors, issue preferred stock of one or more classes, in such amount and with such par value as shall be approved by said Comptroller, and make such amendments to its articles of association as may be necessary for this purpose; but, in the case of any newly organized national banking association which has not yet issued common stock, the requirement of notice to and vote of shareholders shall not apply. No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid in."

(b) striking out the whole of subsection (a) of section 302 of the said title III and inserting in lieu thereof the following:

"Notwithstanding any other provision of law, whether relating to restriction upon the payment of dividends upon capital stock or otherwise, the holders of such preferred stock shall be entitled to receive such cumulative dividends at a rate not exceeding 6 per centum per annum and shall have such voting and conversion rights and such control of management, and such stock shall be subject to retirement in such manner and upon such conditions, as may be provided in the articles of association with the approval of the Comptroller of the Currency. The holders of such preferred stock shall not be held individually responsible as such holders for any debts, contracts, or engagements of such association, and shall not be liable for assessments to restore impairments in the capital of such association as now provided by law with reference to holders of common stock."

Approved, June 15, 1933.

[PUBLIC—No. 66—73D CONGRESS]

[H.R. 5661]

AN ACT

To provide for the safer and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Banking Act of 1933."

SEC. 2. As used in this Act and in any provision of law amended by this Act—

(a) The terms "banks", "national bank", "national banking association", "member bank", "board", "district", and "reserve bank" shall have the meanings assigned to them in section 1 of the Federal Reserve Act, as amended.

(b) Except where otherwise specifically provided, the term "affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

(2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; or

(3) Of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one member bank.

(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

SEC. 3. (a) The fourth paragraph after paragraph "Eighth" of section 4 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 301), is amended to read as follows:

"Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Federal Reserve Board may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements, and the accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Federal Reserve Board any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Federal Reserve Board, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time."

(b) The paragraph of section 4 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 304), which commences with the words "The Federal Reserve Board shall classify" is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That whenever any two or more member banks within the same Federal reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate."

SEC. 4. The first paragraph of section 7 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 289), is amended, effective July 1, 1932, to read as follows:

"After all necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid into the surplus fund of the Federal reserve bank."

SEC. 5. (a) The first paragraph of section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 321; Supp. VI, title 12, sec. 321), is amended by inserting immediately after the words "United

States" a comma and the following: "including Morris Plan banks and other incorporated banking institutions engaged in similar business."

(b) The second paragraph of section 9 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following: "*Provided, however*, That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks."

(c) Section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 321–331; Supp. VI, title 12, secs. 321–332), is further amended by adding at the end thereof the following new paragraphs:

"Any mutual savings bank having no capital stock (including any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends), but having surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust companies, except that any such savings bank shall subscribe for capital stock of the Federal reserve bank in an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership. Thereafter such subscription shall be adjusted semiannually on the same percentage basis in accordance with rules and regulations prescribed by the Federal Reserve Board. If any such mutual savings bank applying for membership is not permitted by the laws under which it was organized to purchase stock in a Federal reserve bank, it shall, upon admission to the system, deposit with the Federal reserve bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock. Thereafter such deposit shall be adjusted semiannually in the same manner as subscriptions for stock. Such deposits shall be subject to the same conditions with respect to repayment as amounts paid upon subscriptions to capital stock by other member banks and the Federal reserve bank shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of stock of such Federal reserve bank. If the laws under which any such savings bank was organized be amended so as to authorize mutual savings banks to subscribe for Federal reserve bank stock, such savings bank shall thereupon subscribe for the appropriate amount of stock in the Federal reserve bank, and the deposit hereinbefore provided for in lieu of payment upon capital stock shall be applied upon such subscription. If the laws under which any such savings bank was organized be not amended at the next session of the legislature following the admission of such savings bank to membership so as to authorize mutual savings banks to purchase Federal reserve bank stock, or if such laws be so amended and such bank fail within six months thereafter to purchase such stock, all

of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed elsewhere in this section with respect to State member banks and trust companies. Each such mutual savings bank shall comply with all the provisions of law applicable to State member banks and trust companies, with the regulations of the Federal Reserve Board and with the conditions of membership prescribed for such savings bank at the time of admission to membership, except as otherwise hereinbefore provided with respect to capital stock.

"Each bank admitted to membership under this section shall obtain from each of its affiliates other than member banks and furnish to the Federal reserve bank of its district and to the Federal Reserve Board not less than three reports during each year. Such reports shall be in such form as the Federal Reserve Board may prescribe, shall be verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, and shall disclose the information hereinafter provided for as of dates identical with those fixed by the Federal Reserve Board for reports of the condition of the affiliated member bank. Each such report of an affiliate shall be transmitted as herein provided at the same time as the corresponding report of the affiliated member bank, except that the Federal Reserve Board may, in its discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Federal Reserve Board shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the bank under the same conditions as govern its own condition reports.

"Any such affiliated member bank may be required to obtain from any such affiliate such additional reports as in the opinion of its Federal reserve bank or the Federal Reserve Board may be necessary in order to obtain a full and complete knowledge of the condition of the affiliated member bank. Such additional reports shall be transmitted to the Federal reserve bank and the Federal Reserve Board and shall be in such form as the Federal Reserve Board may prescribe.

"Any such affiliated member bank which fails to obtain from any of its affiliates and furnish any report provided for by the two preceding paragraphs of this section shall be subject to a penalty of $100 for each day during which such failure continues, which, by direction of the Federal Reserve Board, may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located. For the purposes of this paragraph and the two preceding paragraphs of this section, the term 'affiliate' shall include holding company affiliates as well as other affiliates.

"State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph 'Seventh' of section 5136 of the Revised Statutes, as amended.

"After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any State member

bank shall represent the stock of any other corporation, except a member bank or a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such State member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank.

"Each State member bank affiliated with a holding company affiliate shall obtain from such holding company affiliate, within such time as the Federal Reserve Board shall prescribe, an agreement that such holding company affiliate shall be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes, as amended, in the case of holding company affiliates of national banks. A copy of each such agreement shall be filed with the Federal Reserve Board. Upon the failure of a State member bank affiliated with a holding company affiliate to obtain such an agreement within the time so prescribed, the Federal Reserve Board shall require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section. Whenever the Federal Reserve Board shall have revoked the voting permit of any such holding company affiliate, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such holding company affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section.

"In connection with examinations of State member banks, examiners selected or approved by the Federal Reserve Board shall make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such banks. The expense of examination of affiliates of any State member bank may, in the discretion of the Federal Reserve Board, be assessed against such bank and, when so assessed, shall be paid by such bank. In the event of the refusal to give any information requested in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, or in the event of the refusal to pay any expense so assessed, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System, as provided in this section."

SEC. 6. (a) The second paragraph of section 10 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 242), is amended to read as follows:

"The Secretary of the Treasury and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in

any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office when this paragraph as amended takes effect, the President shall fix the term of the successor to such member at not to exceed twelve years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one appointive member in any two-year period, and thereafter each appointive member shall hold office for a term of twelve years from the expiration of the term of his predecessor. Of the six persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be its active executive officer. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office."

(b) The fourth paragraph of section 10 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 244), is amended to read as follows:

"The principal offices of the Board shall be in the District of Columbia. At meetings of the Board the Secretary of the Treasury shall preside as chairman, and, in his absence, the governor shall preside. In the absence of both the Secretary of the Treasury and the governor the vice governor shall preside. In the absence of the Secretary of the Treasury, the governor, and the vice governor the Board shall elect a member to act as chairman pro tempore. The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, whose employment, compensation, leave, and expenses shall be governed solely by the provisions of this Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith; and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath that he has complied with this requirement, and such certification shall be filed with the secretary of the Board. Whenever a vacancy shall occur, other than by expiration of term, among the six members of the Federal Reserve Board appointed by the President as above provided, a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of his predecessor."

SEC. 7. Paragraph (m) of section 11 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 248), is amended to read as follows:

"(m) Upon the affirmative vote of not less than six of its members the Federal Reserve Board shall have power to fix from time to time for each Federal reserve district the percentage of indi-

vidual bank capital and surplus which may be represented by loans secured by stock or bond collateral made by member banks within such district, but no such loan shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank. Any percentage so fixed by the Federal Reserve Board shall be subject to change from time to time upon ten days' notice, and it shall be the duty of the Board to establish such percentages with a view to preventing the undue use of bank loans for the speculative carrying of securities. The Federal Reserve Board shall have power to direct any member bank to refrain from further increase of its loans secured by stock or bond collateral for any period up to one year under penalty of suspension of all rediscount privileges at Federal reserve banks."

SEC. 8. The Federal Reserve Act, as amended, is amended by inserting between sections 12 and 13 (U.S.C., title 12, secs. 261, 262, and 342), thereof the following new sections:

"SEC. 12A. (a) There is hereby created a Federal Open Market Committee (hereinafter referred to as the 'committee'), which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select one member of said committee. The meetings of said committee shall be held at Washington, District of Columbia, at least four times each year, upon the call of the governor of the Federal Reserve Board or at the request of any three members of the committee, and, in the discretion of the Board, may be attended by the members of the Board.

"(b) No Federal reserve bank shall engage in open-market operations under section 14 of this Act except in accordance with regulations adopted by the Federal Reserve Board. The Board shall consider, adopt, and transmit to the committee and to the several Federal reserve banks regulations relating to the open-market transactions of such banks and the relations of the Federal Reserve System with foreign central or other foreign banks.

"(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

"(d) If any Federal reserve bank shall decide not to participate in open-market operations recommended and approved as provided in paragraph (b) hereof, it shall file with the chairman of the committee within thirty days a notice of its decision, and transmit a copy thereof to the Federal Reserve Board.

"SEC. 12B. (a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the 'Corporation'), whose duty it shall be to purchase, hold, and liquidate, as hereinafter provided, the assets of national banks which have been closed by action of the Comptroller of the Currency, or by vote of their directors, and the assets of State member banks which have been closed by action of the appropriate State authorities, or by vote of their directors; and to insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section.

"(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than two of the members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years and shall receive compensation at the rate of $10,000 per annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member.

"(c) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation in an equal amount, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call in whole or in part by the board of directors of the Corporation. Such stock shall be in addition to the amount of capital stock required to be subscribed for by Federal reserve banks and member and nonmember banks as hereinafter provided, and the United States shall be entitled to the payment of dividends on such stock to the same extent as member and nonmember banks are entitled to such payment on the class A stock of the Corporation held by them. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States.

"(d) The capital stock of the Corporation shall be divided into shares of $100 each. Certificates of stock of the Corporation shall be of two classes—class A and class B. Class A stock shall be held by member and nonmember banks as hereinafter provided and they shall be entitled to payment of dividends out of net earnings at the rate of 6 per centum per annum on the capital stock paid in by them, which dividends shall be cumulative, or to the extent of 30 per centum of such net earnings in any one year, whichever amount shall be the greater, but such stock shall have no vote at meetings of stockholders. Class B stock shall be held by Federal reserve banks only and shall not be entitled to the payment of dividends. Every Federal reserve bank shall subscribe to shares of class B stock in the Corporation to an amount equal to one half of the surplus of such bank on January 1, 1933, and its subscriptions shall be accompanied by a certified check payable to the Corporation in an amount equal to one half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice.

"(e) Every bank which is or which becomes a member of the Federal Reserve System on or before July 1, 1934, shall take all steps necessary to enable it to become a class A stockholder of the Corporation on or before July 1, 1934; and thereafter no State bank or trust company or mutual savings bank shall be admitted to membership in the Federal Reserve System until it becomes a class A

stockholder of the Corporation, no national bank in the continental United States shall be granted a certificate by the Comptroller of the Currency authorizing it to commence the business of banking until it becomes a member of the Federal Reserve System and a class A stockholder of the Corporation, and no national bank in the continental United States for which a receiver or conservator has been appointed shall be permitted to resume the transaction of its banking business until it becomes a class A stockholder of the Corporation. Every member bank shall apply to the Corporation for class A stock of the Corporation in an amount equal to one half of 1 per centum of its total deposit liabilities as computed in accordance with regulations prescribed by the Federal Reserve Board; except that in the case of a member bank organized after the date this section takes effect, the amount of such class A stock applied for by such member bank during the first twelve months after its organization shall equal 5 per centum of its paid-up capital and surplus, and beginning after the expiration of such twelve months' period the amount of such class A stock of such member bank shall be adjusted annually in the same manner as in the case of other member banks. Upon receipt of such application the Corporation shall request the Federal Reserve Board, in the case of a State member bank, or the Comptroller of the Currency, in the case of a national bank, to certify upon the basis of a thorough examination of such bank whether or not the assets of the applying bank are adequate to enable it to meet all of its liabilities to depositors and other creditors as shown by the books of the bank; and the Federal Reserve Board or the Comptroller of the Currency shall make such certification as soon as practicable. If such certification be in the affirmative, the Corporation shall grant such application and the applying bank shall pay one half of its subscription in full and shall thereupon become a class A stockholder of the Corporation: *Provided*, That no member bank shall be required to make such payment or become a class A stockholder of the Corporation before July 1, 1934. The remainder of such subscription shall be subject to call from time to time by the board of directors of the Corporation. If such certification be in the negative, the Corporation shall deny such application. If any national bank shall not have become a class A stockholder of the Corporation on or before July 1, 1934, the Comptroller of the Currency shall appoint a receiver or conservator therefor in accordance with the provisions of existing law. Except as provided in subsection (g) of this section, if any State member bank shall not have become a class A stockholder of the Corporation on or before July 1, 1934, the Federal Reserve Board shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act.

"(f) Any State bank or trust company or mutual savings bank which applies for membership in the Federal Reserve System or for conversion into a national banking association on or after July 1, 1936, may, with the consent of the Corporation, obtain the benefits of this section, pending action on such application, by subscribing and paying for the same amount of stock of the Corporation as it would be required to subscribe and pay for upon becoming a member

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bank. Thereupon the provisions of this section applicable to member banks shall be applicable to such State bank or trust company or mutual savings bank to the same extent as if it were already a member bank: *Provided*, That if the application of such State bank or trust company or mutual savings bank for membership in the Federal Reserve System or for conversion into a national banking association be approved and it shall not complete its membership in the Federal Reserve System or its conversion into a national banking association within a reasonable time, or if such application shall be disapproved, then the amount paid by such State bank or trust company or mutual savings bank on account of its subscription to the capital stock of the Corporation shall be repaid to it and it shall no longer be subject to the provisions or entitled to the privileges of this section.

" (g) If any State bank or trust company, or mutual savings bank (referred to in this subsection as 'State bank') which is or which becomes a member of the Federal Reserve System is not permitted by the laws under which it was organized to purchase stock in the Corporation, it shall apply to the Corporation for admission to the benefits of this section and, if such application be granted after appropriate certification in accordance with this section, it shall deposit with the Corporation an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock of the Corporation. Thereafter such deposit shall be adjusted in the same manner as subscriptions for stock by class A stockholders. Such deposit shall be subject to the same conditions with respect to repayment as amounts paid on subscriptions to class A stock by other member banks and the Corporation shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of class A stock. As long as such deposit is maintained with the Corporation, such State bank shall, for the purposes of this section, be deemed to be a class A stockholder of the Corporation. If the laws under which such State bank was organized be amended so as to authorize State banks to subscribe for class A stock of the Corporation, such State bank shall within six months thereafter subscribe for an appropriate amount of such class A stock and the deposit hereinafter provided for in lieu of payment upon class A stock shall be applied upon such subscription. If the law under which such State bank was organized be not amended at the next session of the State legislature following the admission of such State bank to the benefits of this section so as to authorize State banks to purchase such class A stock, or, if the law be so amended and such State bank shall fail within six months thereafter to purchase such class A stock, the deposit previously made with the Corporation shall be returned to such State bank and it shall no longer be entitled to the benefits of this section, unless it shall have been closed in the meantime on account of inability to meet the demands of its depositors.

" (h) The amount of the outstanding class A stock of the Corporation held by member banks shall be annually adjusted as hereinafter provided as of the last preceding call date as member banks increase their time and demand deposits or as additional banks become members or subscribe to the stock of the Corporation, and

such stock may be decreased in amount as member banks reduce their time and demand deposits or cease to be members. Shares of the capital stock of the Corporation owned by member banks shall not be transferred or hypothecated. When a member bank increases its time and demand deposits it shall, at the beginning of each calendar year, subscribe for an additional amount of capital stock of the Corporation equal to one half of 1 per centum of such increase in deposits. One half of the amount of such additional stock shall be paid for at the time of the subscription therefor, and the balance shall be subject to call by the board of directors of the Corporation. A bank organized on or before the date this section takes effect and admitted to membership in the Federal Reserve System at any time after the organization of the Corporation shall be required to subscribe for an amount of class A capital stock equal to one half of 1 per centum of the time and demand deposits of the applicant bank as of the date of such admission, paying therefor its par value plus one half of 1 per centum a month from the period of the last dividend on the class A stock of the Corporation. When a member bank reduces its time and demand deposits it shall surrender, not later than the 1st day of January thereafter, a proportionate amount of its holdings in the capital stock of the Corporation, and when a member bank voluntarily liquidates it shall surrender all its holdings of the capital stock of the Corporation and be released from its stock subscription not previously called. The shares so surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Corporation, a sum equal to its cash-paid subscriptions on the shares surrendered and its proportionate share of dividends not to exceed one half of 1 per centum a month, from the period of the last dividend on such stock, less any liability of such member bank to the Corporation.

"(i) If any member or nonmember bank shall be declared insolvent, or shall cease to be a member bank (or in the case of a nonmember bank, shall cease to be entitled to the benefits of insurance under this section), the stock held by it in the Corporation shall be canceled, without impairment of the liability of such bank, and all cash-paid subscriptions on such stock, with its proportionate share of dividends not to exceed one half of 1 per centum per month from the period of last dividend on such stock shall be first applied to all debts of the insolvent bank or the receiver thereof to the Corporation, and the balance, if any, shall be paid to the receiver of the insolvent bank.

"(j) Upon the date of enactment of the Banking Act of 1933, the Corporation shall become a body corporate and as such shall have power—

"First. To adopt and use a corporate seal.

"Second. To have succession until dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix

the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

"Sixth. To prescribe by its board of directors, bylaws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this section and such incidental powers as shall be necessary to carry out the powers so granted.

"(k) The board of directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

"(l) Effective on and after July 1, 1934 (thus affording ample time for examination and preparation), unless the President shall by proclamation fix an earlier date, the Corporation shall insure as hereinafter provided the deposits of all member banks, and on and after such date and until July 1, 1936, of all nonmember banks, which are class A stockholders of the Corporation. Notwithstanding any other provision of law, whenever any national bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such bank. As soon as possible thereafter the Corporation shall organize a new national bank to assume the insured deposit liabilities of such closed bank, to receive new deposits and otherwise to perform temporarily the functions provided for it in this paragraph. For the purposes of this subsection, the term 'insured deposit liability' shall mean with respect to the owner of any claim arising out of a deposit liability of such closed bank the following percentages of the net amount due to such owner by such closed bank on account of deposit liabilities: 100 per centum of such net amount not exceeding $10,000; and 75 per centum of the amount, if any, by which such net amount exceeds $10,000 but does not exceed $50,000; and 50 per centum of the amount, if any, by which such net amount exceeds $50,000: *Provided*, That, in determining the amount due to such owner for the purpose of fixing such percentage, there shall be added together all net amounts due to such owner in the same capacity or the same right, on account of deposits, regardless of whether such deposits

be maintained in his name or in the names of others for his benefit. For the purposes of this subsection, the term 'insured deposit liabilities' shall mean the aggregate amount of all such insured deposit liabilities of such closed bank. The Corporation shall determine as expeditiously as possible the net amounts due to depositors of the closed bank and shall make available to the new bank an amount equal to the insured deposit liabilities of such closed bank, whereupon such new bank shall assume the insured deposit liability of such closed bank to each of its depositors, and the Corporation shall be subrogated to all rights against the closed bank of the owners of such deposits and shall be entitled to receive the same dividends from the proceeds of the assets of such closed bank as would have been payable to each such depositor until such dividends shall equal the insured deposit liability to such depositor assumed by the new bank, whereupon all further dividends shall be payable to such depositor. Of the amount thus made available by the Corporation to the new bank, such portion shall be paid to it in cash as may be necessary to enable it to meet immediate cash demands and the remainder shall be credited to it on the books of the Corporation subject to withdrawal on demand and shall bear interest at the rate of 3 per centum per annum until withdrawn. The new bank may, with the approval of the Corporation, accept new deposits, which, together with all amounts made available to the new bank by the Corporation, shall be kept on hand in cash, invested in direct obligations of the United States, or deposited with the Corporation or with a Federal reserve bank. Such new bank shall maintain on deposit with the Federal reserve bank of its district the reserves required by law of member banks but shall not be required to subscribe for stock of the Federal reserve bank until its own capital stock has been subscribed and paid for in the manner hereinafter provided. The articles of association and organization certificate of such new bank may be executed by such representatives of the Corporation as it may designate; the new bank shall not be required to have any directors at the time of its organization, but shall be managed by an executive officer to be designated by the Corporation; and no capital stock need be paid in by the Corporation; but in other respects such bank shall be organized in accordance with the existing provisions of law relating to the organization of national banks; and, until the requisite amount of capital stock for such bank has been subscribed and paid for in the manner hereinafter provided, such bank shall transact no business except that authorized by this subsection and such business as may be incidental to its organization. When in the judgment of the Corporation it is desirable to do so, the Corporation shall offer capital stock of the new bank for sale on such terms and conditions as the Corporation shall deem advisable, in an amount sufficient in the opinion of the Corporation to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U.S.C., title 12, sec. 51), for the organization of a national bank in the place where such new bank is located, giving the stockholders of the closed bank the first opportunity to purchase such stock. Upon proof that an adequate amount of capital stock of the new bank has been subscribed and paid for in cash by subscribers satisfactory to the Comptroller of the Currency, he shall issue to such bank a certificate

of authority to commence business and thereafter it shall be managed by directors elected by its own shareholders and may exercise all of the powers granted by law to national banking associations. If an adequate amount of capital for such new bank is not subscribed and paid in, the Corporation may offer to transfer its business to any other banking institution in the same place which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the Corporation may deem adequate. Unless the capital stock of the new bank is sold or its assets acquired and its liabilities assumed by another banking institution, in the manner herein prescribed, within two years from the date of its organization, the Corporation shall place the new bank in voluntary liquidation and wind up its affairs. The Corporation shall open on its books a deposit insurance account and, as soon as possible after taking possession of any closed national bank, the Corporation shall make an estimate of the amount which will be available from all sources for application in satisfaction of the portion of the claims of depositors to which it has been subrogated and shall debit to such deposit insurance account the excess, if any, of the amount made available by the Corporation to the new bank for depositors over and above the amount of such estimate. It shall be the duty of the Corporation to realize upon the assets of such closed bank, having due regard to the condition of credit in the district in which such closed bank is located; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided, retaining for its own account such portion of the amount realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors and paying to depositors and other creditors the amount available for distribution to them, after deducting therefrom their share of the costs of the liquidation of the closed bank. If the total amount realized by the Corporation on account of its subrogation to the claims of depositors be less than the amount of the estimate hereinabove provided for, the deposit insurance account shall be charged with the deficiency and, if the total amount so realized shall exceed the amount of such estimate, such account shall be credited with such excess. With respect to such closed national banks, the Corporation shall have all the rights, powers, and privileges now possessed by or hereafter given receivers of insolvent national banks and shall be subject to the obligations and penalties not inconsistent with the provisions of this paragraph to which such receivers are now or may hereafter become subject.

"Whenever any State member bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the appropriate State authority, as the case may be, on account of inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment be tendered by the appropriate State authority and be authorized or permitted by State law. Thereupon the Corporation shall organize a new national bank, in accordance with the provisions of this subsection, to assume the insured deposit liabilities of such closed State member bank, to receive new deposits and otherwise to

perform temporarily the functions provided for in this subsection. Upon satisfactory recognition of the right of the Corporation to receive dividends on the same basis as in the case of a closed national bank under this subsection, such recognition being accorded by State law, by allowance of claims by the appropriate State authority, by assignment of claims by depositors, or by any other effective method, the Corporation shall make available to such new national bank, in the manner prescribed by this subsection, an amount equal to the insured deposit liabilities of such closed State member bank; and the Corporation and such new national bank shall perform all of the functions and duties and shall have all the rights and privileges with respect to such State member bank and the depositors thereof which are prescribed by this subsection with respect to closed national banks holding class A stock in the Corporation: *Provided*, That the rights of depositors and other creditors of such State member bank shall be determined in accordance with the applicable provisions of State law: *And provided further*, That, with respect to such State member bank, the Corporation shall possess the powers and privileges provided by State law with respect to a receiver of such State member bank, except in so far as the same are in conflict with the provisions of this subsection.

"Whenever any State member bank which is a class A stockholder of the Corporation shall have been closed by action of its board of directors or by the appropriate State authority, as the case may be, on account of inability to meet the demands of its depositors, and the applicable State law does not permit the appointment of the Corporation as receiver of such bank, the Corporation shall organize a new national bank, in accordance with the provisions of this subsection, to assume the insured deposit liabilities of such closed State member bank, to receive new deposits, and otherwise to perform temporarily the functions provided for in this subsection. Upon satisfactory recognition of the right of the Corporation to receive dividends on the same basis as in the case of a closed national bank under this subsection, such recognition being accorded by State law, by allowance of claims by the appropriate State authority, by assignment of claims by depositors, or by any other effective method, the Corporation shall make available to such new bank, in accordance with the provisions of this subsection, the amount of insured deposit liabilities as to which such recognition has been accorded; and such new bank shall assume such insured deposit liabilities and shall in other respects comply with the provisions of this subsection respecting new banks organized to assume insured deposit liabilities of closed national banks. In so far as possible in view of the applicable provisions of State law, the Corporation shall proceed with respect to the receiver of such closed bank and with respect to the new bank organized to assume its insured deposit liabilities in the manner prescribed by this subsection with respect to closed national banks and new banks organized to assume their insured deposit liabilities; except that the Corporation shall have none of the powers, duties, or responsibilities of a receiver with respect to the winding up of the affairs of such closed State member bank. The Corporation, in its discretion, however, may purchase and liquidate any or all of the assets of such bank.

"Whenever the net debit balance of the deposit insurance account of the Corporation shall equal or exceed one fourth of 1 per centum of the total deposit liabilities of all class A stockholders as of the date of the last preceding call report, the Corporation shall levy upon such stockholders an assessment equal to one fourth of 1 per centum of their total deposit liabilities and shall credit the amount collected from such assessment to such deposit insurance account. No bank which is a holder of class A stock shall pay any dividends until all assessments levied upon it by the Corporation shall have been paid in full; and any director or officer of any such bank who participates in the declaration or payment of any such dividend may, upon conviction, be fined not more than $1,000, or imprisoned for not more than one year, or both.

"The term 'receiver' as used in this section shall mean a receiver, liquidating agent, or conservator of a national bank, and a receiver, liquidating agent, conservator, commission, person, or other agency charged by State law with the responsibility and the duty of winding up the affairs of an insolvent State member bank.

"For the purposes of this section only, the term 'national bank' shall include all national banking associations and all banks, banking associations, trust companies, savings banks, and other banking institutions located in the District of Columbia which are members of the Federal Reserve System; and the term 'State member bank' shall include all State banks, banking associations, trust companies, savings banks, and other banking institutions organized under the laws of any State, which are members of the Federal Reserve System.

"In any determination of the insured deposit liabilities of any closed bank or of the total deposit liabilities of any bank which is a holder of class A stock of the Corporation, or a member of the Fund provided for in subsection (y), for the purposes of this section, there shall be excluded the amounts of all deposits of such bank which are payable only at an office thereof located in a foreign country.

"The Corporation may make such rules, regulations, and contracts as it may deem necessary in order to carry out the provisions of this section.

"Money of the Corporation not otherwise employed shall be invested in securities of the Government of the United States, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

"(m) Nothing herein contained shall be construed to prevent the Corporation from making loans to national banks closed by action of the Comptroller of the Currency, or by vote of their directors, or to State member banks closed by action of the appropriate State

authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

"(n) Receivers or liquidators of member banks which are now or may hereafter become insolvent or suspended shall be entitled to offer the assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of State member banks, or from the Comptroller of the Currency in the case of national banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U.S.C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment.

"(o) The Corporation is authorized and empowered to issue and to have outstanding at any one time in an amount aggregating not more than three times the amount of its capital, its notes, debentures, bonds, or other such obligations, to be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and to bear such rate or rates of interest, and to mature at such time or times as may be determined by the Corporation: *Provided*, That the Corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.

"(p) All notes, debentures, bonds, or other such obligations issued by the Corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, Territorial, county, municipal or local taxation to the same extent according to its value as other real property is taxed.

"(q) In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plates, dies, bed pieces, and

other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.

" (r) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

" (s) Whoever, for the purpose of obtaining any loan from the Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Corporation to purchase any assets, or for the purpose of influencing in any way the action of the Corporation under this section, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

" (t) Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued by the Corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation or coupon issued or purporting to have been issued by the Corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious obligation or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

" (u) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged, or otherwise intrusted to it, or (2) with intent to defraud the Corporation or any other body, politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or without being duly authorized draws any order or issues, puts forth, or assigns any note, debenture, bond, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

" (v) No individual, association, partnership, or corporation shall use the words 'Federal Deposit Insurance Corporation', or a combination or any three of these four words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall advertise or otherwise represent falsely by any device whatsoever that his or its deposit liabilities are insured or in anywise guaranteed by the Federal Deposit Insurance Corporation, or by the Government of the United States, or by any instrumentality thereof; and no class A stockholder of the Federal Deposit Insurance Corporation shall

advertise or otherwise represent falsely by any device whatsoever the extent to which or the manner in which its deposit liabilities are insured by the Federal Deposit Insurance Corporation. Every individual, partnership, association, or corporation violating this subsection shall be punished by a fine of not exceeding $1,000, or by imprisonment not exceeding one year, or both.

"(w) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U.S.C., title 18, ch. 5, secs. 202 to 207, inclusive), in so far as applicable, are extended to apply to contracts or agreements with the Corporation under this section, which for the purposes hereof shall be held to include loans, advances, extensions, and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of assets, and all contracts and agreements pertaining to the same.

"(x) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

"(y) The Corporation shall open on its books a Temporary Federal Deposit Insurance Fund (hereinafter referred to as the 'Fund'), which shall become operative on January 1, 1934, unless the President shall by proclamation fix an earlier date, and it shall be the duty of the Corporation to insure deposits as hereinafter provided until July 1, 1934.

"Each member bank licensed before January 1, 1934, by the Secretary of the Treasury pursuant to the authority vested in him by the Executive order of the President issued March 10, 1933, shall, on or before January 1, 1934, become a member of the Fund; each member bank so licensed after such date, and each State bank trust company or mutual savings bank (referred to in this subsection as 'State bank', which term shall also include all banking institutions located in the District of Columbia) which becomes a member of the Federal Reserve System on or after such date, shall, upon being so licensed or so admitted to membership, become a member of the Fund; and any State bank which is not a member of the Federal Reserve System, with the approval of the authority having supervision of such State bank and certification to the Corporation by such authority that such State bank is in solvent condition, shall, after examination by, and with the approval of, the Corporation, be entitled to become a member of the Fund and to the privileges of this subsection upon agreeing to comply with the requirements thereof and upon paying to the Corporation an amount equal to the amount that would be required of it under this subsection if it were a member bank. The Corporation is authorized to prescribe rules and regulations for the further examination of such State bank, and to fix the compensation of examiners employed to make examinations of State banks.

"Each member of the Fund shall file with the Corporation on or before the date of its admission a certified statement under oath showing, as of the fifteenth day of the month preceding the month in which it was so admitted, the number of its depositors and the total amount of its deposits which are eligible for insurance under this subsection, and shall pay to the Corporation an amount equal

to one-half of 1 per centum of the total amount of the deposits so certified. One-half of such payment shall be paid in full at the time of the admission of such member to the Fund, and the remainder of such payment shall be subject to call from time to time by the board of directors of the Corporation. Within a reasonable time fixed by the Corporation each such member shall file a similar statement showing, as of June 15, 1934, the number of its depositors and the total amount of its deposits which are eligible for such insurance and shall pay to the Corporation in the same manner an amount equal to one-half of 1 per centum of the increase, if any, in the total amount of such deposits since the date covered by the statement filed upon its admission to membership in the fund.

"If at any time prior to July 1, 1934, the Corporation requires additional funds with which to meet its obligations under this subsection, each member of the Fund shall be subject to one additional assessment only in an amount not exceeding the total amount theretofore paid to the Corporation by such member.

"If any member of the Fund shall be closed on or before June 30, 1934, on account of inability to meet its deposit liabilities, the Corporation shall proceed in accordance with the provisions of subsection (l) of this section to pay the insured deposit liabilities of such member; except that the Corporation shall pay not more than $2,500 on account of the net approved claim of the owner of any deposit. The provisions of such subsection (l) relating to State member banks shall be extended for the purposes of this subsection to members of the Fund which are not members of the Federal Reserve System; and the provisions of this subsection shall apply only to deposits of members of the Fund which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business.

"Before July 1, 1934, the Corporation shall make an estimate of the balance, if any, which will remain in the Fund after providing for all liabilities of the Fund, including expenses of operation thereof under this subsection and allowing for anticipated recoveries. The Corporation shall refund such estimated balance, on such basis as the Corporation shall find to be equitable, to the members of the Fund other than those which have been closed prior to July 1, 1934.

"Each State bank which is a member of the Fund, in order to obtain the benefits of this section after July 1, 1934, shall, on or before such date, subscribe and pay for the same amount of class A stock of the Corporation as it would be required to subscribe and pay for upon becoming a member bank, or if such State bank is not permitted by the laws under which it was organized to purchase such stock, it shall deposit with the Corporation an amount equal to the amount it would have been required to pay in on account of a subscription to such stock; and thereafter such State bank shall be entitled to such benefits until July 1, 1936.

"It is not the purpose of this section to discriminate, in any manner, against State nonmember, and in favor of, national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this section. No bank shall be discriminated against because its capital stock is less

than the amount required for eligibility for admission into the Federal Reserve System."

SEC. 9. The eighth paragraph of section 13 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 347; Supp. VI, title 12, sec. 347), is amended to read as follows:

"Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13 (a) of this Act; and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates to be established by such Federal reserve banks, such rates to be subject to the review and determination of the Federal Reserve Board. If any member bank to which any such advance has been made shall, during the life or continuance of such advance, and despite an official warning of the reserve bank of the district or of the Federal Reserve Board to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the reserve bank of the district under the provisions of this paragraph for such period as the Federal Reserve Board shall determine: *Provided*, That no temporary carrying or clearance loans made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph."

SEC. 10. Section 14 of the Federal Reserve Act, as amended (U. S. C., title 12, secs. 353–358), is amended by adding at the end thereof the following new paragraph:

"(g) The Federal Reserve Board shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the Board may prescribe. No officer or other representative of any Federal reserve bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Federal Reserve Board. The Federal Reserve Board shall have the right, in its discretion, to be represented in any conference or negotiations by such representative or representatives as the Board may designate. A full report of all conferences or negotiations, and all understand-

ings or agreements arrived at or transactions agreed upon, and all other material facts appertaining to such conferences or negotiations, shall be filed with the Federal Reserve Board in writing by a duly authorized officer of each Federal reserve bank which shall have participated in such conferences or negotiations."

SEC. 11. (a) Section 19 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 142, 374, 461–466; Supp. VI, title 12, sec. 462a), is amended by inserting after the sixth paragraph thereof the following new paragraph:

"No member bank shall act as the medium or agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in stocks, bonds, and other investment securities. Every violation of this provision by any member bank shall be punishable by a fine of not more than $100 per day during the continuance of such violation; and such fine may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located."

(b) Such section 19 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following new paragraphs:

"No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract heretofore entered into in good faith which is in force on the date of the enactment of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided, however*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply to any deposit made by a mutual savings bank, nor to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, with respect to which payment of interest is required under State law.

"The Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on time deposits, and may prescribe different rates for such payment on time and savings deposits having different maturities or subject to different conditions respecting withdrawal or repayment or subject to different conditions by reason of different locations. No member bank shall pay any time deposit before its maturity, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement."

(c) Section 8 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U.S.C., title 39, sec. 758), is amended by striking out the first sentence thereof and

inserting in lieu thereof the following: "Any depositor may withdraw the whole or any part of the funds deposited to his or her credit with the accrued interest only on notice given sixty days in advance and under such regulations as the Postmaster General may prescribe; but withdrawal of any part of such funds may be made upon demand, but no interest shall be paid on any funds so withdrawn except interest accrued to the date of enactment of the Banking Act of 1933: *Provided*, That Postal Savings depositories may deposit funds in member banks on time under regulations to be prescribed by the Postmaster General."

(d) The second sentence of section 9 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U.S.C., title 39, sec. 759), is amended by striking out the period at the end thereof and inserting in lieu thereof a colon and the following: "*Provided*, That no such security shall be required in case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended."

SEC. 12. Section 22 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 375, 376, 503, 593–595; Supp. VI, title 12, sec. 593), is further amended by adding at the end thereof the following new paragraph:

"(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: *Provided*, That loans heretofore made to any such officer may be renewed or extended not more than two years from the date this paragraph takes effect, if in accord with sound banking practice. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the chairman of the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Any executive officer of any member bank violating the provisions of this paragraph shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than $5,000, or both; and any member bank violating the provisions of this paragraph shall be fined not more than $10,000, and may be fined a further sum equal to the amount so loaned or credit so extended."

SEC. 13. The Federal Reserve Act, as amended, is amended by inserting between sections 23 and 24 thereof (U.S.C., title 12, secs. 64 and 371; Supp. VI, title 12, sec. 371) the following new section:

"SEC. 23A. No member bank shall (1) make any loan or any extension of credit to, or purchase securities under repurchase agreement from, any of its affiliates, or (2) invest any of its funds in the capital stock, bonds, debentures, or other such obligations of any such affiliate, or (3) accept the capital stock, bonds, debentures, or other such obligations of any such affiliate as collateral security for advances made to any person, partnership, association, or corpora-

tion, if, in the case of any such affiliate, the aggregate amount of such loans, extensions of credit, repurchase agreements, investments, and advances against such collateral security will exceed 10 per centum of the capital stock and surplus of such member bank, or if, in the case of all such affiliates, the aggregate amount of such loans, extensions of credits, repurchase agreements, investments, and advances against such collateral security will exceed 20 per centum of the capital stock and surplus of such member bank.

"Within the foregoing limitations, each loan or extension of credit of any kind or character to an affiliate shall be secured by collateral in the form of stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan or extension of credit of at least 20 per centum more than the amount of the loan or extension of credit, or of at least 10 per centum more than the amount of the loan or extension of credit if it is secured by obligations of any State, or of any political subdivision or agency thereof: *Provided*, That the provisions of this paragraph shall not apply to loans or extensions of credit secured by obligations of the United States Government, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation, or by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks. A loan or extension of credit to a director officer, clerk, or other employee or any representative of any such affiliate shall be deemed a loan to the affiliate to the extent that the proceeds of such loan are used for the benefit of, or transferred to, the affiliate.

"For the purposes of this section the term 'affiliate' shall include holding company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged solely in holding the bank premises of the member bank with which it is affiliated, (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or livestock loan company, (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of the Federal Reserve Act, as amended, (4) organized under section 25 (a) of the Federal Reserve Act, as amended, or (5) engaged solely in holding obligations of the United States Government, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations."

SEC. 14. The Federal Reserve Act, as amended, is amended by inserting between section 24 and section 25 thereof (U.S.C., title 12, secs. 371 and 601–605; Supp. VI, title 12, sec. 371) the following new section:

"SEC. 24A. Hereafter no national bank, without the approval of the Comptroller of the Currency, and no State member bank, without the approval of the Federal Reserve Board, shall (1) invest in bank premises, or in the stock, bonds, debentures, or other such obligations of any corporation holding the premises of such bank

or (2) make loans to or upon the security of the stock of any such corporation, if the aggregate of all such investments and loans will exceed the amount of the capital stock of such bank."

SEC. 15. The Federal Reserve Act, as amended, is further amended by inserting after section 25 (a) thereof (U.S.C., title 12, sec. 611–631) the following new section:

"SEC. 25. (b) Notwithstanding any other provision of law all suits of a civil nature at common law or in equity to which any corporation organized under the laws of the United States shall be a party, arising out of transactions involving international or foreign banking, or banking in a dependency or insular possession of the United States, or out of other international or foreign financial operations, either directly or through the agency, ownership, or control of branches or local institutions in dependencies or insular possessions of the United States or in foreign countries, shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any defendant in any such suit may, at any time before the trial thereof, remove such suits from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. Such removal shall not cause undue delay in the trial of such case and a case so removed shall have a place on the calendar of the United States court to which it is removed relative to that which it held on the State court from which it was removed.

"Notwithstanding any other provision of law, all suits of a civil nature at common law or in equity to which any Federal Reserve bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any Federal Reserve bank which is a defendant in any such suit may, at any time before the trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. No attachment or execution shall be issued against any Federal Reserve bank or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court."

SEC. 16. Paragraph "Seventh" of section 5136 of the Revised Statutes, as amended (U.S.C., title 12, sec. 24; Supp. VI, title 12, sec. 24), is amended to read as follows:

"Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title. The business of dealing in investment securities by the association shall be limited to purchasing and selling such securities without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities: *Provided*, That the association may purchase for its own account investment securities under

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such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe, but in no event (1) shall the total amount of any issue of investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 10 per centum of the total amount of such issue outstanding, but this limitation shall not apply to any such issue the total amount of which does not exceed $100,000 and does not exceed 50 per centum of the capital of the association, nor (2) shall the total amount of the investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 15 per centum of the amount of the capital stock of the association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund. As used in this section the term 'investment securities' shall mean marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency. Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association of any shares of stock of any corporation. The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended, or issued by the Federal Home Loan Banks or the Home Owners' Loan Corporation: *Provided*, That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus."

The restrictions of this section as to dealing in investment securities shall take effect one year after the date of the approval of this Act.

SEC. 17. (a) Section 5138 of the Revised Statutes, as amended (U.S.C., title 12, sec. 51; Supp. VI, title 12, sec. 51), is amended to read as follows:

"SEC. 5138. After this section as amended takes effect, no national banking association shall be organized with a less capital than $100,000, except that such associations with a capital of not less than $50,000 may be organized in any place the population of which does not exceed six thousand inhabitants. No such association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than $200,000, except that in the outlying districts of such a city where the State laws permit the organization of State banks with a capital of $100,000 or less, national banking associations now organized or hereafter organized may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000."

(b) The tenth paragraph of section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 329), is amended to read as follows:

"No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act, as amended: *Provided*, That this paragraph shall not apply to State banks and trust companies organized prior to the date this paragraph as amended takes effect and situated in a place the population of which does not exceed three thousand inhabitants and having a capital of not less than $25,000, nor to any State bank or trust company which is so situated and which, while it is entitled to the benefits of insurance under section 12B of this Act, increases its capital to not less than $25,000."

SEC. 18. Section 5139 of the Revised Statutes, as amended (U.S.C., title 12, sec. 52; Supp. VI, title 12, sec. 52), is amended by adding at the end thereof the following new paragraph:

"After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any such association shall represent the stock of any other corporation, except a member bank or a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank."

SEC. 19. Section 5144 of the Revised Statutes, as amended (U.S.C., title 12, sec. 61), is amended to read as follows:

"SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except (1) that shares of its own stock held by a national bank as sole trustee shall not be voted, and shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (2) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

"For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof.

"Any such holding company affiliate may make application to the Federal Reserve Board for a voting permit entitling it to cast one vote at all elections of directors and in deciding all questions at meetings of shareholders of such bank on each share of stock controlled by it or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same. The Federal Reserve Board may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions:

" (a) Every such holding company affiliate shall, in making the application for such permit, agree (1) to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined; (2) that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks; (3) that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate; and (4) that publication of individual or consolidated statements of condition of such banks may be required;

" (b) After five years after the enactment of the Banking Act of 1933, every such holding company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of any lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than 12 per centum of the aggregate par value of all bank stocks controlled by such holding company affiliate, which amount shall be increased by not less than 2 per centum per annum of such aggregate par value until such assets shall amount to 25 per centum of the aggregate par value of such bank stocks; and (2) shall reinvest in readily marketable assets other than bank stock all net earnings over and above 6 per centum per annum on the book value of its own shares outstanding until such assets shall amount to such 25 per centum of the aggregate par value of all bank stocks controlled by it;

" (c) Notwithstanding the foregoing provisions of this section, after five years after the enactment of the Banking Act of 1933, (1) any such holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, shall be required only to

establish and maintain out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding a reserve of readily marketable assets in an amount of not less than 12 per centum of the aggregate par value of bank stocks controlled by it, and (2) the assets required by this section to be possessed by such holding company affiliate may be used by it for replacement of capital in banks affiliated with it and for losses incurred in such banks, but any deficiency in such assets resulting from such use shall be made up within such period as the Federal Reserve Board may by regulation prescribe;

"(d) Every officer, director, agent, and employee of every such holding company affiliate shall be subject to the same penalties for false entries in any book, report, or statement of such holding company affiliate as are applicable to officers, directors, agents, and employees of member banks under section 5209 of the Revised Statutes, as amended (U.S.C., title 12, sec. 592); and

"(e) Every such holding company affiliate shall, in its application for such voting permit, (1) show that it does not own, control, or have any interest in, and is not participating in the management or direction of, any corporation, business trust, association, or other similar organization formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort (hereinafter referred to as 'securities company'); (2) agree that during the period that the permit remains in force it will not acquire any ownership, control, or interest in any such securities company or participate in the management or direction thereof; (3) agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of its ownership, control, and interest in such securities company and will cease participating in the management or direction thereof, and will not thereafter, during the period that the permit remains in force, acquire any further ownership, control, or interest in any such securities company or participate in the management or direction thereof; and (4) agree that thenceforth it will declare dividends only out of actual net earnings.

"If at any time it shall appear to the Federal Reserve Board that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to this section, the Federal Reserve Board may, in its discretion, revoke any such voting permit after giving sixty days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard. Whenever the Federal Reserve Board shall have revoked any such voting permit, no national bank whose stock is controlled by the holding company affiliate whose permit is so revoked shall receive deposits of public moneys of the United States, nor shall any such national bank pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate.

"Whenever the Federal Reserve Board shall have revoked any voting permit as hereinbefore provided, the rights, privileges, and franchises of any or all national banks the stock of which is controlled by such holding company affiliate shall, in the discretion of the Federal Reserve Board, be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended."

SEC. 20. After one year from the date of the enactment of this Act, no member bank shall be affiliated in any manner described in section 2 (b) hereof with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities.

For every violation of this section the member bank involved shall be subject to a penalty not exceeding $1,000 per day for each day during which such violation continues. Such penalty may be assessed by the Federal Reserve Board, in its discretion, and, when so assessed, may be collected by the Federal reserve bank by suit or otherwise.

If any such violation shall continue for six calendar months after the member bank shall have been warned by the Federal Reserve Board to discontinue the same, (a) in the case of a national bank, all the rights, privileges, and franchises granted to it under the National Bank Act may be forfeited in the manner prescribed in section 2 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 141, 222–225, 281–286, and 502), or, (b) in the case of a State member bank, all of its rights and privileges of membership in the Federal Reserve System may be forfeited in the manner prescribed in section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 321–332).

SEC. 21. (a) After the expiration of one year after the date of enactment of this Act it shall be unlawful—

(1) For any person, firm, corporation, association, business trust, or other similar organization, engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor; or

(2) For any person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law, to engage to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization shall submit to periodic examination by the Comptroller of the Currency or by the Federal reserve bank of the district and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and with like effect

and penalties as are now provided by law in respect of national banking associations transacting business in the same locality.

(b) Whoever shall willfully violate any of the provisions of this section shall upon conviction be fined not more than $5,000 or imprisoned not more than five years, or both, and any officer, director, employee, or agent of any person, firm, corporation, association, business trust, or other similar organization who knowingly participates in any such violation shall be punished by a like fine or imprisonment or both.

SEC. 22. The additional liability imposed upon shareholders in national banking associations by the provisions of section 5151 of the Revised Statutes, as amended, and section 23 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 63 and 64), shall not apply with respect to shares in any such association issued after the date of enactment of this Act.

SEC. 23. Paragraph (c) of section 5155 of the Revised Statutes, as amended (U.S.C., title 12, sec. 36), is amended to read as follows:

"(c) A national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches: (1) Within the limits of the city, town or village in which said association is situated, if such establishment and operation are at the time expressly authorized to State banks by the law of the State in question; and (2) at any point within the State in which said association is situated, if such establishment and operation are at the time authorized to State banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition, and subject to the restrictions as to location imposed by the law of the State on State banks. No such association shall establish a branch outside of the city, town, or village in which it is situated unless it has a paid-in and unimpaired capital stock of not less than $500,000: *Provided*, That in States with a population of less than one million, and which have no cities located therein with a population exceeding one hundred thousand, the capital shall be not less than $250,000: *Provided*, That in States with a population of less than one-half million, and which have no cities located therein with a population exceeding fifty thousand, the capital shall not be less than $100,000."

Paragraph (d) of section 5155 of the Revised Statutes, as amended (U.S.C., title 12, sec. 36), is amended to read as follows:

"(d) The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated."

SEC. 24. (a) Sections 1 and 3 of the Act entitled "An Act to provide for the consolidation of national banking associations", approved November 7, 1918, as amended (U.S.C., title 12, secs. 33, 34, and 34a), are amended by striking out the words "county, city, town, or village" wherever they occur in each such section, and inserting in lieu thereof the words "State, county, city, town, or village."

(b) Section 3 of such Act of November 7, 1918, as amended, is further amended by striking out the second sentence thereof and inserting in lieu thereof the following: "The capital stock of such

consolidated association shall not be less than that required under existing law for the organization of a national banking association in the place in which such consolidated association is located. Upon such a consolidation, or upon a consolidation of two or more national banking associations under section 1 of this Act, the corporate existence of each of the constituent banks and national banking associations participating in such consolidation shall be merged into and continued in the consolidated national banking association and the consolidated association shall be deemed to be the same corporation as each of the constituent institutions. All the rights, franchises, and interests of each of such constituent banks and national banking associations in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such consolidated national banking association without any deed or other transfer; and such consolidated national banking association, by virtue of such consolidation and without any order or other action on the part of any court or otherwise, shall hold and enjoy the same and all rights of property, franchises, and interests, including appointments, designations, and nominations and all other rights and interests as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics and in every other fiduciary capacity, in the same manner and to the same extent as such rights, franchises, and interests were held or enjoyed by any such constituent institution at the time of such consolidation: *Provided, however,* That where any such constituent institution at the time of such consolidation was acting under appointment of any court as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics or in any other fiduciary capacity, the consolidated national banking association shall be subject to removal by a court of competent jurisdiction in the same manner and to the same extent as was such constituent corporation prior to the consolidation, and nothing herein contained shall be construed to impair in any manner the right of any court to remove such a consolidated national banking association and to appoint in lieu thereof a substitute trustee, executor, or other fiduciary, except that such right shall not be exercised in such a manner as to discriminate against national banking associations, nor shall any such consolidated association be removed solely because of the fact that it is a national banking association."

SEC. 25. The first two sentences of section 5197 of the Revised Statutes (U.S.C., title 12, sec. 85) are amended to read as follows:

"Any association may take, receive, reserve, and charge on any loan or discount made, or upon any notes, bills of exchange, or other evidences of debt, interest at the rate allowed by the laws of the State, Territory, or District where the bank is located, or at a rate of 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal reserve bank in the Federal reserve district where the bank is located, whichever may be the greater, and no more, except that where by the laws of any State a different rate is limited for banks organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such State under this title. When no rate is fixed by the laws of the

State, or Territory, or District, the bank may take, receive, reserve, or charge a rate not exceeding 7 per centum, or 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal reserve bank in the Federal reserve district where the bank is located, whichever may be the greater, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run."

SEC. 26. (a) The second sentence of the first paragraph of section 5200 of the Revised Statutes, as amended (U.S.C., title 12, sec. 84; Supp. VI, title 12, sec. 84), is amended by inserting before the period at the end thereof the following: " and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest."

(b) The amendment made by this section shall not apply to such obligations of subsidiaries held by such association on the date this section takes effect.

SEC. 27. Section 5211 of the Revised Statutes, as amended (U.S.C., title 12, sec. 161; Supp. VI, title 12, sec. 161), is amended by adding at the end thereof the following new paragraph:

" Each national banking association shall obtain from each of its affiliates other than member banks and furnish to the Comptroller of the Currency not less than three reports during each year, in such form as the Comptroller may prescribe, verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, disclosing the information hereinafter provided for as of dates identical with those for which the Comptroller shall during such year require the reports of the condition of the association. For the purpose of this section the term ' affiliate ' shall include holding company affiliates as well as other affiliates. Each such report of an affiliate shall be transmitted to the Comptroller at the same time as the corresponding report of the association, except that the Comptroller may, in his discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Comptroller of the Currency shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the association under the same conditions as govern its own condition reports. The Comptroller shall also have power to call for additional reports with respect to any such affiliate whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of the conditions of the association with which it is affiliated. Such additional reports shall be transmitted to the Comptroller of the Currency in such form as he may prescribe. Any such affiliated bank which fails to obtain and furnish any report required under this section shall be subject to a penalty of $100 for each day during which such failure continues."

SEC. 28. (a) The first paragraph of section 5240 of the Revised Statutes, as amended (U.S.C., title 12, sec. 481), is amended by inserting before the period at the end thereof a colon and the following proviso: " *Provided*, That in making the examination of any national bank the examiners shall include such an examination of

the affairs of all its affiliates other than member banks as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank; and in the event of the refusal to give any information required in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, all the rights, privileges, and franchises of the bank shall be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended (U.S.C., title 12, secs. 141, 222–225, 281–286, and 502). The Comptroller of the Currency shall have power, and he is hereby authorized, to publish the report of his examination of any national banking association or affiliate which shall not within one hundred and twenty days after notification of the recommendations or suggestions of the Comptroller, based on said examination, have complied with the same to his satisfaction. Ninety days' notice prior to such publicity shall be given to the bank or affiliate."

(b) Section 5240 of the Revised Statutes, as amended (U.S.C., title 12, sec. 481), is further amended by adding after the first paragraph thereof the following new paragraph:

"The examiner making the examination of any affiliate of a national bank shall have power to make a thorough examination of all the affairs of the affiliate, and in doing so he shall have power to administer oaths and to examine any of the officers, directors, employees, and agents thereof under oath and to make a report of his findings to the Comptroller of the Currency. The expense of examinations of such affiliates may be assessed by the Comptroller of the Currency upon the affiliates examined in proportion to assets or resources held by the affiliates upon the dates of examination of the various affiliates. If any such affiliate shall refuse to pay such expenses or shall fail to do so within sixty days after the date of such assessment, then such expenses may be assessed against the affiliated national bank and, when so assessed, shall be paid by such national bank: *Provided, however*, That, if the affiliation is with two or more national banks, such expenses may be assessed against, and collected from, any or all of such national banks in such proportions as the Comptroller of the Currency may prescribe. The examiners and assistant examiners making the examinations of national banking associations and affiliates thereof herein provided for and the chief examiners, reviewing examiners and other persons whose services may be required in connection with such examinations or the reports thereof, shall be employed by the Comptroller of the Currency with the approval of the Secretary of the Treasury; the employment and compensation of examiners, chief examiners, reviewing examiners, assistant examiners, and of the other employees of the office of the Comptroller of the Currency whose compensation is paid from assessments on banks or affiliates thereof shall be without regard to the provisions of other laws applicable to officers or employees of the United States. The funds derived from such assessments may be deposited by the Comptroller of the Currency in accordance with the provisions of section 5234 of the Revised Statutes (U.S.C., title 12, sec. 192) and shall not be construed to be Government funds or appropriated monies; and the Comptroller of the Currency is authorized and empowered to prescribe regulations governing the

computation and assessment of the expenses of examinations herein provided for and the collection of such assessments from the banks and/or affiliates examined. If any affiliate of a national bank shall refuse to permit an examiner to make an examination of the affiliate or shall refuse to give any information required in the course of any such examination, the national bank with which it is affiliated shall be subject to a penalty of not more than $100 for each day that any such refusal shall continue. Such penalty may be assessed by the Comptroller of the Currency and collected in the same manner as expenses of examinations."

SEC. 29. In any case in which, in the opinion of the Comptroller of the Currency, it would be to the advantage of the depositors and unsecured creditors of any national banking association whose business has been closed, for such association to resume business upon the retention by the association, for a reasonable period to be prescribed by the Comptroller, of all or any part of its deposits, the Comptroller is authorized, in his discretion, to permit the association to resume business if depositors and unsecured creditors of the association representing at least 75 per centum of its total deposit and unsecured credit liabilities consent in writing to such retention of deposits. Nothing in this section shall be construed to affect in any manner any powers of the Comptroller under the provisions of law in force on the date of enactment of this Act with respect to the reorganization of national banking associations.

SEC. 30. Whenever, in the opinion of the Comptroller of the Currency, any director or officer of a national bank, or of a bank or trust company doing business in the District of Columbia, or whenever, in the opinion of a Federal reserve agent, any director or officer of a State member bank in his district shall have continued to violate any law relating to such bank or trust company or shall have continued unsafe or unsound practices in conducting the business of such bank or trust company, after having been warned by the Comptroller of the Currency or the Federal reserve agent, as the case may be, to discontinue such violations of law or such unsafe or unsound practices, the Comptroller of the Currency or the Federal reserve agent, as the case may be, may certify the facts to the Federal Reserve Board. In any such case the Federal Reserve Board may cause notice to be served upon such director or officer to appear before such Board to show cause why he should not be removed from office. A copy of such order shall be sent to each director of the bank affected, by registered mail. If after granting the accused director or officer a reasonable opportunity to be heard, the Federal Reserve Board finds that he has continued to violate any law relating to such bank or trust company or has continued unsafe or unsound practices in conducting the business of such bank or trust company after having been warned by the Comptroller of the Currency or the Federal reserve agent to discontinue such violation of law or such unsafe or unsound practices, the Federal Reserve Board, in its discretion, may order that such director or officer be removed from office. A copy of such order shall be served upon such director or officer. A copy of such order shall also be served upon the bank of which he is a director or officer, whereupon such director or officer shall cease to be a director or officer of such bank: *Provided*, That

such order and the findings of fact upon which it is based shall not be made public or disclosed to anyone except the director or officer involved and the directors of the bank involved, otherwise than in connection with proceedings for a violation of this section. Any such director or officer removed from office as herein provided who thereafter participates in any manner in the management of such bank shall be fined not more than $5,000, or imprisoned for not more than five years, or both, in the discretion of the court.

SEC. 31. After one year from the date of enactment of this Act, notwithstanding any other provision of law, the board of directors, board of trustees, or other similar governing body of every national banking association and of every State bank or trust company which is a member of the Federal Reserve System shall consist of not less than five nor more than twenty-five members; and every director, trustee, or other member of such governing body shall be the bona fide owner in his own right of shares of stock of such banking association, State bank or trust company having a par value in the aggregate of not less than $2,500, unless the capital of the bank shall not exceed $50,000, in which case he must own in his own right shares having a par value in the aggregate of not less than $1,500, or unless the capital of the bank shall not exceed $25,000, in which case he must own in his own right shares having a par value in the aggregate of not less than $1,000. If any national banking association violates the provisions of this section and continues such violation after thirty days' notice from the Comptroller of the Currency, the said Comptroller may appoint a receiver or conservator therefor, in accordance with the provisions of existing law. If any State bank or trust company which is a member of the Federal Reserve System violates the provisions of this section and continues such violation after thirty days' notice from the Federal Reserve Board, it shall be subject to the forfeiture of its membership in the Federal Reserve System in accordance with the provisions of section 9 of the Federal Reserve Act, as amended.

SEC. 32. From and after January 1, 1934, no officer or director of any member bank shall be an officer, director, or manager of any corporation, partnership, or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities, and no member bank shall perform the functions of a correspondent bank on behalf of any such individual, partnership, corporation, or unincorporated association and no such individual, partnership, corporation, or unincorporated association shall perform the functions of a correspondent for any member bank or hold on deposit any funds on behalf of any member bank, unless in any such case there is a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds after reasonable notice and opportunity to be heard, that the public interest requires such revocation.

SEC. 33. The Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes", approved October 15, 1914, as amended (U.S.C., title 15, sec. 19), is

hereby amended by adding after section 8 thereof the following new section:

"SEC. 8A. That from and after the 1st day of January 1934, no director, officer, or employee of any bank, banking association, or trust company, organized or operating under the laws of the United States shall be at the same time a director, officer, or employee of a corporation (other than a mutual savings bank) or a member of a partnership organized for any purpose whatsoever which shall make loans secured by stock or bond collateral to any individual, association, partnership, or corporation other than its own subsidiaries."

SEC. 34. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Approved, June 16, 1933, 11.45 a.m.

[PUBLIC—No. 362—73D CONGRESS]

[S. 3025]

AN ACT

To amend section 12B of the Federal Reserve Act so as to extend for one year the temporary plan for deposit insurance, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 12B of the Federal Reserve Act is amended—

(1) By striking out "July 1, 1934" wherever it appears in subsections (e), (l), and (y), and inserting in lieu thereof "July 1, 1935";

(2) By striking out "June 15, 1934" where it appears in the last sentence of the third paragraph of subsection (y) and inserting in lieu thereof "October 1, 1934";

(3) By striking out "June 30, 1934" where it appears in the first sentence of the fifth paragraph of subsection (y), and inserting in lieu thereof "June 30, 1935";

(4) By amending the second sentence of the fifth paragraph of subsection (y) to comprise two sentences reading as follows: "The provisions of such subsection (l) relating to State member banks shall be extended for the purposes of this subsection to members of the Fund which are not members of the Federal Reserve System, and the provisions of such subsection (l) relating to the appointment of the Corporation as receiver shall be applicable to all members of the Fund. The provisions of this subsection shall apply only to deposits of members of the Fund which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business.";

(5) By adding to the sixth paragraph of subsection (y) the following: "The Corporation shall prescribe by regulations the manner of exercise of the right of nonmember banks to withdraw from membership in the fund on July 1, 1934, except that no bank shall be permitted to withdraw unless ten days prior thereto it has given written notice to the Corporation of its election so to do. Banks which withdraw from the Fund on July 1, 1934, shall be entitled to a refund of their proportionate share of any estimated balance in the Fund on the same basis as if the Fund had terminated on July 1, 1934.";

(6) By adding to the end of the fourth paragraph of subsection (y) the following new paragraphs:

"On and after July 1, 1934, the amount eligible for insurance under this subsection for the purposes of the October 1, 1934 certified statement, any entrance assessment, and, if levied, the additional assessment, shall be the amounts not in excess of $5,000 of the deposits of each depositor.

"Each mutual savings bank, unless it becomes subject to the provisions of the preceding paragraph in the manner hereinafter provided, shall be excepted from the operation of the preceding

paragraph and for each such bank which is so excepted the amount eligible for insurance under this subsection for the purposes of the October 1, 1934 certified statement, any entrance assessment, and, if levied, the additional assessment, shall be the amounts not in excess of $2,500 for the deposits of each depositor. In the event any mutual savings bank shall be closed on account of inability to meet its deposit liabilities the Corporation shall pay not more than $2,500 on account of the net approved claim of any owner of deposits in such bank: *Provided, however*, That should any mutual savings bank make manifest to the Corporation its election to be subject to the provisions of the preceding paragraph the Corporation may, in the discretion of the board of directors, permit such bank to become so subject and the insurance of its deposits to continue on the same basis and to the same extent as that of fund members other than mutual savings banks.

"The Corporation, in the discretion of the board of directors, may open on its books solely for the benefit of mutual savings banks an additional Temporary Federal Deposit Insurance Fund (hereinafter referred to as the 'Fund For Mutuals') which, if opened, shall become operative on or after July 1, 1934, but prior to August 1, 1934, and shall continue to July 1, 1935. If the Fund For Mutuals is opened on the books of the Corporation, each mutual savings bank which is or becomes entitled to the benefits of insurance during the period of its operation shall be a member thereof and shall not be a Fund member. All assessments on each mutual savings bank, including payments heretofore made to the Corporation less an equitable deduction for liabilities and expenses of the Fund incurred prior to the opening of the Fund For Mutuals, if opened, shall be transferred or paid, as the case may be, to the Fund For Mutuals. All provisions of this section applicable to the Fund and not inconsistent with this paragraph shall be applicable to the Fund For Mutuals if opened, except that as to any period the two are in operation the Fund shall not be subject to the liabilities of the Fund For Mutuals and the Fund For Mutuals shall not be subject to the liabilities of the Fund. Each mutual savings bank admitted to the Fund shall bear its equitable share of the liabilities of the Fund for the period it is a member thereof, including expenses of operation and allowing for anticipated recoveries.";

(7) By striking out the period at the end of the first sentence of the fifth paragraph of subsection (y) and inserting in lieu thereof a comma and the following: "if the member closed on or before June 30, 1934, and not more than $5,000 if closed on or after July 1, 1934.";

(8) By (a) striking out "July 1, 1936" in the first sentence of subsection (l) and inserting in lieu thereof "July 1, 1937", (b) striking out the words "July 1, 1936" in the seventh paragraph of subsection (y) and inserting in lieu thereof "July 1, 1937", and (c) adding after the seventh paragraph of subsection (y) the following new paragraph:

"Until July 1, 1937, any State bank may obtain the benefits of this section on and after the date the Fund is terminated upon the conditions with regard to examination, certification, and approval governing the admission of State banks to the Fund and upon purchasing

such class A stock or making such a deposit as is prescribed in the preceding paragraph for former fund members.";

(9) By adding at the end of the first paragraph of subsection (v) the following new paragraph:

" Every insured bank shall display at each place of business maintained by it a sign or signs to the effect that its deposits are insured by the Federal Deposit Insurance Corporation. The Corporation shall prescribe by regulation the form of such sign and the manner of its display. Such regulation may impose a maximum penalty of $100 for each day an insured bank continues to violate any lawful provisions of said regulation."; and

(10) By amending the first sentence of the second paragraph of subsection (y) by inserting within the parentheses and immediately after the words " District of Columbia " the words " and the Territories of Hawaii and Alaska ".

SEC. 2. The first paragraph of section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 321), is amended by adding after the second sentence thereof a new sentence to read as follows: "For the purposes of membership of any such bank the terms 'capital' and 'capital stock' shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation."

SEC. 3. (a) The Reconstruction Finance Corporation Act, as amended, is amended by adding before section 6 thereof the following new section:

" SEC. 5e. (a) The Corporation is authorized and empowered to make loans upon or purchase the assets of any bank, savings bank, or trust company, which has been closed on or after December 31, 1929, and prior to January 1, 1934, and the affairs of which have not been fully liquidated or wound up, upon such terms and conditions as the Corporation may by regulations prescribe. If in connection with the reorganization, stabilization, or liquidation of any such bank, assets have been trusteed or are otherwise held for the benefit of depositors or depositors and others, the authority, subject to regulations, as provided in the preceding sentence shall be extended for the purpose of authorizing the Corporation to purchase or make loans on such assets held for the benefit of such depositors or depositors and others. This authority shall also extend to any such institution that has reopened without payment of deposits in full. In making any purchase of or loan on the assets of any closed bank, the Corporation shall appraise such assets in anticipation of an orderly liquidation over a period of years, rather than on the basis of forced selling values in a period of business depression. This authority shall also extend to assets of the character made eligible by this section as security for loans without regard to whether the Corporation has heretofore made loans thereon.

"(b) The Corporation shall purchase at par value such debentures or other obligations of the Federal Deposit Insurance Corporation as are authorized to be issued under subsection (o) of section 12B of the Federal Reserve Act, as amended, upon request of the board of directors of the Federal Deposit Insurance Corporation, whenever in the judgment of said board additional funds are required for insurance purposes: *Provided*, That the Corporation shall not purchase

or hold at any time said debentures or other obligations in excess of $250,000,000 par value: *Provided further*, That the proceeds derived from the purchase by the Corporation of any such debentures or other such obligations shall be used by the Federal Deposit Insurance Corporation solely in carrying out its functions with respect to such insurance.

"(c) The amount of notes, bonds, debentures, and other such obligations which the Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by $250,000,000."

SEC. 4. So much of section 31 of the Banking Act of 1933 as relates to stock ownership by directors, trustees or members of similar governing bodies of member banks of the Federal Reserve System, is hereby repealed.

Approved, June 16, 1934.

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[PUBLIC—No. 443—73D CONGRESS]

[H.R. 9904]

AN ACT

To amend section 5 of Public Act Numbered 2 of the Seventy-second Congress, as amended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5 of Public Act Numbered 2 of the Seventy-second Congress, as amended, be amended by striking out the period at the end of the second paragraph thereof and inserting in lieu thereof a colon and the following: "*Provided*, That such limitation shall not apply to advances to receivers or other liquidating agents of closed banks when made for the purpose of liquidation or reorganization."

Approved, June 21, 1934.

[PUBLIC—No. 87—73D CONGRESS]
[H.R. 6976]

AN ACT

To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Gold Reserve Act of 1934."

SEC. 2. (a) Upon the approval of this Act all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(b) Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates:".

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: *Provided, however*, That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows:

"The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than 5 per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the 40 per centum reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of the notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding

Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safekeeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

SEC. 3. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the condi-

tions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

SEC. 4. Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

SEC. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided, however*, That coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the Act of January 29, 1874 (U.S.C., title 31, sec. 367). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

SEC. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold: *Provided, however*, That gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further*, That the reserve for United States notes and for Treasury notes of 1890, and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates, or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this Act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States mint or assay office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

SEC. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held by the United States (including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by transfers of gold bullion from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

SEC. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

SEC. 9. Section 3699 of the Revised Statutes (U.S.C., title 31, sec. 733) is amended to read as follows:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however*, That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

SEC. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of $2,000,000,000, which sum when available

shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.

SEC. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this Act.

SEC. 12. Paragraph (b) (2), of section 43, title III, of the Act approved May 12, 1933 (Public, Numbered 10, Seventy-third Congress), is amended by adding two new sentences at the end thereof, reading as follows:

"Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency."

Paragraph (2) of subsection (b) of section 43, title III, of an Act entitled "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended by adding at the end of said paragraph (2) the following:

"The President, in addition to the authority to provide for the unlimited coinage of silver at the ratio so fixed, under such terms and conditions as he may prescribe, is further authorized to cause to be issued and delivered to the tenderer of silver for coinage, silver certificates in lieu of the standard silver dollars to which the tend-

erer would be entitled and in an amount in dollars equal to the number of coined standard silver dollars that the tenderer of such silver for coinage would receive in standard silver dollars.

"The President is further authorized to issue silver certificates in such denominations as he may prescribe against any silver bullion, silver, or standard silver dollars in the Treasury not then held for redemption of any outstanding silver certificates, and to coin standard silver dollars or subsidiary currency for the redemption of such silver certificates.

"The President is authorized, in his discretion, to prescribe different terms and conditions and to make different charges, or to collect different seigniorage, for the coinage of silver of foreign production than for the coinage of silver produced in the United States or its dependencies. The silver certificates herein referred to shall be issued, delivered, and circulated substantially in conformity with the law now governing existing silver certificates, except as may herein be expressly provided to the contrary, and shall have and possess all of the privileges and the legal tender characteristics of existing silver certificates now in the Treasury of the United States, or in circulation.

"The President is authorized, in addition to other powers, to reduce the weight of the standard silver dollar in the same percentage that he reduces the weight of the gold dollar.

"The President is further authorized to reduce and fix the weight of subsidiary coins so as to maintain the parity of such coins with the standard silver dollar and with the gold dollar."

SEC. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made or issued by the President of the United States or the Secretary of the Treasury, under the Act of March 9, 1933, or under section 43 or section 45 of title III of the Act of May 12, 1933, are hereby approved, ratified, and confirmed.

SEC. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752; Supp. VII, title 31, sec. 752), a new paragraph as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan."

(2) By inserting in section 8 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills".

(3) By striking out the figures "$7,500,000,000" where they appear in section 18 (U.S.C., title 31, sec. 753) and inserting in lieu thereof the figures "$10,000,000,000."

(4) By adding thereto two new sections, as follows:

"SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the

United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

"SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S.C., title 31, sec. 767; Supp. VII, title 31, secs. 767–767a) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

SEC. 15. As used in this Act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this Act to equivalents as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

SEC. 16. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 17. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed.

Approved, January 30, 1934.

[PUBLIC—No. 417—73D CONGRESS]

[S. 3487]

AN ACT

Relating to direct loans for industrial purposes by Federal Reserve banks, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act, as amended, is amended by adding after section 13a thereof a new section reading as follows:

"SEC. 13b. (a) In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the Federal Reserve bank, pursuant to authority granted by the Federal Reserve Board, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, for the purpose of providing it with working capital, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding five years.

"(b) Each Federal Reserve bank shall also have power to discount for, or purchase from, any bank, trust company, mortgage company, credit corporation for industry, or other financing institution operating in its district, obligations having maturities not exceeding five years, entered into for the purpose of obtaining working capital for any such established industrial or commercial business; to make loans or advances direct to any such financing institution on the security of such obligations; and to make commitments with regard to such discount or purchase of obligations or with respect to such loans or advances on the security thereof, including commitments made in advance of the actual undertaking of such obligations. Each such financing institution shall obligate itself to the satisfaction of the Federal Reserve bank for at least 20 per centum of any loss which may be sustained by such bank upon any of the obligations acquired from such financing institution, the existence and amount of any such loss to be determined in accordance with regulations of the Federal Reserve Board: *Provided*, That in lieu of such obligation against loss any such financing institution may advance at least 20 per centum of such working capital for any established industrial or commercial business without obligating itself to the Federal Reserve bank against loss on the amount advanced by the Federal Reserve bank: *Provided, however*, That such advances by the financing institution and the Federal Reserve bank shall be considered as one advance, and repayment shall be made pro rata under such regulations as the Federal Reserve Board may prescribe.

"(c) The aggregate amount of loans, advances, and commitments of the Federal Reserve banks outstanding under this section at any one time, plus the amount of purchases and discounts under this section held at the same time, shall not exceed the combined

surplus of the Federal Reserve banks as of July 1, 1934, plus all amounts paid to the Federal Reserve banks by the Secretary of the Treasury under subsection (e) of this section, and all operations of the Federal Reserve banks under this section shall be subject to such regulations as the Federal Reserve Board may prescribe.

"(d) For the purpose of aiding the Federal Reserve banks in carrying out the provisions of this section, there is hereby established in each Federal Reserve district an industrial advisory committee, to be appointed by the Federal Reserve bank subject to the approval and regulations of the Federal Reserve Board, and to be composed of not less than three nor more than five members as determined by the Federal Reserve Board. Each member of such committee shall be actively engaged in some industrial pursuit within the Federal Reserve district in which the committee is established, and each such member shall serve without compensation but shall be entitled to receive from the Federal Reserve bank of such district his necessary expenses while engaged in the business of the committee, or a per diem allowance in lieu thereof to be fixed by the Federal Reserve Board. Each application for any such loan, advance, purchase, discount, or commitment shall be submitted to the appropriate committee and, after an examination by it of the business with respect to which the application is made, the application shall be transmitted to the Federal Reserve bank, together with the recommendation of the committee.

"(e) In order to enable the Federal Reserve banks to make the loans, discounts, advances, purchases, and commitments provided for in this section, the Secretary of the Treasury, upon the date this section takes effect, is authorized, under such rules and regulations as he shall prescribe, to pay to each Federal Reserve bank not to exceed such portion of the sum of $139,299,557 as may be represented by the par value of the holdings of each Federal Reserve bank of Federal Deposit Insurance Corporation stock, upon the execution by each Federal Reserve bank of its agreement (to be endorsed on the certificate of such stock) to hold such stock unencumbered and to pay to the United States all dividends, all payments on liquidation, and all other proceeds of such stock, for which dividends, payments, and proceeds the United States shall be secured by such stock itself up to the total amount paid to each Federal Reserve bank by the Secretary of the Treasury under this section. Each Federal Reserve bank, in addition, shall agree that, in the event such dividends, payments, and other proceeds in any calendar year do not aggregate 2 per centum of the total payment made by the Secretary of the Treasury, under this section, it will pay to the United States in such year such further amount, if any, up to 2 per centum of the said total payment, as shall be covered by the net earnings of the bank for that year derived from the use of the sum so paid by the Secretary of the Treasury, and that for said amount so due the United States shall have a first claim against such earnings and stock, and further that it will continue such payments until the final liquidation of said stock by the Federal Deposit Insurance Corporation. The sum so paid to each Federal Reserve bank by the Secretary of the Treasury shall become a part of the surplus fund of such Federal Reserve bank within the mean-

ing of this section. All amounts required to be expended by the Secretary of the Treasury in order to carry out the provisions of this section shall be paid out of the miscellaneous receipts of the Treasury created by the increment resulting from the reduction of the weight of the gold dollar under the President's proclamation of January 31, 1934; and there is hereby appropriated, out of such receipts, such sum as shall be required for such purpose."

SEC. 2. Section 5202 of the Revised Statutes of the United States, as amended, is hereby amended by adding at the end thereof the following new paragraph:

"Tenth. Liabilities incurred under the provisions of section 13b of the Federal Reserve Act."

SEC. 3. Section 22 of the Federal Reserve Act is amended by adding at the end thereof the following new paragraphs:

"(h) Whoever makes any material statement, knowing it to be false, or whoever willfully overvalues any security, for the purpose of influencing in any way the action of a Federal Reserve bank upon any application, commitment, advance, discount, purchase, or loan, or any extension thereof by renewal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, shall be punished by a fine of not more than $5,000 or by imprisonment for not more than two years, or both.

"(i) Whoever, being connected in any capacity with a Federal Reserve bank (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise entrusted to it, or (2) with intent to defraud any Federal Reserve bank, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiner, makes any false entry in any book, report, or statement of or to a Federal Reserve bank, or, without being duly authorized, draws any order or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft, mortgage, judgment, or decree shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

"(j) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States, insofar as applicable, are extended to apply to contracts or agreements of any Federal Reserve bank under this Act, which, for the purposes hereof, shall be held to include advances, loans, discounts, purchase, and repurchase agreements; extensions and renewals thereof; and acceptances, releases, and substitutions of security therefor.

"(k) It shall be unlawful for any person to stipulate for or give or receive, or consent or agree to give or receive, any fee, commission, bonus, or thing of value for procuring or endeavoring to procure from any Federal Reserve bank any advance, loan, or extension of credit or discount or purchase of any obligation or commitment with respect thereto, either directly from such Federal Reserve bank or indirectly through any financing institution unless such fee, commission, bonus, or thing of value and all material facts with respect to the arrangement or understanding therefor shall be disclosed in writing in the application or request for such advance, loan, extension of credit, discount, purchase, or commitment. Any violation of the provisions of this paragraph shall be punishable by

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imprisonment for not more than one year or by a fine of not exceeding $5,000, or both. If a director, officer, employee, or agent of any Federal Reserve bank shall knowingly violate this paragraph, he shall be held liable in his personal and individual capacity for any loss or damage sustained by such Federal Reserve bank in consequence of such violation."

SEC. 4. Section 10 of the Federal Reserve Act, as amended, is further amended by changing the period at the end of the third paragraph thereof to a comma and inserting thereafter the following: "and such assessments may include amounts sufficient to provide for the acquisition by the Board in its own name of such site or building in the District of Columbia as in its judgment alone shall be necessary for the purpose of providing suitable and adequate quarters for the performance of its functions. After approving such plans, estimates, and specifications as it shall have caused to be prepared, the Board may, notwithstanding any other provision of law, cause to be constructed on the site so acquired by it a building suitable and adequate in its judgment for its purposes and proceed to take all such steps as it may deem necessary or appropriate in connection with the construction, equipment, and furnishing of such building. The Board may maintain, enlarge, or remodel any building so acquired or constructed and shall have sole control of such building and space therein."

SEC. 5. That the Reconstruction Finance Corporation Act, as amended (U.S.C., Supp. VII, title 15, ch. 14), is amended by inserting before section 6 thereof the following new section:

"SEC. 5d. For the purpose of maintaining and increasing the employment of labor, when credit at prevailing bank rates for the character of loans applied for is not otherwise available at banks, the Corporation is authorized and empowered to make loans to any industrial or commercial business, which shall include the fishing industry, established prior to January 1, 1934. Such loans shall in the opinion of the board of directors of the Corporation be adequately secured, may be made directly, or in cooperation with banks or other lending institutions, or by the purchase of participations, shall have maturities not to exceed five years, shall be made only when deemed to offer reasonable assurance of continued or increased employment of labor, shall be made only when, in the opinion of the board of directors of the Corporation, the borrower is solvent, shall not exceed $300,000,000 in aggregate amount at any one time outstanding, and shall be subject to such terms, conditions, and restrictions as the board of directors of the Corporation may determine. The aggregate amount of loans to any one borrower under this section shall not exceed $500,000.

"The power to make loans given herein shall terminate on January 31, 1935, or on such earlier date as the President shall by proclamation fix; but no provision of law terminating any of the functions of the Corporation shall be construed to prohibit disbursement of funds on loans and commitments, or agreements to make loans, made under this section prior to January 31, 1935, or such earlier date."

SEC. 6. (a) Section 882 of the Revised Statutes (U.S.C., title 28, sec. 661) is amended to read as follows:

"SEC. 882. (a) Copies of any books, records, papers, or other documents in any of the executive departments, or of any corporation all of the stock of which is beneficially owned by the United States, either directly or indirectly, shall be admitted in evidence equally with the originals thereof, when duly authenticated under the seal of such department or corporation, respectively.

"(b) Books or records of account in whatever form, and minutes (or portions thereof) of proceedings, of any such executive department or corporation, or copies of such books, records, or minutes authenticated under the seal of such department or corporation, shall be admissible as evidence of any act, transaction, occurrence, or event as a memorandum of which such books, records, or minutes were kept or made.

"(c) The seal of any such executive department or corporation shall be judicially noticed."

(b) Section 4 of the Reconstruction Finance Corporation Act, as amended (U.S.C., Supp. VII, title 15, sec. 604), is amended by inserting immediately before the semicolon following the words "corporate seal" a comma and the words "which shall be judicially noticed".

SEC. 7. Section 1001 of the Revised Statutes, as amended (U.S.C., title 28, sec. 870), is amended by inserting immediately after the word "Government" the following: "or any corporation all the stock of which is beneficially owned by the United States, either directly or indirectly".

SEC. 8. The Reconstruction Finance Corporation Act, as amended (U.S.C., Supp. VII, title 15, ch. 14), is further amended by inserting after section 5a thereof the following new section:

"SEC. 5b. Notwithstanding any other provision of law—

"(1) The maturity of drafts or bills of exchange which may be accepted by the Corporation under section 5a of this Act, and the period for which the Corporation may make loans or advances under sections 201 (c) and 201 (d) of the Emergency Relief and Construction Act of 1932, as amended, and under section 5 of this Act, may be five years, or any shorter period, from February 1, 1935: *Provided*, That in respect of loans or advances under such section 5 to railroads, railways, and receivers or trustees thereof, the Corporation may require as a condition of making any such loan or advance for a period longer than three years that such arrangements be made for the reduction or amortization of the indebtedness of the railroad or railway, either in whole or in part, as may be approved by the Corporation after the prior approval of the Interstate Commerce Commission.

"(2) The Corporation may at any time, or from time to time, extend, or consent to the extension of, the time of payment of any loan or advance made by it, through renewal, substitution of new obligations, or otherwise, but the time for such payment shall not be extended beyond five years from February 1, 1935: *Provided*, That the time of payment of loans or advances to railroads, railways, and receivers or trustees thereof, shall not be so extended except with the prior approval of the Interstate Commerce Commission, and, in the case of a loan to a railroad or railway, with the prior certification of the Interstate Commerce Commission that the rail-

road or railway is not in need of financial reorganization in the public interest.

"(3) In connection with the reorganization under section 77 of the Federal Bankruptcy Act, approved July 1, 1898, as amended, or with receivership proceedings in a court or courts, of any railroad or railway indebted to the Corporation, or of any railroad or railway the receivers or trustees of which are indebted to the Corporation, the Corporation may, with the prior approval of the Interstate Commerce Commission, adjust or compromise its claim against such railroad or railway, or any such receiver or trustee, by accepting, in connection with any such reorganization or receivership proceedings and in exchange for securities or any part thereof then held, new securities which may have such terms as to interest, maturity, and otherwise as may be approved by the Corporation, or part cash and part new securities so approved: *Provided*, That any such adjustment or compromise shall not be made on less favorable terms than those provided in the reorganization of the railroad or railway for holders of claims of the same class and rank as the claim of the Corporation."

SEC. 9. Section 301 of the National Industrial Recovery Act (U.S.C., Supp. VII, title 40, sec. 412) is amended by inserting before the period at the end thereof a colon and the following: "*Provided further*, That in connection with any loan or contract or any commitment to make a loan entered into by the Reconstruction Finance Corporation prior to June 26, 1933, to aid in financing part or all of the construction cost of projects pursuant to section 201 (a) (1) of the Emergency Relief and Construction Act of 1932, as amended, the Corporation may make such further loans and contracts for the completion of any such project, or for improvements, additions, extensions, or equipment which are necessary or desirable for the proper functioning of any such project, or which will materially increase the assurance that the borrower will be able to repay the entire investment of the Corporation in such project, including such improvements, additions, extensions, or equipment; and the Corporation may disburse funds to the borrower thereunder, at any time prior to January 23, 1939, notwithstanding any provisions to the contrary contained in this section or in section 201 (h) of the Emergency Relief and Construction Act of 1932, as amended: *Provided further*, That any such further loans shall be made subject to all the terms and conditions set forth in the Emergency Relief and Construction Act of 1932, as amended, with respect to the loans authorized by section 201 (a) (1) of said Act."

SEC. 10. Notwithstanding any limitations on its power, the Reconstruction Finance Corporation, upon request of any borrower under section 201(a) of the Emergency Relief and Construction Act of 1932, as amended, may adjust the maturities of any obligations of such borrower now held by it, or hereafter acquired by it under lawful commitments, to such periods as may in the discretion of the Reconstruction Finance Corporation be proper, but such adjustment shall not extend any such maturity to more than twenty years from the advancing of the sum or sums evidenced thereby.

SEC. 11. Section 36 of the Emergency Farm Mortgage Act of 1933, as amended (U.S.C., Supp. VII, title 43, sec. 403), is amended as follows:

(1) By striking from the first sentence thereof "$50,000,000 to or for the benefit of drainage districts, levee districts, levee and drainage districts, irrigation districts, and similar districts," and inserting in lieu thereof "$125,000,000 to or for the benefit of drainage districts, levee districts, levee and drainage districts, irrigation districts, and similar districts, mutual nonprofit companies and incorporated water users' associations".

(2) By striking from the second sentence thereof "district or political subdivision" and inserting in lieu thereof "district, political subdivision, company, or association".

(3) By amending clause (4) thereof to read as follows:

"(4) the borrower shall agree, insofar as it may lawfully do so, that so long as any part of such loan shall remain unpaid the borrower will in each year apply to the repayment of such loan or to the purchase or redemption of the obligations issued to evidence such loan, an amount equal to the amount by which the assessments, taxes, and other charges collected by it exceed (a) the cost of operation and maintenance of the project, (b) the debt charges on its outstanding obligations, and (c) provision for such reasonable reserves as may be approved by the Corporation; and".

(4) By adding at the end thereof the following new paragraph:

"When any loan is authorized pursuant to the provisions of this section and it shall then or thereafter appear that repairs and necessary extensions or improvements to the project of such district, political subdivision, company, or association are necessary or desirable for the proper functioning of its project or for the further assurance of its ability to repay such loan, and if it shall also appear that such repairs and necessary extensions or improvements are not designed to bring new lands into production, the Corporation, within the limitation as to total amount provided in this section, may make an additional loan or loans to such district, political subdivision, company, or association for such purpose or purposes. When application therefor shall have been made by any such district, political subdivision, company, or association any loan authorized by this section may be made either to such district, political subdivision, company, or association or to the holders or representatives of the holders of their existing indebtedness, and such loans may be made upon promissory notes collateraled by the obligations of such district, political subdivision, company, or association or through the purchase of securities issued or to be issued by such district, political subdivision, company, or associaton[1]."

SEC. 12. (a) Sections 2 and 3 of the Act entitled "An Act to authorize the Reconstruction Finance Corporation to subscribe for preferred stock and purchase the capital notes of insurance companies, and for other purposes", approved June 10, 1933, as amended (U.S.C., Supp. VII, title 15, secs. 605f and 605g), are amended to read as follows:

"SEC. 2. In the event that any such insurance company shall be incorporated under the laws of any State which does not permit it to issue preferred stock, exempt from assessment or additional liability, or if such laws permit such issue of preferred stock only by unanimous consent of stockholders, or upon notice of more than twenty days, or if the insurance company is a mutual organization

[1] So in original.

without capital stock, the Reconstruction Finance Corporation is authorized for the purposes of this Act to purchase the legally issued capital notes of such insurance company, or, if the company is a mutual organization without capital stock, such other form or forms of indebtedness as the laws of the State under which such company is organized permit, or to make loans secured by such notes or such other form or forms of indebtedness as collateral, which may be subordinated in whole or in part or to any degree to claims of other creditors.

"SEC. 3. The Reconstruction Finance Corporation shall not subscribe for or purchase any preferred stock or capital notes of any applicant insurance company, (1) until the applicant shows to the satisfaction of the Corporation that it has unimpaired capital, or that it will furnish new capital which will be subordinate to the preferred stock or capital notes to be subscribed for or purchased by the Corporation, equal to the amount of said preferred stock or capital notes so subscribed for or purchased by the Corporation: *Provided*, That the Corporation may make loans upon said preferred stock or capital notes, or other form or forms of indebtedness permitted by the laws of the State under which said applicant is organized, if, in its opinion, such loans will be adequately secured by said stock or capital notes or other form or forms of indebtedness and/or such other forms of security as the Corporation may require, (2) if at the time of such subscription, purchase, or loan any officer, director, or employee of the applicant is receiving total compensation in a sum in excess of $17,500 per annum from the applicant and/or any of its affiliates, and (3) unless at such time, the insurance company agrees to the satisfaction of the Corporation that while any part of the preferred stock, notes, bonds, or debentures (or, in the case of a mutual insurance company, other form or forms of indebtedness permitted by the laws of the State under which the company is organized) of such insurance company is held by the Corporation, the insurance company, except with the consent of the Corporation, will not (a) increase the compensation received by any of its officers, directors, or employees from the insurance company and/or any of its affiliates, and in no event increase any such compensation to an amount exceeding $17,500 per annum, or (b) retire any of its stock, notes, bonds, debentures, or other forms of indebtedness issued for capital purposes. For the purposes of this section, the term "compensation" includes any salary, fee, bonus, commission, or other payment direct or indirect, in money or otherwise for personal services."

(b) Section 11 of such Act of June 10, 1933, as amended (U.S.C., Supp. VII, title 15, sec. 605i), is amended by adding at the end thereof the following new sentence: "As used in this section and in sections 1, 2, and 3 of this Act, the term 'State' means any State, Territory, or possession of the United States, the Canal Zone, and the District of Columbia."

SEC. 13. The Reconstruction Finance Corporation is authorized and empowered to make loans upon full and adequate security, based on mineral acreage, to recognized and established incorporated managing agencies of farmers' cooperative mineral rights pools not engaged in drilling or mining operations, said loans to be made for the purpose of defraying the cost of organizing such pools.

SEC. 14. The Reconstruction Finance Corporation is authorized and empowered to make loans upon adequate security, based on mineral acreage to recognized and established incorporated agencies, individuals, and partnerships engaged in the business of mining, milling, or smelting of ores.

SEC. 15. The Corporation is authorized and empowered to make loans under section 5 of the Reconstruction Finance Corporation Act, as amended, to any person, association, or corporation organized under the laws of any State, the District of Columbia, Alaska, Hawaii, or Puerto Rico, for the purpose of financing the production, storage, handling, packing, processing, carrying, and/or orderly marketing of fish of American fisheries and/or products thereof upon the same terms and conditions, and subject to the same limitations, as are applicable in case of loans made under said section 5, as amended.

SEC. 16. The Reconstruction Finance Corporation is hereby authorized and empowered to make loans at any time prior to January 31, 1935, out of the funds of the Corporation upon full and adequate security, to public-school districts or other similar public-school authorities organized pursuant to State law, for the purpose of payment of teachers' salaries due prior to June 1, 1934: *Provided*, That the agregate [1] amount of such loans at any time outstanding shall not exceed $75,000,000.

Approved, June 19, 1934.

[1] So in original.

[PUBLIC—No. 419—73D CONGRESS]

[S. 3530]

AN ACT

Relating to Philippine currency reserves on deposit in the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is authorized and directed, when the funds therefor are made available, to establish on the books of the Treasury a credit in favor of the Treasury of the Philippine Islands for $23,862,750.78, being an amount equal to the increase in value (resulting from the reduction of the weight of the gold dollar) of the gold equivalent at the opening of business on January 31, 1934, of the balances maintained at that time in banks in the continental United States by the Government of the Philippine Islands for its gold standard fund and its Treasury certificate fund less the interest received by it on such balances.

SEC. 2. There is hereby authorized to be appropriated, out of the receipts covered into the Treasury under section 7 of the Gold Reserve Act of 1934, by virtue of the reduction of the weight of the gold dollar by the proclamation of the President on January 31, 1934, the amount necessary to establish the credit provided for in section 1 of this Act.

Approved, June 19, 1934.

[PUBLIC—No. 438—73D CONGRESS]

[H.R. 9745]

AN ACT

To authorize the Secretary of the Treasury to purchase silver, issue silver certificates, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Silver Purchase Act of 1934."

SEC. 2. It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one fourth of the monetary value of such stocks in silver.

SEC. 3. Whenever and so long as the proportion of silver in the stocks of gold and silver of the United States is less than one-fourth of the monetary value of such stocks, the Secretary of the Treasury is authorized and directed to purchase silver, at home or abroad, for present or future delivery with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest: *Provided*, That no purchase of silver shall be made hereunder at a price in excess of the monetary value thereof: *And provided further*, That no purchases of silver situated in the continental United States on May 1, 1934, shall be made hereunder at a price in excess of 50 cents a fine ounce.

SEC. 4. Whenever and so long as the market price of silver exceeds its monetary value or the monetary value of the stocks of silver is greater than 25 per centum of the monetary value of the stocks of gold and silver, the Secretary of the Treasury may, with the approval of the President and subject to the provisions of section 5, sell any silver acquired under the authority of this Act, at home or abroad, for present or future delivery, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest.

SEC. 5. The Secretary of the Treasury is authorized and directed to issue silver certificates in such denominations as he may from time to time prescribe in a face amount not less than the cost of all silver purchased under the authority of section 3, and such certificates shall be placed in actual circulation. There shall be maintained in the Treasury as security for all silver certificates heretofore or hereafter issued and at the time outstanding an amount of silver in bullion and standard silver dollars of a monetary value equal to the face amount of such silver certificates. All silver certificates heretofore or hereafter issued shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, and shall be redeemable on demand at the Treasury of the United States in standard silver dollars; and the Secretary of the Treasury is authorized to coin standard silver dollars for such redemption.

SEC. 6. Whenever in his judgment such action is necessary to effectuate the policy of this Act, the Secretary of the Treasury is authorized, with the approval of the President, to investigate, regulate, or prohibit, by means of licenses or otherwise, the acquisition, importation, exportation, or transportation of silver and of contracts and other arrangements made with respect thereto; and to require the filing of reports deemed by him reasonably necessary in connection therewith. Whoever willfully violates the provisions of any license, order, rule, or regulation issued pursuant to the authorization contained in this section shall, upon conviction, be fined not more than $10,000 or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

SEC. 7. Whenever in the judgment of the President such action is necessary to effectuate the policy of this Act, he may by Executive order require the delivery to the United States mints of any or all silver by whomever owned or possessed. The silver so delivered shall be coined into standard silver dollars or otherwise added to the monetary stocks of the United States as the President may determine; and there shall be returned therefor in standard silver dollars, or any other coin or currency of the United States, the monetary value of the silver so delivered less such deductions for seigniorage, brassage, coinage, and other mint charges as the Secretary of the Treasury with the approval of the President shall have determined: *Provided*, That in no case shall the value of the amount returned therefor be less than the fair value at the time of such order of the silver required to be delivered as such value is determined by the market price over a reasonable period terminating at the time of such order. The Secretary of the Treasury shall pay all necessary costs of the transportation of such silver and standard silver dollars, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any silver withheld in violation of any Executive order issued under this section or of any regulations issued pursuant thereto shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and, in addition, any person failing to comply with the provisions of any such Executive order or regulation shall be subject to a penalty equal to twice the monetary value of the silver in respect of which such failure occurred.

SEC. 8. Schedule A of title VIII of the Revenue Act of 1926, as amended (relating to stamp taxes), is amended by adding at the end thereof a new subdivision to read as follows:

"10. SILVER, AND SO FORTH, SALES AND TRANSFERS.—On all transfers of any interest in silver bullion, if the price for which such interest is or is to be transferred exceeds the total of the cost thereof and allowed expenses, 50 per centum of the amount of such excess. On every such transfer there shall be made and delivered by the transferor to the transferee a memorandum to which there shall be affixed lawful stamps in value equal to the tax thereon. Every such memorandum shall show the date thereof, the names and addresses of the transferor and transferee, the interest in silver bullion to which

it refers, the price for which such interest is or is to be transferred and the cost thereof and the allowed expenses. Any person liable for payment of tax under this subdivision (or anyone who acts in the matter as agent or broker for any such person) who is a party to any such transfer, or who in pursuance of any such transfer delivers any silver bullion or interest therein, without a memorandum stating truly and completely the information herein required, or who delivers any such memorandum without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding $1,000 or be imprisoned not more than six months, or both. Stamps affixed under this subdivision shall be canceled (in lieu of the manner provided in section 804) by such officers and in such manner as regulations under this subdivision shall prescribe. Such officers shall cancel such stamps only if it appears that the proper tax is being paid, and when stamps with respect to any transfer are so canceled, the transferor and not the transferee shall be liable for any additional tax found due or penalty with respect to such transfer. The Commissioner shall abate or refund, in accordance with regulations issued hereunder, such portion of any tax hereunder as he finds to be attributable to profits (1) realized in the course of the transferor's regular business of furnishing silver bullion for industrial, professional, or artistic use and (a) not resulting from a change in the market price of silver bullion, or (b) offset by contemporaneous losses incurred in transactions in interests in silver bullion determined, in accordance with such regulations, to have been specifically related hedging transactions; or (2) offset by contemporaneous losses attributable to changes in the market price of silver bullion and incurred in transactions in silver foreign exchange determined, in accordance with such regulations, to have been hedged specifically by the interest in silver bullion transferred. The provisions of this subdivision shall extend to all transfers in the United States of any interest in silver bullion, and to all such transfers outside the United States if either party thereto is a resident of the United States or is a citizen of the United States who has been a resident thereof within three months before the date of the transfer or if such silver bullion or interest therein is situated in the United States; and shall extend to transfers to the United States Government (the tax in such cases to be payable by the transferor), but shall not extend to transfers of silver bullion by deposit or delivery at a United States mint under proclamation by the President or in compliance with any Executive order issued pursuant to section 7 of the Silver Purchase Act of 1934. The tax under this subdivision on transfers enumerated in subdivision 4 shall be in addition to the tax under such subdivision. This subdivision shall apply (1) with respect to all transfers of any interest in silver bullion after the enactment of the Silver Purchase Act of 1934, and (2) with respect to all transfers of any interest in silver bullion on or after May 15, 1934, and prior to the enactment of the Silver Purchase Act of 1934, except that in such cases it shall be paid by the transferor in such manner and at such time as the Commissioner, with the approval of the Secretary of the Treasury, may by regulations prescribe, and the requirement of a memorandum of such transfer shall not apply.

"As used in this subdivision—

"The term 'cost' means the cost of the interest in silver bullion to the transferor, except that (a) in case of silver bullion produced from materials containing silver which has not previously entered into industrial, commercial, or monetary use, the cost to a transferor who is the producer shall be deemed to be the market price at the time of production determined in accordance with regulations issued hereunder; (b) in the case of an interest in silver bullion acquired by the transferor otherwise than for valuable consideration, the cost shall be deemed to be the cost thereof to the last previous transferor by whom it was acquired for a valuable consideration; and (c) in the case of any interest in silver bullion acquired by the transferor (after April 15, 1934) in a wash sale, the cost shall be deemed to be the cost to him of the interest transferred by him in such wash sale, but with proper adjustment, in accordance with regulations under this subdivision, when such interests are in silver bullion for delivery at different times.

"The term 'transfer' means a sale, agreement of sale, agreement to sell, memorandum of sale or delivery of, or transfer, whether made by assignment in blank or by any delivery, or by any paper or agreement or memorandum or any other evidence of transfer or sale; or means to make a transfer as so defined.

"The term 'interest in silver bullion' means any title or claim to, or interest in, any silver bullion or contract therefor.

"The term 'allowed expenses' means usual and necessary expenses actually incurred in holding, processing, or transporting the interest in silver bullion as to which an interest is transferred (including storage, insurance, and transportation charges but not including interest, taxes, or charges in the nature of overhead), determined in accordance with regulations issued hereunder.

"The term 'memorandum' means a bill, memorandum, agreement, or other evidence of a transfer.

"The term 'wash sale' means a transaction involving the transfer of an interest in silver bullion and, within thirty days before or after such transfer, the acquisition by the same person of an interest in silver bullion. Only so much of the interest so acquired as does not exceed the interest so transferred, and only so much of the interest so transferred as does not exceed the interest so acquired, shall be deemed to be included in the wash sale.

"The term 'silver bullion' means silver which has been melted, smelted, or refined and is in such state or condition that its value depends primarily upon the silver content and not upon its form."

SEC. 9. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary of the Treasury may deem necessary or proper to carry out the purposes of this Act, or of any order issued hereunder.

SEC. 10. As used in this Act—

The term "person" means an individual, partnership, association, or corporation;

The term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska;

The term "monetary value" means a value calculated on the basis of $1 for an amount of silver or gold equal to the amount at

the time contained in the standard silver dollar and the gold dollar, respectively;

The term "stocks of silver" means the total amount of silver at the time owned by the United States (whether or not held as security for outstanding currency of the United States) and of silver contained in coins of the United States at the time outstanding;

The term "stocks of gold" means the total amount of gold at the time owned by the United States, whether or not held as a reserve or as security for any outstanding currency of the United States.

SEC. 11. There is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $500,000, which shall be available for expenditure under the direction of the President and in his discretion, for any purpose in connection with the carrying out of this Act; and there are hereby authorized to be appropriated annually such additional sums as may be necessary for such purposes.

SEC. 12. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 13. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed, but the authority conferred in this Act upon the President and the Secretary of the Treasury is declared to be supplemental to the authority heretofore conferred.

Approved, June 19, 1934, 9 p.m.

[PUBLIC—No. 467—73D CONGRESS]

[S. 1639]

AN ACT

To establish a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Credit Union Act".

DEFINITIONS

SEC. 2. A Federal credit union is hereby defined as a cooperative association organized in accordance with the provisions of this Act for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes. When used in this Act the term "Administration" means Farm Credit Administration, and the term "Governor" means the Governor thereof.

FEDERAL CREDIT UNION ORGANIZATION

SEC. 3. Any seven or more natural persons who desire to form a Federal credit union shall subscribe before some officer competent to administer oaths an organization certificate in duplicate which shall specifically state—

(1) The name of the association.

(2) The location of the proposed Federal credit union and the territory in which it will operate.

(3) The names and addresses of the subscribers to the certificate and the number of shares subscribed by each.

(4) The par value of the shares, which shall be $5 each.

(5) The proposed field of membership, specified in detail.

(6) The term of the existence of the corporation, which may be perpetual.

(7) The fact that the certificate is made to enable such persons to avail themselves of the advantages of this Act.

Such organization certificate may also contain any provisions approved by the Governor for the management of the business of the association and for the conduct of its affairs and relative to the powers of its directors, officers, or stockholders.

APPROVAL OF ORGANIZATION CERTIFICATE

SEC. 4. Any such organization certificate shall be presented to the Governor for approval. Upon such approval the Federal credit union shall be a body corporate and as such, subject to the limitations herein contained, shall be vested with all of the powers and charged with all the liabilities conferred and imposed by this Act upon corporations organized hereunder. Before any organization

certificate is approved an appropriate investigation shall be made for the purpose of determining (1) whether the organization certificate conforms to the provisions of this Act; (2) the general character and fitness of the subscribers thereto; and (3) the economic advisability of establishing the proposed Federal credit union. Upon approval of such organization certificate by the Governor it shall be the charter of the corporation and one of the originals thereof shall be delivered to the corporation after the payment of the fee required therefor.

FEES

SEC. 5. For the purpose of paying the costs incident to the ascertainment of whether an organization certificate should be approved the subscribers to any such certificate shall pay, at the time of filing their organization certificate, the amount prescribed by the Governor, which shall not exceed $20 in any case; and on the approval of any organization certificate they shall also pay a fee of $5. During December of each calendar year each Federal credit union shall pay to the Administration a fee of not to exceed $10, to be fixed by the Governor, for the cost of supervision: *Provided, however*, That no such annual fee shall be payable by such an organization for the fractional part of the first calendar year during which it is formed. All such fees shall be deposited with the Treasurer of the United States for the account of the Administration and may be expended by the Governor for such administrative and other expenses incurred in carrying out the provisions hereof as he may determine to be proper, the purpose of such fees being to defray, as far as practicable, the administrative and supervisory costs incident to the carrying out of this Act.

REPORTS AND EXAMINATIONS

SEC. 6. Federal credit unions shall be under the supervision of the Governor, and shall make such financial reports to him (at least annually) as he may require. Each Federal credit union shall be subject to examination by, and for this purpose shall make its books and records accessible to any person designated by the Governor. The Governor shall fix a scale of examination fees designed, as far as is practicable, so that in each case the fee to be paid shall equal the expense of such examination, which fees shall be assessed against and paid by each Federal credit union promptly after the completion of any such examination: *Provided, however*, That if a Federal credit union has assets of less than $25,000 the Governor may accept the audit report of a practicing public accountant in place of such examination and may relieve such Federal credit union of the obligation to pay the examination fee required by this section. Examination fees collected under the provisions of this section shall be deposited to the credit of the special fund created by section 5 hereof, and shall be available for the purposes specified in said section 5.

POWERS

SEC. 7. A Federal credit union shall have succession in its corporate name during its existence and shall have power—

(1) To make contracts.
(2) To sue and be sued.
(3) To adopt and use a common seal and alter the same at pleasure.
(4) To purchase, hold, and dispose of property necessary and incidental to its operations.

(5) To make loans with maturities not exceeding two years to its members for provident or productive purposes upon such terms and conditions as this Act and the bylaws provide and as the credit committee may approve, at rates of interest not exceeding 1 per centum per month on unpaid balances (inclusive of all charges incident to making the loan): *Provided*, That no loans to a director, officer, or member of a committee shall exceed the amount of his holdings in the Federal credit union as represented by shares thereof. No director, officer, or committee member shall endorse for borrowers. A borrower may repay his loan, prior to maturity, in whole or in part on any business day.

(6) To receive from its members payments on shares.

(7) To invest its funds (a) in loans exclusively to members; (b) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby.

(8) To make deposits in national banks and in State banks, trust companies, and mutual savings banks operating in accordance with the laws of the State in which the Federal credit union does business.

(9) To borrow (from any source) in an aggregate amount not exceeding 50 per centum of its paid-in and unimpaired capital and surplus: *Provided*, That any Federal credit union may discount with or sell to any Federal intermediate credit bank any eligible obligations up to the amount of its paid-in and unimpaired capital, subject to such rules and regulations as may be prescribed by the Governor.

(10) To fine members, in accordance with the bylaws, for failure to meet promptly their obligations to the Federal credit union.

(11) To impress and enforce a lien upon the shares and dividends of any member, to the extent of any loan made to him and any dues or fines payable by him.

(12) To exercise such incidental powers as shall be necessary or requisite to enable it to carry on effectively the business for which it is incorporated.

BYLAWS

SEC. 8. In order to simplify the organization of Federal credit unions the Governor shall, upon the passage of this Act, cause to be prepared a form of organization certificate and a form of bylaws, consistent with this Act, which shall be used by Federal credit union incorporators, and shall be supplied to them on request. At the time of presenting the organization certificate the incorporators shall also submit proposed bylaws to the Governor for his approval.

MEMBERSHIP

SEC. 9. Federal credit union membership shall consist of the incorporators and such other persons and incorporated and unin-

corporated organizations, to the extent permitted by rules and regulations prescribed by the Governor, as may be elected to membership and as shall, each, subscribe to at least one share of its stock and pay the initial installment thereon and the entrance fee; except that Federal credit union membership shall be limited to groups having a common bond of occupation, or association, or to groups within a well-defined neighborhood, community, or rural district.

MEMBERS' MEETINGS

SEC. 10. The fiscal year of all Federal credit unions shall end December 31. The annual meeting of each Federal credit union shall be held at such time during the month of the following January and at such place as its bylaws shall prescribe. Special meetings may be held in the manner indicated in the bylaws. No member shall be entitled to vote by proxy, but a member other than a natural person may vote through an agent designated for the purpose. Irrespective of the number of shares held by him, no member shall have more than one vote.

MANAGEMENT

SEC. 11. (a) The business affairs of a Federal credit union shall be managed by a board of not less than five directors, a credit committee of not less than three members, and a supervisory committee of three members (a majority of whom shall not be directors) all to be elected by the members (and from their number) at their annual meeting, and to hold office for such terms, respectively, as the bylaws may provide. A record of the names and addresses of the members of the board and committees and officers shall be filed with the Administration within ten days after their election. No member of the board or of either committee shall, as such be compensated.

OFFICERS

(b) At their first meeting after the annual meeting of the members, the directors shall elect from their number a president, a vice president, a clerk, and a treasurer, who shall be the executive officers of the corporation and may be compensated for their services to such extent as the bylaws may provide. The offices of clerk and treasurer may be held by the same person. The duties of the officers shall be as determined by the bylaws, except that the treasurer shall be the general manager of the corporation. Before the treasurer shall enter upon his duties he shall give bond with good and sufficient surety, in an amount and character to be determined from time to time by the board of directors, conditioned upon the faithful performance of his trust.

DIRECTORS

(c) The board of directors shall meet at least once a month and shall have the general direction and control of the affairs of the corporation. Minutes of all such meetings shall be kept. Among other things they shall act upon applications for membership; fix the amount and character of the surety bond required of any officer

having custody of funds; recommend the declaration of dividends; fill vacancies in the board and in the credit committee until successors elected at the next annual meeting have qualified; have charge of investments other than loans to members; determine from time to time the maximum number of shares that may be held by any individual; and, subject to the limitations of this Act, determine the interest rates on loans and the maximum amount that may be loaned with or without security to any member.

CREDIT COMMITTEE

(d) The credit committee shall hold such meetings as the business of the Federal credit union may require and not less frequently than once a month (of which meetings due notice shall be given to members of the committee by the treasurer) to consider applications for loans. No loan shall be made unless approved by a majority of the entire committee and by all of the members of the committee who are present at the meeting at which the application is considered. Applications for loans shall be made on forms prepared by such committee, which shall set forth the purpose for which the loan is desired, the security, if any, and such other data as may be required. No loan in excess of $50 shall be made without adequate security and no loan shall be made to any member in excess of $200 or 10 per centum of the Federal credit union's paid-in and unimpaired capital and surplus, whichever is greater. For the purposes of this subdivision an assignment of shares or the endorsement of a note shall be deemed security.

SUPERVISORY COMMITTEE

(e) The supervisory committee shall make, at least quarterly, an examination of the affairs of the Federal credit union, including an audit of its books; shall make an annual audit and a report to be submitted at the annual meeting of the corporation; and, by a unanimous vote, may suspend any officer of the corporation, or any member of the credit committee or of the board of directors until the next members' meeting, which said meeting, however, shall be held within seven days of said suspension and at which meeting said suspension shall be acted upon by the members; and, by a majority vote, may call a special meeting of the shareholders to consider any violation of this Act, the charter, or of the bylaws, or any practice of the corporation deemed by the committee to be unsafe or unauthorized. The said committee shall fill vacancies in its own membership until successors to be elected at the next annual meeting have qualified. The supervisory committee shall cause the passbooks and accounts of the members to be verified with the records of the treasurer from time to time and not less frequently than once every two years.

RESERVES

SEC. 12. All entrance fees and fines provided by the bylaws and 20 per centum of the net earnings of each year, before the declaration of any dividends, shall be set aside, subject to terms and conditions specified in the bylaws, as a reserve fund against possible bad loans.

DIVIDENDS

SEC. 13. At the annual meeting a dividend may be declared from the remaining net earnings on recommendation of the board of directors, which dividend shall be paid on all paid-up shares outstanding at the end of the preceding fiscal year. Shares which become fully paid up during such year shall be entitled to a proportional part of said dividend calculated from the 1st day of the month following such payment in full.

EXPULSION AND WITHDRAWAL

SEC. 14. A member may be expelled by a two-thirds vote of the members of a Federal credit union present at a special meeting called for the purpose, but only after an opportunity has been given him to be heard. Withdrawal or expulsion of a member shall not operate to relieve him from liability to the Federal credit union. The amount to be paid a withdrawing or expelled member by a Federal credit union shall be determined and paid in the manner specified in the bylaws.

MINORS

SEC. 15. Shares may be issued in the name of a minor or in trust, subject to such conditions as may be prescribed by the bylaws. The name of the beneficiary shall be disclosed to the Federal credit union.

CERTAIN POWERS OF GOVERNOR

SEC. 16. (a) The Governor may prescribe rules and regulations for the administration of this Act (including, but not by way of limitation, the merger, consolidation, and/or dissolution of corporations organized under this Act).

(b) The Governor may suspend or revoke the charter of any Federal credit union upon his finding that the organization is bankrupt or insolvent or has violated any provisions of its charter, its bylaws, or of this Act, or of any regulations issued thereunder.

(c) The Governor is hereby authorized and empowered to execute any and all functions and perform any and all duties vested in him hereby, through such persons as he shall designate or employ; and he may delegate to any person or persons, including any institution operating under the general supervision of the Administration, the performance and discharge of any authority, power, or function vested in him by this Act.

(d) All books and records of Federal credit unions shall be kept and reports shall be made in accordance with forms approved by the Governor.

FISCAL AGENTS AND DEPOSITORIES

SEC. 17. Each Federal credit union organized under this Act, when requested by the Secretary of the Treasury, shall act as fiscal agent of the United States and shall perform such services as the Secretary of the Treasury may require in connection with the collection of taxes and other obligations due the United States and the lending, borrowing, and repayment of money by the United States,

including the issue, sale, redemption or repurchase of bonds, notes, Treasury certificates of indebtedness, or other obligations of the United States; and to facilitate such purposes the Governor shall furnish to the Secretary of the Treasury from time to time the names and addresses of all Federal credit unions with such other available information concerning them as may be requested by the Secretary of the Treasury. Any Federal credit union organized under this Act, when designated for that purpose by the Secretary of the Treasury, shall be a depository of public money, except receipts from customs, under such regulations as may be prescribed by the Secretary of the Treasury.

TAXATION

SEC. 18. Nothing herein contained shall prevent the shares of stock in any Federal credit union organized hereunder from being included in the valuation of the personal property of the owners or holders of such shares in assessing taxes imposed by authority of the State in which the Federal credit union is located or shall prevent the taxation of any Federal credit union or its property by authority of such State in the manner and not to exceed the rate imposed upon domestic banking corporations.

SEC. 19. Not to exceed $50,000 of the fund available to the Governor under section 4 of the Act of March 3, 1932, for expenses of administration in connection with loans made thereunder to aid in the establishment of agricultural credit corporations, is hereby made available also for administrative expenses in administering this Act.

SEC. 20. (a) If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

(b) The right to alter, amend, or repeal this Act or any part thereof, or any charter issued pursuant to the provisions of this Act, is expressly reserved.

Approved, June 26, 1934.

(EXTRACT FROM)

[PUBLIC—No. 479—73D CONGRESS]

[H. R. 9620]

AN ACT

To encourage improvement in housing standards and conditions, to provide a system of mutual mortgage insurance, and for other purposes.

SEC. 505. (a) Section 24 of the Federal Reserve Act, as amended, is amended by adding at the end of the third sentence thereof the following: "*Provided*, That in the case of loans secured by real estate which are insured under the provisions of title II of the National Housing Act, such restrictions as to the amount of the loan in relation to the actual value of the real estate and as to the five-year limit on the terms of such loans shall not apply."

(b) Section 24 of such Act, as amended, is further amended by adding at the end thereof the following new paragraph:

"Loans made to finance the construction of residential or farm buildings and having maturities of not to exceed six months, whether or not secured by a mortgage or similar lien on the real estate upon which the residential or farm building is being constructed, shall not be considered as loans secured by real estate within the meaning of this section but shall be classed as ordinary commercial loans: *Provided*, That no national banking association shall invest in, or be liable on, any such loans in an aggregate amount in excess of 50 per centum of its actually paid-in and unimpaired capital. Notes representing such loans shall be eligible for discount as commercial paper within the terms of the second paragraph of section 13 of the Federal Reserve Act, as amended, if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building entered into by an individual, partnership, association, or corporation acceptable to the discounting bank."

Approved, June 27, 1934.

[PUBLIC—No. 3—74TH CONGRESS]

[H. R. 4304]

AN ACT

To amend the Second Liberty Bond Act, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Second Liberty Bond Act, as amended, is further amended as follows:

The first paragraph of section 1 is amended to read as follows:

"The Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow, from time to time, on the credit of the United States for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor bonds of the United States: *Provided*, That the face amount of bonds issued under this section and section 22 of this Act shall not exceed in the aggregate $25,000,000,000 outstanding at any one time."

SEC. 2. The first sentence of subsection (a) of section 5 is amended to read as follows: "In addition to the bonds and notes authorized by sections 1, 18, and 22 of this Act, as amended, the Secretary of the Treasury is authorized, subject to the limitation imposed by section 21 of this Act, to borrow from time to time, on the credit of the United States, for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor (1) certificates of indebtedness of the United States at not less than par (except as provided in section 20 of this Act, as amended) and at such rate or rates of interest, payable at such time or times as he may prescribe; or, (2) Treasury bills on a discount basis and payable at maturity without interest."

SEC. 3. Section 5 is further amended by striking out the final sentence of subsection (a) thereof, reading as follows: "The sum of the par value of such certificates and Treasury bills outstanding hereunder and under section 6 of the First Liberty Bond Act shall not at any one time exceed in the aggregate $10,000,000,000."

SEC. 4. Subsection (a) of section 18 is amended to read as follows:

"In addition to the bonds and certificates of indebtedness and war-savings certificates authorized by this Act and amendments thereto, the Secretary of the Treasury, with the approval of the President, is authorized, subject to the limitation imposed by section 21 of this Act, to borrow from time to time on the credit of the United States for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes,

certificates of indebtedness, or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary and to issue therefor notes of the United States at not less than par (except as provided in section 20 of this Act, as amended) in such form or forms and denomination or denominations, containing such terms and conditions, and at such rate or rates of interest, as the Secretary of the Treasury may prescribe, and each series of notes so issued shall be payable at such time not less than one year nor more than five years from the date of its issue as he may prescribe, and may be redeemable before maturity (at the option of the United States) in whole or in part, upon not more than one year's nor less than four months' notice, and under such rules and regulations and during such period as he may prescribe."

SEC. 5. The Second Liberty Bond Act, as amended, is further amended by adding a new section, as follows:

"SEC. 21. The face amount of certificates of indebtedness and Treasury bills authorized by section 5 of this Act, certificates of indebtedness authorized by section 6 of the First Liberty Bond Act, and notes authorized by section 18 of this Act shall not exceed in the aggregate $20,000,000,000 outstanding at any one time."

SEC. 6. The Second Liberty Bond Act, as amended, is further amended, by adding a new section, as follows:

"SEC. 22. (a) The Secretary of the Treasury, with the approval of the President, is authorized to issue, from time to time, through the Postal Service or otherwise, bonds of the United States to be known as 'United States Savings Bonds.' The proceeds of the Savings Bonds shall be available to meet any public expenditures authorized by law and to retire any outstanding obligations of the United States bearing interest or issued on a discount basis. The various issues and series of the Savings Bonds shall be in such forms, shall be offered in such amounts within the limits of section 1 of this Act, as amended, and shall be issued in such manner and subject to such terms and conditions consistent with subsections (b) and (c) hereof, and including any restriction on their transfer, as the Secretary of the Treasury may from time to time prescribe.

"(b) Each Savings Bond shall be issued on a discount basis to mature not less than ten nor more than twenty years from the date as of which the bond is issued, and provision may be made for redemption before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the issue price of Savings Bonds and the terms upon which they may be redeemed prior to maturity shall be such as to afford an investment yield not in excess of three per centum per annum, compounded semiannually. The denominations of Savings Bonds shall be in terms of their maturity value and shall not be less than $25. It shall not be lawful for any one person at any one time to hold Savings Bonds issued during any one calendar year in an aggregate amount exceeding $10,000 (maturity value).

"(c) The provisions of section 7 of this Act, as amended (relating to the exemptions from taxation both as to principal and as to interest of bonds issued under authority of section 1 of this Act, as amended), shall apply as well to the Savings Bonds; and, for the purposes of determining taxes and tax exemptions, the increment in

value represented by the difference between the price paid and the redemption value received (whether at or before maturity) shall be considered as interest. The Savings Bonds shall not bear the circulation privilege.

"(d) The appropriation for expenses provided by section 10 of this Act and extended by the Act of June 16, 1921 (U. S. C., title 31, secs. 760 and 761), shall be available for all necessary expenses under this section; and the Secretary of the Treasury is authorized to advance, from time to time, to the Postmaster General from such appropriation such sums as are shown to be required for the expenses of the Post Office Department, in connection with the handling of the bonds issued under this section.

"(e) The board of trustees of the Postal Savings System is authorized to permit, subject to such regulations as it may from time to time prescribe, the withdrawal of deposits on less than sixty days' notice for the purpose of acquiring Savings Bonds which may be offered by the Secretary of the Treasury; and in such cases to make payment of interest to the date of withdrawal whether or not a regular interest payment date. No further original issue of bonds authorized by section 10 of the Act approved June 25, 1910 (U. S. C., title 39, sec. 760), shall be made after July 1, 1935.

"(f) At the request of the Secretary of the Treasury the Postmaster General, under such regulations as he may prescribe, shall require the employees of the Post Office Department and of the Postal Service to perform, without extra compensation, such fiscal agency services as may be desirable and practicable in connection with the issue, delivery, safe-keeping, redemption, and payment of the Savings Bonds."

SEC. 7. Section 1126 of the Revenue Act of 1926 is amended by adding at the end thereof the following: "In order to avoid the frequent substitution of securities such rules and regulations may limit the effect of this section, in appropriate classes of cases, to bonds and notes of the United States maturing more than a year after the date of deposit of such bonds as security. The phrase 'bonds or notes of the United States' shall be deemed, for the purposes of this section, to mean any public-debt obligations of the United States and any bonds, notes, or other obligations which are unconditionally guaranteed as to both interest and principal by the United States."

Approved, February 4, 1935.

[PUBLIC—No. 305—74TH CONGRESS]

[H. R. 7617]

AN ACT

To provide for the sound, effective, and uninterrupted operation of the banking system, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Banking Act of 1935".

TITLE I—FEDERAL DEPOSIT INSURANCE

SECTION 101. Section 12B of the Federal Reserve Act, as amended (U. S. C., Supp. VII, title 12, sec. 264), is amended to read as follows:

"SEC. 12B. (a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the 'Corporation') which shall insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section, and which shall have the powers hereinafter granted.

"(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than two of the members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of six years and shall receive compensation at the rate of $10,000 per annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member. In the event of a vacancy in the office of the Comptroller of the Currency, and pending the appointment of his successor, or during the absence of the Comptroller from Washington, the Acting Comptroller of the Currency shall be a member of the board of directors in the place and stead of the Comptroller. In the event of a vacancy in the office of the chairman of the board of directors, and pending the appointment of his successor, the Comptroller of the Currency shall act as chairman. The Comptroller of the Currency shall be ineligible during the time he is in office and for two years thereafter to hold any office, position, or employment in any insured bank. The appointive members of the board of directors shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any insured bank, except that this restriction shall not apply to any appointive member who has served the full term for which he was appointed. No member of the board of directors shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institu-

tion, or trust company; and before entering upon his duties as a member of the board of directors he shall certify under oath that he has complied with this requirement and such certification shall be filed with the secretary of the board of directors. No member of the board of directors serving on the board of directors on the effective date shall be subject to any of the provisions of the three preceding sentences until the expiration of his present term of office.

"(c) As used in this section—

"(1) The term 'State bank' means any bank, banking association, trust company, savings bank, or other banking institution which is engaged in the business of receiving deposits and which is incorporated under the laws of any State, Hawaii, Alaska, Puerto Rico, or the Virgin Islands, or which is operated under the Code of Law for the District of Columbia (except a national bank), and includes any unincorporated bank the deposits of which are insured on the effective date under the provisions of this section.

"(2)The term 'State member bank' means any State bank which is a member of the Federal Reserve System, and the term 'State nonmember bank' means any State bank which is not a member of the Federal Reserve System.

"(3) The term 'District bank' means any State bank operating under the Code of Law for the District of Columbia.

"(4) The term 'national member bank' means any national bank located in any of the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is a member of the Federal Reserve System.

"(5) The term 'national nonmember bank' means any national bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands which is not a member of the Federal Reserve System.

"(6) The term 'mutual savings bank' means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers.

"(7) The term 'savings bank' means a bank (other than a mutual savings bank) which transacts its ordinary banking business strictly as a savings bank under State laws imposing special requirements on such banks governing the manner of investing their funds and of conducting their business: *Provided*, That the bank maintains, until maturity date or until withdrawn, all deposits made with it (other than funds held by it in a fiduciary capacity) as time savings deposits of the specific term type or of the type where the right is reserved to the bank to require written notice before permitting withdrawal: *Provided further*, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation with respect to the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except in cases where such withdrawal is permitted by law on the effective date from specifically designated deposit accounts totaling not more than 15 per centum of the bank's total deposits.

"(8) The term 'insured bank' means any bank the deposits of which are insured in accordance with the provisions of this section; and the term 'noninsured bank' means any bank the deposits of which are not so insured.

"(9) The term 'new bank' means a new national banking association organized by the Corporation to assume the insured deposits of an insured bank closed on account of inability to meet the demands of its depositors and otherwise to perform temporarily the functions prescribed in this section.

"(10) The term 'receiver' includes a receiver, liquidating agent, conservator, commission, person, or other agency charged by law with the duty of winding up the affairs of a bank.

"(11) The term 'board of directors' means the board of directors of the Corporation.

"(12) The term 'deposit' means the unpaid balance of money or its equivalent received by a bank in the usual course of business and for which it has given or is obligated to give credit to a commercial, checking, savings, time or thrift account, or which is evidenced by its certificate of deposit, and trust funds held by such bank whether retained or deposited in any department of such bank or deposited in another bank, together with such other obligations of a bank as the board of directors shall find and shall prescribe by its regulations to be deposit liabilities by general usage: *Provided*, That any obligation of a bank which is payable only at an office of the bank located outside the States of the United States, the District of Columbia, Hawaii, Alaska, Puerto Rico, and the Virgin Islands, shall not be a deposit for any of the purposes of this section or be included as a part of total deposits or of an insured deposit: *Provided further*, That any insured bank having its principal place of business in any of the States of the United States or in the District of Columbia which maintains a branch in Hawaii, Alaska, Puerto Rico, or the Virgin Islands may elect to exclude from insurance under this section its deposit obligations which are payable only at such branch, and upon so electing the insured bank with respect to such branch shall comply with the provisions of this section applicable to the termination of insurance by nonmember banks: *Provided further*, That the bank may elect to restore the insurance to such deposits at any time its capital stock is unimpaired.

"(13) The term 'insured deposit' means the net amount due to any deposit or deposits in an insured bank (after deducting offsets) less any part thereof which is in excess of $5,000. Such net amount shall be determined according to such regulations as the board of directors may prescribe, and in determining the amount due to any depositor there shall be added together all deposits in the bank maintained in the same capacity and the same right for his benefit either in his own name or in the names of others, except trust funds which shall be insured as provided in paragraph (9) of subsection (h) of this section.

"(14) The term 'transferred deposit' means a deposit in a new bank or other insured bank made available to a depositor by the Corporation as payment of the insured deposit of such depositor in a closed bank, and assumed by such new bank or other insured bank.

"(15) The term 'branch' includes any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State of the United States or in Hawaii, Alaska, Puerto Rico, or the Virgin Islands at which deposits are received or checks paid or money lent.

"(16) The term 'effective date' means the date of enactment of the Banking Act of 1935.

"(d) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation in an equal amount, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call in whole or in part by the board of directors of the Corporation. Such stock shall be in addition to the amount of capital stock required to be subscribed for by Federal Reserve banks. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States. Every Federal Reserve bank shall subscribe to shares of stock in the Corporation to an amount equal to one-half of the surplus of such bank on January 1, 1933, and its subscriptions shall be accompanied by a certified check payable to the Corporation in an amount equal to one-half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice. The capital stock of the Corporation shall consist of the shares subscribed for prior to the effective date. Such stock shall be without nominal or par value, and shares issued prior to the effective date shall be exchanged and reissued at the rate of one share for each $100 paid into the Corporation for capital stock. The consideration received by the Corporation for the capital stock shall be allocated to capital and to surplus in such amounts as the board of directors shall prescribe. Such stock shall have no vote and shall not be entitled to the payment of dividends.

"(e) (1) Every operating State or national member bank, including a bank incorporated since March 10, 1933, licensed on or before the effective date by the Secretary of the Treasury shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section.

"(2) After the effective date, every national member bank which is authorized to commence or resume the business of banking, and every State bank which is converted into a national member bank or which becomes a member of the Federal Reserve System, shall be an insured bank from the time it is authorized to commence or resume business or becomes a member of the Federal Reserve System. The certificate herein prescribed shall be issued to the Corporation by the Comptroller of the Currency in the case of such national member bank, or by the Board of Governors of the Federal Reserve System in the case of such State member bank: *Provided*, That in the case of an insured bank which is admitted to membership in the Federal Reserve System or an insured State bank which is converted into a national member bank, such certificate shall not be required, and the bank shall continue as an insured bank. Such certificate shall state that the bank is authorized to transact the business of banking in the case of a national member bank, or is a member of the Federal Reserve System in the case of a State member bank, and that consideration has been given to the factors enumerated in subsection (g) of this section.

"(f) (1) Every bank which is not a member of the Federal Reserve System which on June 30, 1935 was or thereafter became a member of the Temporary Federal Deposit Insurance Fund or of the Fund For Mutuals heretofore created pursuant to the provisions of this section, shall be and continue to be, without application or approval, an insured bank and shall be subject to the provisions of this section: *Provided*, That any State nonmember bank which was admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals but which did not file on or before the effective date an October 1, 1934 certified statement and make the payments thereon required by law, shall cease to be an insured bank on August 31, 1935: *Provided further*, That no bank admitted to the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals prior to the effective date shall, after August 31, 1935, be an insured bank or have its deposits insured by the Corporation, if such bank shall have permanently discontinued its banking operations prior to the effective date.

"(2) Subject to the provisions of this section, any national nonmember bank, upon application by the bank and certification by the Comptroller of the Currency in the manner prescribed in subsection (e) of this section, and any State nonmember bank, upon application to and examination by the Corporation and approval by the board of directors, may become an insured bank. Before approving the application of any such State nonmember bank, the board of directors shall give consideration to the factors enumerated in subsection (g) of this section and shall determine, upon the basis of a thorough examination of such bank, that its assets in excess of its capital requirements are adequate to enable it to meet all its liabilities to depositors and other creditors as shown by the books of the bank.

"(g) The factors to be enumerated in the certificate required under subsection (e) and to be considered by the board of directors under subsection (f) shall be the following: The financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of this section.

"(h) (1) The assessment rate shall be one-twelfth of 1 per centum per annum. The semiannual assessment for each insured bank shall be in the amount of the product of one-half the annual assessment rate multiplied by an assessment base which shall be the average for six months of the differences at the end of each calendar day between the total amount of liability of the bank for deposits (according to the definition of the term 'deposit' in and pursuant to paragraph (12) of subsection (c) of this section, without any deduction for indebtedness of depositors) and the total of such uncollected items as are included in such deposits and credited subject to final payment: *Provided, however*, That the daily total of such uncollected items shall be determined according to regulations prescribed by the board of directors upon a consideration of the factors of general usage and ordinary time of availability, and for the purposes of such deduction no item shall be regarded as uncollected for longer periods than those prescribed by such regulations. Each insured bank shall, as a condi-

tion to the right to deduct any specific uncollected item in determining its assessment base, maintain such records as will readily permit verification of the correctness of the particular deduction claimed. The certified statements required to be filed with the Corporation under paragraphs (2), (3), and (4) of this subsection shall be in such form and set forth such supporting information as the board of directors shall prescribe. The assessment payments required from insured banks under paragraphs (2), (3), and (4) of this subsection shall be made in such manner and at such time or times as the board of directors shall prescribe, provided the time or times so prescribed shall not be later than sixty days after filing the certified statement setting forth the amount of the assessment. In the event that a separate Fund For Mutuals is established as provided in subsection (l), the board of directors from time to time may fix a lower assessment rate operative for such period as the board may determine which shall be applicable to insured mutual savings banks only, and the remainder of this paragraph shall not be applicable to such banks.

"(2) On or before the 15th day of July of each year, each insured bank shall file with the Corporation a certified statement under oath showing for the six months ending on the preceding June 30 the amount of the assessment base and the amount of the semiannual assessment due to the Corporation, determined in accordance with paragraph (1) of this subsection. Each insured bank shall pay to the Corporation the amount of the semiannual assessment it is required to certify. On or before the 15th day of January of each year after 1936 each insured bank shall file with the Corporation a similar certified statement for the six months ending on the preceding December 31 and shall pay to the Corporation the amount of the semiannual assessment it is required to certify.

"(3) Each bank which becomes an insured bank according to the provisions of subsection (e) or (f) of this section shall, on or before the 15th day of November 1935, file with the Corporation a certified statement under oath showing the amount of the assessment due to the Corporation for the period ending December 31, 1935, which shall be an amount equal to the product of one-third the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the 31 days in the month of October 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified. Each such bank shall, on or before the 15th day of January 1936, file with the Corporation a certified statement under oath showing the amount of the semiannual assessment due to the Corporation for the period ending June 30, 1936, which shall be an amount equal to the product of one-half the annual assessment rate multiplied by the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the days of the months of October, November and December of 1935, and payment shall be made to the Corporation of the amount of the assessment so required to be certified.

"(4) Each bank which becomes an insured bank after the effective date shall be relieved from complying with the provisions of paragraph (2) of this subsection until it has operated as an insured bank

for a full semiannual period ending on June 30 or December 31 as the case may be. Each such bank, on or before the forty-fifth day after its first day of operation as an insured bank, shall file with the Corporation its first certified statement which shall be under oath and shall show the amount of the assessment base determined in accordance with paragraph (1) of this subsection, except that the assessment base shall be the average for the first thirty-one calendar days it operates as an insured bank. Each such certified statement shall also show as the amount of the first assessment due to the Corporation the prorated portion (for the period between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be) of an amount equal to the product of one-half the annual assessment rate multiplied by the base required to be set forth on its first certified statement. Each bank which becomes an insured bank after the effective date which has not operated as an insured bank for a full semiannual period ending on June 30 or December 31, as the case may be, shall, on or before the 15th day of the first month thereafter (except that banks becoming insured in June or December shall have thirty-one additional days) file with the Corporation its second certified statement under oath showing the amount of the assessment base and the amount of the semiannual assessment due to the Corporation. Such assessment base and amount shall be determined in accordance with paragraph (1) of this subsection, except that if the bank became an insured bank in the month of December or June the assessment base shall be the average for the first thirty-one calendar days it operates as an insured bank, and except that if it became an insured bank in any other month than December or June the assessment base shall be the average for the days between its first day of operation as an insured bank and the next succeeding last day of June or December, as the case may be. Each bank required to file a certified statement under this paragraph shall pay to the Corporation the amount of the assessment the bank is required to certify.

"(5) Each bank which shall be and continue without application or approval an insured bank in accordance with the provisions of subsection (e) or (f) of this section, shall, in lieu of all right to refund (except as authorized in paragraph (3) of subsection (i)), be credited with any balance to which such bank shall become entitled upon the termination of the said Temporary Federal Deposit Insurance Fund or the Fund For Mutuals. The credit shall be applied by the Corporation toward the payment of the assessment next becoming due from such bank and upon succeeding assessments until the credit is exhausted.

"(6) Any insured bank which fails to file any certified statement required to be filed by it in connection with determining the amount of any assessment payable by the bank to the Corporation may be compelled to file such statement by mandatory injunction or other appropriate remedy in a suit brought for such purpose by the Corporation against the bank and any officer or officers thereof in any court of the United States of competent jurisdiction in the district or territory in which such bank is located.

"(7) The Corporation, in a suit brought at law or in equity in any court of competent jurisdiction, shall be entitled to recover from any insured bank the amount of any unpaid assessment lawfully payable

by such insured bank to the Corporation, whether or not such bank shall have filed any such certified statement and whether or not suit shall have been brought to compel the bank to file any such statement.

"(8) Should any national member bank or any insured national nonmember bank fail to file any certified statement required to be filed by such bank under any provision of this subsection, or fail to pay any assessment required to be paid by such bank under any provision of this section, and should the bank not correct such failure within thirty days after written notice has been given by the Corporation to an officer of the bank, citing this paragraph, and stating that the bank has failed to file or pay as required by law, all the rights, privileges, and franchises of the bank granted to it under the National Bank Act or under the provisions of this Act, as amended, shall be thereby forfeited. Whether or not the penalty provided in this paragraph has been incurred shall be determined and adjudged in the manner provided in the sixth paragraph of section 2 of this Act, as amended. The remedies provided in this paragraph and in the two preceding paragraphs shall not be construed as limiting any other remedies against any insured bank, but shall be in addition thereto.

"(9) Trust funds held by an insured bank in a fiduciary capacity whether held in its trust or deposited in any other department or in another bank shall be insured in an amount not to exceed $5,000 for each trust estate, and when deposited by the fiduciary bank in another insured bank such trust funds shall be similarly insured to the fiduciary bank according to the trust estates represented. Notwithstanding any other provision of this section, such insurance shall be separate from and additional to that covering other deposits of the owners of such trust funds or the beneficiaries of such trust estates: *Provided*, That where the fiduciary bank deposits any of such trust funds in other insured banks, the amount so held by other insured banks on deposit shall not for the purpose of any certified statement required under paragraph (2), (3), or (4) of this subsection be considered to be a deposit liability of the fiduciary bank, but shall be considered to be a deposit liability of the bank in which such funds are so deposited by such fiduciary bank. The board of directors shall have power by regulation to prescribe the manner of reporting and of depositing such trust funds.

"(i) (1) Any insured bank (except a national member bank or State member bank) may, upon not less than ninety days' written notice to the Corporation, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, terminate its status as an insured bank. Whenever the board of directors shall find that an insured bank or its directors or trustees have continued unsafe or unsound practices in conducting the business of such bank, or have knowingly or negligently permitted any of its officers or agents to violate any provision of any law or regulation to which the insured bank is subject, the board of directors shall first give to the Comptroller of the Currency in the case of a national bank or a District bank, to the authority having supervision of the bank in the case of a State bank, or to the Board of Governors of the Federal Reserve System in the case of a State member bank, a statement with respect to such prac-

tices or violations for the purpose of securing the correction thereof. Unless such correction shall be made within one hundred and twenty days or such shorter period of time as the Comptroller of the Currency, the State authority, or Board of Governors of the Federal Reserve System, as the case may be, shall require, the board of directors, if it shall determine to proceed further, shall give to the bank not less than thirty days' written notice of intention to terminate the status of the bank as an insured bank, and shall fix a time and place for a hearing before the board of directors or before a person designated by it to conduct such hearing, at which evidence may be produced, and upon such evidence the board of directors shall make written findings which shall be conclusive. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the termination of its status as an insured bank. If the board of directors shall find that any violation specified in such notice has been established, the board of directors may order that the insured status of the bank be terminated on a date subsequent to such finding and to the expiration of the time specified in such notice of intention. The Corporation may publish notice of such termination and the bank shall give notice of such termination to each of its depositors at his last address of record on the books of the bank, in such manner and at such time as the board of directors may find to be necessary and may order for the protection of depositors. After the termination of the insured status of any bank under the provisions of this paragraph, the insured deposits of each depositor in the bank on the date of such termination, less all subsequent withdrawals from any deposits of such depositor, shall continue for a period of two years to be insured, and the bank shall continue to pay to the Corporation assessments as in the case of an insured bank during such period. No additions to any such deposits and no new deposits in such bank made after the date of such termination shall be insured by the Corporation, and the bank shall not advertise or hold itself out as having insured deposits unless in the same connection it shall also state with equal prominence that such additions to deposits and new deposits made after such date are not so insured. Such bank shall, in all other respects, be subject to the duties and obligations of an insured bank for the period of two years from the date of such termination, and in the event that such bank shall be closed on account of inability to meet the demands of its depositors within such period of two years, the Corporation shall have the same powers and rights with respect to such bank as in case of an insured bank.

"(2) Whenever the insured status of a State member bank shall be terminated by action of the board of directors, the Board of Governors of the Federal Reserve System shall terminate its membership in the Federal Reserve System in accordance with the provisions of section 9 of this Act, and whenever the insured status of a national member bank shall be so terminated the Comptroller of the Currency shall appoint a receiver for the bank, which shall be the Corporation whenever the bank shall be unable to meet the demands of its depositors. Whenever a member bank shall cease to be a member of the Federal Reserve System, its status as an insured bank shall,

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without notice or other action by the board of directors, terminate on the date the bank shall cease to be a member of the Federal Reserve System, with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection.

"(3) If any nonmember bank which becomes an insured bank under the provisions of paragraph (1) of subsection (f) of this section shall elect, within thirty days after the effective date, not to continue as an insured bank, and shall within such period give written notice to the Corporation of its election, in accordance with regulations to be prescribed by the board of directors, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes, or debentures of such bank, it shall cease to be an insured bank and cease to be subject to the provisions of this section and the rights of the bank (including its right to any refund) shall be as provided by law existing prior to the effective date. The board of directors shall cause notice of termination of insurance to be given to the depositors of such bank by publication or otherwise as the board of directors may determine, and the deposits in such bank shall continue to be insured for twenty days beyond such thirty day period.

"(4) Whenever the liabilities of an insured bank for deposits shall have been assumed by another insured bank or banks, the insured status of the bank whose liabilities are so assumed shall terminate on the date of receipt by the Corporation of satisfactory evidence of such assumption with like effect as if its insured status had been terminated on said date by the board of directors after proceedings under paragraph (1) of this subsection: *Provided*, That if the bank whose liabilities are so assumed gives to its depositors notice of such assumption within thirty days after such assumption takes effect, by publication or by any reasonable means, in accordance with regulations to be prescribed by the board of directors, the insurance of its deposits shall terminate at the end of six months from the date such assumption takes effect, and such bank shall thereupon be relieved of all future obligations to the Corporation, including the obligation to pay future assessments.

"(j) Upon the date of enactment of the Banking Act of 1933, the Corporation shall become a body corporate and as such shall have power—

"First. To adopt and use a corporate seal.

"Second. To have succession until dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal. All suits of a civil nature at common law or in equity to which the Corporation shall be a party shall be deemed to arise under the laws of the United States: *Provided*, That any such suit to which the Corporation is a party in its capacity as receiver of a State bank and which involves only the rights or obligations of depositors, creditors, stockholders and such State bank under State law shall not be deemed to arise under the laws of the United States. No attachment or execution shall be issued against the Corporation or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or

United States court. The board of directors shall designate an agent upon whom service of process may be made in any State, Territory, or jurisdiction in which any insured bank is located.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

"Sixth. To prescribe by its board of directors, bylaws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this section and such incidental powers as shall be necessary to carry out the powers so granted.

"Eighth. To make examinations of and to require information and reports from banks, as provided in this section.

"Ninth. To act as receiver.

"Tenth. To prescribe by its board of directors such rules and regulations as it may deem necessary to carry out the provisions of this section.

"(k) (1) The board of directors shall administer the affairs of the Corporation fairly and impartially and without discrimination. The board of directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation with the consent of any Federal Reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

"(2) The board of directors shall appoint examiners who shall have power, on behalf of the Corporation, to examine any insured State nonmember bank (except a District bank), any State nonmember bank making application to become an insured bank, and any closed insured bank, whenever in the judgment of the board of directors an examination of the bank is necessary. Such examiners shall have like power to examine, with the written consent of the Comptroller of the Currency, any national bank or District bank, and, with the written consent of the Board of Governors of the Federal Reserve System, any State member bank. Each such examiner shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine and take and preserve the testimony of any of the officers and agents thereof, and shall make a full and detailed report of the condition of the bank to the Corporation. The board of directors in

like manner shall appoint claim agents who shall have power to investigate and examine all claims for insured deposits and transferred deposits. Each claim agent shall have power to administer oaths and to examine under oath and take and preserve the testimony of any persons relating to such claims. The provisions of sections 184 to 186 (both inclusive) of the Revised Statutes (U. S. C., title 5, secs. 94 to 96) are hereby extended to examinations and investigations authorized by this paragraph.

"(3) Each insured State nonmember bank (except a District bank) shall make to the Corporation reports of condition in such form and at such times as the board of directors may require. The board of directors may require such reports to be published in such manner, not inconsistent with any applicable law, as it may direct. Every such bank which fails to make or publish any such report within such time, not less than five days, as the board of directors may require, shall be subject to a penalty of not more than $100 for each day of such failure recoverable by the Corporation for its use.

"(4) The Corporation shall have access to reports of examinations made by, and reports of condition made to, the Comptroller of the Currency or any Federal Reserve bank, may accept any report made by or to any commission, board, or authority having supervision of a State nonmember bank (except a District bank), and may furnish to the Comptroller of the Currency, to any Federal Reserve bank, and to any such commission, board, or authority, reports of examinations made on behalf of, and reports of condition made to, the Corporation.

"(l) (1) The Temporary Federal Deposit Insurance Fund and the Fund For Mutuals heretofore created pursuant to the provisions of this section are hereby consolidated into a Permanent Insurance Fund for insuring deposits, and the assets therein shall be held by the Corporation for the uses and purposes of the Corporation: *Provided*, That the obligations to and rights of the Corporation, depositors, banks, and other persons arising out of any event or transaction prior to the effective date shall remain unimpaired. On and after the effective date, the Corporation shall insure the deposits of all insured banks as provided in this section: *Provided*, That the insurance shall apply only to deposits of insured banks which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business: *Provided further*, That if any insured bank shall, without the consent of the Corporation, release or modify restrictions on or deferments of deposits which had not been made available for withdrawal in the usual course of the banking business on or before the effective date, such deposits shall not be insured. The maximum amount of the insured deposit of any depositor shall be $5,000. The Corporation, in the discretion of the board of directors, may open on its books solely for the benefit of mutual savings banks and depositors therein a separate Fund For Mutuals. If such Fund is opened, all assessments upon mutual savings banks shall be paid into such Fund and the Permanent Insurance Fund of the Corporation shall cease to be liable for insurance losses sustained in mutual savings banks: *Provided*, That the capital assets of the Corporation shall be so liable and all expenses of operation of the Corporation shall be allocated between such Funds on an equitable basis.

"(2) For the purposes of this section, an insured bank shall be deemed to have been closed on account of inability to meet the demands of its depositors in any case in which it has been closed for the purpose of liquidation without adequate provision being made for payment of its depositors.

"(3) Notwithstanding any other provision of law, whenever any insured national bank or insured District bank shall have been closed by action of its board of directors, or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such closed bank, and no other person shall be appointed as receiver of such closed bank.

"(4) It shall be the duty of the Corporation as such receiver to realize upon the assets of such closed bank, having due regard to the condition of credit in the locality; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided. The Corporation shall retain for its own account such portion of the amounts realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors, and it shall pay to depositors and other creditors the net amounts available for distribution to them. With respect to any such closed bank, the Corporation as such receiver shall have all the rights, powers, and privileges now possessed by or hereafter granted by law to a receiver of an insolvent national bank.

"(5) Whenever any insured State bank (except a District bank) shall have been closed by action of its board of directors or by the authority having supervision of such bank, as the case may be, on account of inability to meet the demands of its depositors, the Corporation shall accept appointment as receiver thereof, if such appointment is tendered by the authority having supervision of such bank and is authorized or permitted by State law. With respect to any such insured State bank, the Corporation as such receiver shall possess all the rights, powers and privileges granted by State law to a receiver of a State bank.

"(6) Whenever an insured bank shall have been closed on account of inability to meet the demands of its depositors, payment of the insured deposits in such bank shall be made by the Corporation as soon as possible, subject to the provisions of paragraph (7) of this subsection, either (A) by making available to each depositor a transferred deposit in a new bank in the same community or in another insured bank in an amount equal to the insured deposit of such depositor and subject to withdrawal on demand, or (B) in such other manner as the board of directors may prescribe: *Provided*, That the Corporation, in its discretion, may require proof of claims to be filed before paying the insured deposits, and that in any case where the Corporation is not satisfied as to the validity of a claim for an insured deposit, it may require the final determination of a court of competent jurisdiction before paying such claim.

"(7) In the case of a closed national bank or District bank, the Corporation, upon the payment of any depositor as provided in paragraph (6) of this subsection, shall be subrogated to all rights of the depositor against the closed bank to the extent of such payment.

In the case of any other closed insured bank, the Corporation shall not make any payment to any depositor until the right of the Corporation to be subrogated to the rights of such depositor on the same basis as provided in the case of a closed national bank under this section shall have been recognized either by express provision of State law, by allowance of claims by the authority having supervision of such bank, by assignment of claims by depositors, or by any other effective method. In the case of any closed insured bank, such subrogation shall include the right on the part of the Corporation to receive the same dividends from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to the depositor on a claim for the insured deposit, but such depositor shall retain his claim for any uninsured portion of his deposit: *Provided*, That the rights of depositors and other creditors of any State bank shall be determined in accordance with the applicable provisions of State law.

"(8) As soon as possible after the closing of an insured bank, the Corporation, if it finds that it is advisable and in the interest of the depositors of the closed bank or the public, shall organize a new national bank to assume the insured deposits of such closed bank and otherwise to perform temporarily the functions hereinafter provided for. The new bank shall have its place of business in the same community as the closed bank.

"(9) The articles of association and the organization certificate of the new bank shall be executed by representatives designated by the Corporation. No capital stock need be paid in by the Corporation. The new bank shall not have a board of directors, but shall be managed by an executive officer appointed by the board of directors of the Corporation who shall be subject to its directions. In all other respects the new bank shall be organized in accordance with the then existing provisions of law relating to the organization of national banking associations. The new bank may, with the approval of the Corporation, accept new deposits which shall be subject to withdrawal on demand and which, except where the new bank is the only bank in the community, shall not exceed $5,000 from any depositor. The new bank, without application to or approval by the Corporation, shall be an insured bank and shall maintain on deposit with the Federal Reserve bank of its district reserves in the amount required by law for member banks, but it shall not be required to subscribe for stock of the Federal Reserve bank. Funds of the new bank shall be kept on hand in cash, invested in obligations of the United States, or in obligations guaranteed as to principal and interest by the United States, or deposited with the Corporation, with a Federal Reserve bank, or, to the extent of the insurance coverage thereon, with an insured bank. The new bank, unless otherwise authorized by the Comptroller of the Currency, shall transact no business except that authorized by this section and as may be incidental to its organization. Notwithstanding any other provision of law the new bank, its franchise, property, and income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

"(10) Upon the organization of a new bank, the Corporation shall promptly make available to it an amount equal to the estimated insured deposits of such closed bank plus the estimated amount of the expenses of operating the new bank, and shall determine as soon as possible the amount due each depositor for his insured deposit in the closed bank, and the total expenses of operation of the new bank. Upon such determination, the amounts so estimated and made available shall be adjusted to conform to the amounts so determined. Earnings of the new bank shall be paid over or credited to the Corporation in such adjustment. If any new bank, during the period it continues its status as such, sustains any losses with respect to which it is not effectively protected except by reason of being an insured bank, the Corporation shall furnish to it additional funds in the amount of such losses. The new bank shall assume as transferred deposits the payment of the insured deposits of such closed bank to each of it [1] depositors. Of the amounts so made available, the Corporation shall transfer to the new bank, in cash, such sums as may be necessary to enable it to meet its expenses of operation and immediate cash demands on such transferred deposits, and the remainder of such amounts shall be subject to withdrawal by the new bank on demand.

"(11) Whenever in the judgment of the board of directors it is desirable to do so, the Corporation shall cause capital stock of the new bank to be offered for sale on such terms and conditions as the board of directors shall deem advisable in an amount sufficient, in the opinion of the board of directors, to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by section 5138 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 51), for the organization of a national bank in the place where such new bank is located. The stockholders of the closed insured bank shall be given the first opportunity to purchase any shares of common stock so offered. Upon proof that an adequate amount of capital stock in the new bank has been subscribed and paid for in cash, the Comptroller of the Currency shall require the articles of association and the organization certificate to be amended to conform to the requirements for the organization of a national bank, and thereafter, when the requirements of law with respect to the organization of a national bank have been complied with, he shall issue to the bank a certificate of authority to commence business, and thereupon the bank shall cease to have the status of a new bank, shall be managed by directors elected by its own shareholders and may exercise all the powers granted by law, and it shall be subject to all the provisions of law relating to national banks. Such bank shall thereafter be an insured national bank, without certification to or approval by the Corporation.

"(12) If the capital stock of the new bank is not offered for sale, or if an adequate amount of capital for such new bank is not subscribed and paid for, the board of directors may offer to transfer its business to any insured bank in the same community which will take over its assets, assume its liabilities, and pay to the Corporation for such business such amount as the board of directors may deem adequate; or the board of directors in its discretion may change the location of the new bank to the office of the Corporation or to some other place or may at any time wind up its affairs as herein provided.

[1] So in original.

Unless the capital stock of the new bank is sold or its assets are taken over and its liabilities are assumed by an insured bank as above provided within two years from the date of its organization, the Corporation shall wind up the affairs of such bank, after giving such notice, if any, as the Comptroller of the Currency may require, and shall certify to the Comptroller of the Currency the termination of the new bank. Thereafter the Corporation shall be liable for the obligations of such bank and shall be the owner of its assets. The provisions of sections 5220 and 5221 of the Revised Statutes (U. S. C., title 12, secs. 181 and 182) shall not apply to such new banks.

"(m) (1) The Corporation as receiver of a closed national bank or District bank shall not be required to furnish bond and shall have the right to appoint an agent or agents to assist it in its duties as such receiver, and all fees, compensation, and expenses of liquidation and administration thereof shall be fixed by the Corporation, subject to the approval of the Comptroller of the Currency, and may be paid by it out of funds coming into its possession as such receiver. The Comptroller of the Currency is authorized and empowered to waive and relieve the Corporation from complying with any regulations of the Comptroller of the Currency with respect to receiverships where in his discretion such action is deemed advisable to simplify administration.

"(2) Payment of an insured deposit to any person by the Corporation shall discharge the Corporation, and payment of a transferred deposit to any person by the new bank or by an insured bank in which a transferred deposit has been made available shall discharge the Corporation and such new bank or other insured bank, to the same extent that payment to such person by the closed bank would have discharged it from liability for the insured deposit.

"(3) Except as otherwise prescribed by the board of directors, neither the Corporation nor such new bank or other insured bank shall be required to recognize as the owner of any portion of a deposit appearing on the records of the closed bank under a name other than that of the claimant, any person whose name or interest as such owner is not disclosed on the records of such closed bank as part owner of said deposit, if such recognition would increase the aggregate amount of the insured deposits in such closed bank.

"(4) The Corporation may withhold payment of such portion of the insured deposit of any depositor in a closed bank as may be required to provide for the payment of any liability of such depositor as a stockholder of the closed bank, or of any liability of such depositor to the closed bank or its receiver, which is not offset against a claim due from such bank, pending the determination and payment of such liability by such depositor or any other person liable therefor.

"(5) If, after the Corporation shall have given at least three months' notice to the depositor by mailing a copy thereof to his last known address appearing on the records of the closed bank, any depositor in the closed bank shall fail to claim his insured deposit from the Corporation within eighteen months after the appointment of the receiver for the closed bank, or shall fail within such period to claim or arrange to continue the transferred deposit with the new bank or with the other insured bank which assumes liability therefor, all rights of the depositor against the Corporation with

respect to the insured deposit, and against the new bank and such other insured bank with respect to the transferred deposit, shall be barred, and all rights of the depositor against the closed bank and its shareholders, or the receivership estate to which the Corporation may have become subrogated, shall thereupon revert to the depositor. The amount of any transferred deposits not claimed within such eighteen months' period, shall be refunded to the Corporation.

"(n) (1) Money of the Corporation not otherwise employed shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal Reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

"(2) Nothing contained in this section shall be construed to prevent the Corporation from making loans to national banks closed by action of the Comptroller of the Currency, or by vote of their directors, or to State member banks closed by action of the appropriate State authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

"(3) Receivers or liquidators of insured banks closed on account of inability to meet the demands of their depositors shall be entitled to offer the assets of such banks for sale to the Corporation or as security for loans from the Corporation, upon receiving permission from the appropriate State authority in accordance with express provisions of State law in the case of insured State banks, or from the Comptroller of the Currency in the case of national banks or District banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes (U. S. C., title 12, sec. 193), and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment. The Corporation, in its discretion, may make loans on the security of or may purchase and liquidate or sell any part of the assets of an insured bank which is now or may hereafter be closed on account of inability to meet the demands of its depositors, but in any case in which the Corporation is acting as receiver of a closed insured bank, no such loan or purchase shall be made without the approval of a court of competent jurisdiction.

"(4) Until July 1, 1936, whenever in the judgment of the board of directors such action will reduce the risk or avert a threatened loss to the Corporation and will facilitate a merger or consolidation of an

insured bank with another insured bank, or will facilitate the sale of the assets of an open or closed insured bank to and assumption of its liabilities by another insured bank, the Corporation may, upon such terms and conditions as it may determine, make loans secured in whole or in part by assets of an open or closed insured bank, which loans may be in subordination to the rights of depositors and other creditors, or the Corporation may purchase any such assets or may guarantee any other insured bank against loss by reason of its assuming the liabilities and purchasing the assets of an open or closed insured bank. Any insured national bank or District bank, or, with the approval of the Comptroller of the Currency, any receiver thereof, is authorized to contract for such sales or loans and to pledge any assets of the bank to secure such loans.

"(o) (1) The Corporation is authorized and empowered to issue and to have outstanding its notes, debentures, bonds, or other such obligations, in a par amount aggregating not more than three times the amount received by the Corporation in payment of its capital stock and in payment of the assessments upon insured banks for the year 1936. The notes, debentures, bonds, and other such obligations issued under this subsection shall be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and shall bear such rate or rates of interest, and shall mature at such time or times, as may be determined by the Corporation: *Provided*, That the Corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the Corporation may determine.

"(2) The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the Corporation to be issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include such purchases: *Provided*, That if the Reconstruction Finance Corporation fails for any reason to purchase any of the obligations of the Corporation as provided in subsection (b) of section 5e of the Reconstruction Finance Corporation Act, as amended, the Secretary of the Treasury is authorized and directed to purchase such obligations in an amount equal to the amount of such obligations the Reconstruction Finance Corporation so fails to purchase: *Provided further*, That the Secretary of the Treasury is authorized and directed, whenever in the judgment of the board of directors of the Corporation additional funds are required for insurance purposes, to purchase obligations of the Corporation in an additional amount of not to exceed $250,000,000 par value: *Provided further*, That the proceeds derived from the purchase by the Secretary of the Treasury of any such obligations shall be used by the Corporation solely in carrying out its functions with respect to such insurance. The Secretary of the Treasury may, at any time, sell any of the obligations of the Corporation acquired by him under this subsection. All redemp-

tions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public-debt transactions of the United States.

"(p) All notes, debentures, bonds, or other such obligations issued by the Corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The Corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as the other real property is taxed.

"(q) In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plate, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.

"(r) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

"(s) Whoever, for the purpose of obtaining any loan from the Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Corporation to purchase any assets, or for the purpose of obtaining the payment of any insured deposit or transferred deposit or the allowance, approval, or payment of any claim, or for the purpose of influencing in any way the action of the Corporation under this section, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years or both.

"(t) Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued by the Corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation or coupon issued or purporting to have been issued by the Corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious obligation or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

"(u) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged, or otherwise entrusted to it, or (2) with intent to defraud the Corporation or any other body, politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or without being duly authorized draws any order or issues, puts forth, or assigns any note, debenture, bond, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

"(v) (1) No individual, association, partnership, or corporation shall use the words 'Federal Deposit Insurance Corporation', or a combination of any three of these four words, as the name or a part thereof under which he or it shall do business. No individual, association, partnership, or corporation shall advertise or otherwise represent falsely by any device whatsoever that his or its deposit liabilities are insured or in anywise guaranteed by the Federal Deposit Insurance Corporation or by the United States or any instrumentality thereof; and no insured bank shall advertise or otherwise represent falsely by any device whatsoever the extent to which or the manner in which its deposit liabilities are insured by the Federal Deposit Insurance Corporation. Every individual, partnership, association, or corporation violating this subsection shall be punished by a fine of not exceeding $1,000, or by imprisonment not exceeding one year, or both.

"(2) Every insured bank shall display at each place of business maintained by it a sign or signs, and shall include in advertisements relating to deposits a statement to the effect that its deposits are insured by the Corporation. The board of directors shall prescribe by regulation the forms of such signs and the manner of display and the substance of such statements and the manner of use. For each day an insured bank continues to violate any provision of this paragraph or any lawful provision of said regulations, it shall be subject to a penalty of not more than $100, recoverable by the Corporation for its use.

"(3) No insured bank shall pay any dividends on its capital stock or interest on its capital notes or debentures (of such interest is required to be paid only out of net profits) while it remains in default in the payment of any assessment due to the Corporation; and any director or officer of any insured bank who participates in the declaration or payment of any such dividend shall, upon conviction, be fined not more than $1,000, or imprisoned not more than one year, or both: *Provided*, That if such default is due to a dispute between the insured bank and the Corporation over the amount of such assessment, this paragraph shall not apply, if such bank shall deposit security satisfactory to the Corporation for payment upon final determination of the issue.

"(4) Unless, in addition to compliance with other provisions of law, it shall have the prior written consent of the Corporation, no insured bank shall enter into any consolidation or merger with any noninsured bank, or assume liability to pay any deposits made in any

noninsured bank, or transfer assets to any noninsured bank in consideration of the assumption of liability for any portion of the deposits made in such insured bank, and no insured State nonmember bank (except a District bank) without such consent shall reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures.

"(5) No State nonmember insured bank (except a District bank) shall establish and operate any new branch after thirty days after the effective date unless it shall have the prior written consent of the Corporation, and no branch of any State nonmember insured bank shall be moved from one location to another after thirty days after the effective date without such consent. The factors to be considered in granting or withholding the consent of the Corporation under this paragraph shall be those enumerated in subsection (g) of this section.

"(6) The Corporation may require any insured bank to provide protection and indemnity against burglary, defalcation, and other similar insurable losses. Whenever any insured bank refuses to comply with any such requirement the Corporation may contract for such protection and indemnity and add the cost thereof to the assessment otherwise payable by such bank.

"(7) Whenever any insured bank (except a national bank or a District bank), after written notice of the recommendations of the Corporation based on a report of examination of such bank by an examiner of the Corporation, shall fail to comply with such recommendations within one hundred and twenty days after such notice, the Corporation shall have the power, and is hereby authorized, to publish only such part of such report of examination as relates to any recommendation not complied with: *Provided*, That notice of intention to make such publication shall be given to the bank at least ninety days before such publication is made.

"(8) The board of directors shall by regulation prohibit the payment of interest on demand deposits in insured nonmember banks and for such purpose it may define the term 'demand deposits'; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of this Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System. The board of directors shall from time to time limit by regulation the rates of interest or dividends which may be paid by insured nonmember banks on time and savings deposits, but such regulations shall be consistent with the contractual obligations of such banks to their depositors. For the purpose of fixing such rates of interest or dividends, the board of directors shall by regulation prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. The board of directors shall by regulation define what constitutes time and savings deposits in an insured nonmember bank. Such regulations shall prohibit any insured nonmember bank from paying any time deposit before its maturity except upon such conditions and in

accordance with such rules and regulations as may be prescribed by the board of directors, and from waiving any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement. For each violation of any provision of this paragraph or any lawful provision of such regulations relating to the payment of interest or dividends on deposits or to withdrawal of deposits, the offending bank shall be subject to a penalty or [1] not more than $100, recoverable by the Corporation for its use.

"(w) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), insofar as applicable, are extended to apply to contracts or agreements with the Corporation under this section, which for the purposes hereof shall be held to include loans, advances, extensions, and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of assets, and all contracts and agreements pertaining to the same.

"(x) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

"(y) (1) No State bank which during the calendar year 1941 or any succeeding calendar year shall have average deposits of $1,000,000 or more shall be an insured bank or continue to have any part of its deposits insured after July 1 of the year following any such calendar year during which it shall have had such amount of average deposits, unless such bank shall be a member of the Federal Reserve System: *Provided*, That for the purposes of this paragraph the term 'State bank' shall not include a savings bank, a mutual savings bank, a Morris Plan bank or other incorporated banking institution engaged only in a business similar to that transacted by Morris Plan banks, a State trust company doing no commercial banking business, or a bank located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands.

"(2) It is not the purpose of this section to discriminate, in any manner, against State nonmember, and in favor of, national or member banks; but the purpose is to provide all banks with the same opportunity to obtain and enjoy the benefits of this section. No bank shall be discriminated against because its capital stock is less than the amount required for eligibility for admission into the Federal Reserve System.

"(z) The provisions of this section limiting the insurance of the deposits of any depositor to a maximum less than the full amount shall be independent and separable from each and all of the provisions of this section."

TITLE II—AMENDMENTS TO THE FEDERAL RESERVE ACT

SECTION 201. Paragraph "Fifth" of section 4 of the Federal Reserve Act, as amended, is amended, effective March 1, 1936, to read as follows:

"Fifth. To appoint by its board of directors a president, vice presidents, and such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds for them

[1] So in original.

and fix the penalty thereof, and to dismiss at pleasure such officers or employees. The president shall be the chief executive officer of the bank and shall be appointed by the board of directors, with the approval of the Board of Governors of the Federal Reserve System, for a term of five years; and all other executive officers and all employees of the bank shall be directly responsible to him. The first vice president of the bank shall be appointed in the same manner and for the same term as the president, and shall, in the absence or disability of the president or during a vacancy in the office of president, serve as chief executive officer of the bank. Whenever a vacancy shall occur in the office of the president or the first vice president, it shall be filled in the manner provided for original appointments; and the person so appointed shall hold office until the expiration of the term of his predecessor."

SEC. 202. Section 9 of the Federal Reserve Act, as amended, is amended by inserting after the tenth paragraph thereof the following new paragraph:

"In order to facilitate the admission to membership in the Federal Reserve System of any State bank which is required under subsection (y) of section 12B of this Act to become a member of the Federal Reserve System in order to be an insured bank or continue to have any part of its deposits insured under such section 12B, the Board of Governors of the Federal Reserve System may waive in whole or in part the requirements of this section relating to the admission of such bank to membership: *Provided*, That, if such bank is admitted with a capital less than that required for the organization of a national bank in the same place and its capital and surplus are not, in the judgment of the Board of Governors of the Federal Reserve System, adequate in relation to its liabilities to depositors and other creditors, the said Board may, in its discretion, require such bank to increase its capital and surplus to such amount as the Board may deem necessary within such period prescribed by the Board as in its judgment shall be reasonable in view of all the circumstances: *Provided, however*, That no such bank shall be required to increase its capital to an amount in excess of that required for the organization of a national bank in the same place."

SEC. 203. (a) Hereafter the Federal Reserve Board shall be known as the "Board of Governors of the Federal Reserve System", and the governor and the vice governor of the Federal Reserve Board shall be known as the "chairman" and the "vice chairman", respectively, of the Board of Governors of the Federal Reserve System.

(b) The first two paragraphs of section 10 of the Federal Reserve Act, as amended, are amended to read as follows:

"SEC. 10. The Board of Governors of the Federal Reserve System (hereinafter referred to as the 'Board') shall be composed of seven members, to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the Banking Act of 1935, for terms of fourteen years except as hereinafter provided, but each appointive member of the Federal Reserve Board in office on such date shall continue to serve as a member of the Board until February 1, 1936, and the Secretary of the Treasury and the Comptroller of the Currency shall continue to serve as members of the Board until February 1, 1936. In selecting the members of the

Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. The members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of $15,000, payable monthly, together with actual necessary traveling expenses.

"The members of the Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office on the date of enactment of the Banking Act of 1935, the President shall fix the term of the successor to such member at not to exceed fourteen years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one member in any two-year period, and thereafter each member shall hold office for a term of fourteen years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. Of the persons thus appointed, one shall be designated by the President as chairman and one as vice chairman of the Board, to serve as such for a term of four years. The chairman of the Board, subject to its supervision, shall be its active executive officer. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. Any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term of fourteen years."

(c) The fourth paragraph of section 10 of the Federal Reserve Act, as amended, is amended by striking out the second, third, and fourth sentences thereof and inserting in lieu thereof the following: "At meetings of the Board the chairman shall preside, and, in his absence, the vice chairman shall preside. In the absence of the chairman and the vice chairman, the Board shall elect a member to act as chairman pro tempore."

(d) Section 10 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following new paragraph:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

SEC 204. Section 10 (b) of the Federal Reserve Act, as amended, is amended to read as follows:

"SEC. 10 (b). Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."

SEC. 205. Section 12A of the Federal Reserve Act, as amended, is amended, effective March 1, 1936, to read as follows:

"SEC. 12A. (a) There is hereby created a Federal Open Market Committee (hereinafter referred to as the 'Committee'), which shall consist of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks to be selected as hereinafter provided. Such representatives of the Federal Reserve banks shall be elected annually as follows: One by the boards of directors of the Federal Reserve Banks of Boston and New York, one by the boards of directors of the Federal Reserve Banks of Philadelphia and Cleveland, one by the boards of directors of the Federal Reserve Banks of Chicago and Saint Louis, one by the boards of directors of the Federal Reserve Banks of Richmond, Atlanta, and Dallas, and one by the boards of directors of the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco. An alternate to serve in the absence of each such representative shall be elected annually in the same manner. The meetings of said Committee shall be held at Washington, District of Columbia, at least four times each year upon the call of the chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee.

"(b) No Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of this Act except in accordance with the direction of and regulations adopted by the Committee. The Committee shall consider, adopt, and transmit to the several Federal Reserve banks, regulations relating to the open-market transactions of such banks.

"(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

SEC. 206. (a) Subsection (b) of section 14 of the Federal Reserve Act, as amended, is amended by inserting before the semicolon at the end thereof a colon and the following: *Provided*, That any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities but only in the open market".

(b) Subsection (d) of section 14 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following: "but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board;".

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SEC. 207. The sixth paragraph of section 19 of the Federal Reserve Act, as amended, is amended to read as follows:

"Notwithstanding the other provisions of this section, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required by law to be maintained by such bank on the date of enactment of the Banking Act of 1935 nor more than twice such amount."

SEC. 208. The first paragraph of section 24 of the Federal Reserve Act, as amended, is amended to read as follows:

"SEC. 24. Any national banking association may make real-estate loans secured by first liens upon improved real estate, including improved farm land and improved business and residential properties. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate, and any national banking association may purchase any obligation so secured when the entire amount of such obligation is sold to the association. The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised value of the real estate offered as security and no such loan shall be made for a longer term than five years; except that (1) any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than ten years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of Title II of the National Housing Act. No such association shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus the amount of its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater. Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such association is located."

SEC. 209. Section 325 of the Revised Statutes is amended to read as follows:

"SEC. 325. The Comptroller of the Currency shall be appointed by the President, by and with the advice and consent of the Senate, and

shall hold his office for a term of five years unless sooner removed by the President, upon reasons to be communicated by him to the Senate; and he shall receive a salary at the rate of $15,000 a year."

TITLE III—TECHNICAL AMENDMENTS TO THE BANKING LAWS

SECTION 301. Subsection (c) of section 2 of the Banking Act of 1933, as amended, is amended by adding at the end thereof the following paragraph:

"Notwithstanding the foregoing, the term 'holding company affiliate' shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies."

SEC. 302. The first paragraph of section 20 of the Banking Act of 1933, as amended, is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That nothing in this paragraph shall apply to any such organization which shall have been placed in formal liquidation and which shall transact no business except such as may be incidental to the liquidation of its affairs".

SEC. 303. (a) Paragraph (1) of subsection (a) of section 21 of the Banking Act of 1933, as amended, is amended by inserting before the semicolon at the end thereof a colon and the following: "*Provided*, That the provisions of this paragraph shall not prohibit national banks or State banks or trust companies (whether or not members of the Federal Reserve System) or other financial institutions or private bankers from dealing in, underwriting, purchasing, and selling investment securities to the extent permitted to national banking associations by the provisions of section 5136 of the Revised Statutes, as amended (U. S. C., title 12, sec. 24; Supp. VII, title 12, sec. 24): *Provided further*, That nothing in this paragraph shall be construed as affecting in any way such right as any bank, banking association, savings bank, trust company, or other banking institution, may otherwise possess to sell, without recourse or agreement to repurchase, obligations evidencing loans on real estate".

(b) Paragraph (2) of subsection (a) of such section 21 is amended to read as follows:

"(2) For any person, firm, corporation, association, business trust, or other similar organization to engage, to any extent whatever with others than his or its officers, agents or employees, in the business of receiving deposits subject to check or to repayment upon presentation of a pass book, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization (A) shall be incorporated under, and authorized to engage in such business by, the laws of the United States or of any State, Territory, or District, or (B) shall be permitted by any State, Territory, or District to engage in such business and shall be subjected by the law of such State, Territory, or District to examination and regulation, or (C) shall submit to periodic examination by the banking authority of the

State, Territory, or District where such business is carried on and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and under the same conditions as required by the law of such State, Territory, or District in the case of incorporated banking institutions engaged in such business in the same locality."

SEC. 304. Section 22 of the Banking Act of 1933, as amended, is amended by adding at the end thereof the following sentences: "Such additional liability shall cease on July 1, 1937, with respect to all shares issued by any association which shall be transacting the business of banking on July 1, 1937: *Provided*, That not less than six months prior to such date, such association shall have caused notice of such prospective termination of liability to be published in a newspaper published in the city, town, or county in which such association is located, and if no newspaper is published in such city, town, or county, then in a newspaper of general circulation therein. If the association fail to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six month[1] subsequent to publication, in the manner above provided."

SEC. 305. Paragraph (c) of section 5155 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 36), is amended (1) by inserting after the first sentence thereof the following new sentence: "In any State in which State banks are permitted by statute law to maintain branches within county or greater limits, if no bank is located and doing business in the place where the proposed agency is to be located, any national banking association situated in such State may, with the approval of the Comptroller of the Currency, establish and operate, without regard to the capital requirements of this section, a seasonal agency in any resort community within the limits of the county in which the main office of such association is located, for the purpose of receiving and paying out deposits, issuing and cashing checks and drafts, and doing business incident thereto: *Provided*, That any permit issued under this sentence shall be revoked upon the opening of a State or national bank in such community."; and (2) by striking out the first word in the last sentence of such paragraph (c) and inserting in lieu thereof the following: "Except as provided in the immediately preceding sentence, no".

SEC. 306. Section 4 of the Act entitled "An Act to amend section 12B of the Federal Reserve Act so as to extend for one year the temporary plan for deposit insurance, and for other purposes", approved June 16, 1934 (48 Stat. 969), is amended to read as follows:

"SEC. 4. So much of section 31 of the Banking Act of 1933, as amended, as relates to stock ownership by directors, trustees, or members of similar governing bodies of any national banking association, or of any State bank or trust company which is a member of the Federal Reserve System, is hereby repealed."

SEC. 307. Effective January 1, 1936, section 32 of the Banking Act of 1933, as amended, is amended to read as follows:

"SEC. 32. No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or

[1] So in original.

through syndicate participation, of stocks, bonds, or other similar securities, shall serve the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments."

SEC. 308. (a) The second sentence of paragraph Seventh of section 5136 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 24), is amended to read as follows: "The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: *Provided*, That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on the date of enactment of the Banking Act of 1935."

(b) The fourth sentence of such paragraph Seventh is amended to read as follows: "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation."

(c) The last sentence of such paragraph Seventh is amended by inserting before the colon after the words "Home Owners' Loan Corporation" a comma and the following: "or obligations which are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States".

SEC. 309. Section 5138 of the Revised Statutes, as amended, (U. S. C., Supp. VII, title 12, sec. 51), is amended by adding the following sentences at the end thereof: "No such association shall hereafter be authorized to commence the business of banking until it shall have a paid-in surplus equal to 20 per centum of its capital: *Provided*, That the Comptroller of the Currency may waive this requirement as to a State bank converting into a national banking association, but each such State bank which is converted into a national banking association shall, before the declaration of a dividend on its shares of common stock, carry not less than one-half part of its net profits of the preceding half year to its surplus fund until it shall have a surplus equal to 20 per centum of its capital: *Provided*, That for the purposes of this section any amounts paid into a fund for the retirement of any preferred stock of any such converted State bank out of its net earnings for such half-year period shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for

such period may then properly be carried to surplus. In any such case the converted State bank shall be obligated to transfer to surplus the amount so paid into such retirement fund for such period on account of the preferred stock as such stock is retired."

SEC. 310. (a) The last paragraph of section 5139 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 52), is amended to read as follows:

"After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any such association shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such association, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such association: *Provided*, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a national banking association."

(b) The nineteenth paragraph of section 9 of the Federal Reserve Act, as amended, is amended to read as follows:

"After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any State member bank shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any State member bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank: *Provided*, That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a State member bank."

SEC. 311. (a) The first paragraph of section 5144 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 61), is amended to read as follows:

"SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit; and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except that (1) this shall not be construed as limiting the voting rights of holders of preferred stock under the terms and provisions of articles of association, or amendments thereto, adopted pursuant to the provisions of section 302 (a) of the Emergency Banking and Bank Conservation Act, approved

March 9, 1933, as amended, (2) in the election of directors, shares of its own stock held by a national bank as sole trustee, whether registered in its own name as such trustee or in the name of its nominee, shall not be voted by the registered owner unless under the terms of the trust the manner in which such shares shall be voted may be determined by a donor or beneficiary of the trust and unless such donor or beneficiary actually directs how such shares shall be voted, (3) shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (4) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote. Whenever shares of stock cannot be voted by reason of being held by the bank as sole trustee, such shares shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares."

(b) The first sentence of the third paragraph of such section 5144 is amended to read: "Any such holding company affiliate may make application to the Board of Governors of the Federal Reserve System for a voting permit entitling it to vote the stock controlled by it at any or all meetings of shareholders of such bank or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same."

(c) Section 5144 of the Revised Statutes, as amended, is further amended by adding at the end of subsection (c) thereof the following: " and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affiliates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stock; ".

SEC. 312. Section 5154 of the Revised Statutes, as amended (U. S. C., title 12, sec. 35), is amended by adding at the end thereof the following paragraph:

" The Comptroller of the Currency may, in his discretion and subject to such conditions as he may prescribe, permit such converting bank to retain and carry at a value determined by the Comptroller such of the assets of such converting bank as do not conform to the legal requirements relative to assets acquired and held by national banking associations."

SEC. 313. Section 5162 of the Revised Statutes (U. S. C., title 12, sec. 170) is amended by adding at the end thereof the following paragraph:

" The Comptroller of the Currency may designate one or more persons to countersign in his name and on his behalf such assignments or transfers of bonds as require his countersignature."

SEC. 314. Section 5197 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 85), is amended by inserting after the second sentence thereof the following new sentence: "The maximum amount of interest or discount to be charged at a branch of an association located outside of the States of the United States and the District of Columbia shall be at the rate allowed by the laws of the country, territory, dependency, province, dominion, insular possession, or other political subdivision where the branch is located."

SEC. 315. Section 5199 of the Revised Statutes (U. S. C., title 12, sec. 60), is amended to read as follows:

"SEC. 5199. The directors of any association may, semiannually, declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend on its shares of common stock, carrying not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common capital: *Provided*, That for the purposes of this section, any amounts paid into a fund for the retirement of any preferred stock of any such association out of its net earnings for such half-year period shall be deemed to be an addition to its surplus fund if, upon the retirement of such preferred stock, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the association shall be obligated to transfer to surplus the amounts so paid into such retirement fund for such period on account of the preferred stock as such stock is retired."

SEC. 316. Section 5209 of the Revised Statutes (U. S. C., title 12, sec. 592), is hereby amended by inserting after the words "known as the Federal Reserve Act", the words "or of any national banking association, or of any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act"; and by inserting after the words "such Federal Reserve bank or member bank", wherever they appear in such section, the words "or such national banking association or insured bank"; and by inserting after the words "or the Comptroller of the Currency", the words "or the Federal Deposit Insurance Corporation,".

SEC. 317. Section 5220 of the Revised Statutes (U. S. C., title 12, sec. 181), is amended by adding at the end thereof the following paragraph:

"The shareholders shall designate one or more persons to act as liquidating agent or committee, who shall conduct the liquidation in accordance with law and under the supervision of the board of directors, who shall require a suitable bond to be given by said agent or committee. The liquidating agent or committee shall render annual reports to the Comptroller of the Currency on the 31st day of December of each year showing the progress of said liquidation until the same is completed. The liquidating agent or committee shall also make an annual report to a meeting of the shareholders to be held on the date fixed in the articles of association for the annual meeting, at which meeting the shareholders may, if they see fit, by a vote representing a majority of the entire stock of the bank, remove the liquidating agent or committee and appoint one or more others in place thereof. A special meeting of the shareholders may be called at any time in the same manner as if the bank continued an active bank and at said meeting the shareholders may, by vote of the

majority of the stock, remove the liquidating agent or committee. The Comptroller of the Currency is authorized to have an examination made at any time into the affairs of the liquidating bank until the claims of all creditors have been satisfied, and the expense of making such examinations shall be assessed against such bank in the same manner as in the case of examinations made pursuant to section 5240 of the Revised Statutes, as amended (U. S. C., title 12, secs. 484, 485; Supp. VII, title 12, secs. 481–483)."

SEC. 318. Section 5243 of the Revised Statutes (U. S. C., title 12, sec. 583) is amended by striking out the semicolon therein and all that precedes it and substituting the following:

"SEC. 5243. The use of the word 'national', the word 'Federal' or the words 'United States', separately, in any combination thereof, or in combination with other words or syllables, as part of the name or title used by any person, corporation, firm, partnership, business trust, association or other business entity, doing the business of bankers, brokers, or trust or savings institutions is prohibited except where such institution is organized under the laws of the United States, or is otherwise permitted by the laws of the United States to use such name or title, or is lawfully using such name or title on the date when this section, as amended, takes effect;".

SEC. 319. (a) Section 5 of the Federal Reserve Act, as amended, is amended by striking out the last three sentences thereof and inserting in lieu thereof the following: "When a member bank reduces its capital stock or surplus it shall surrender a proportionate amount of its holdings in the capital stock of said Federal Reserve bank. Any member bank which holds capital stock of a Federal Reserve bank in excess of the amount required on the basis of 6 per centum of its paid-up capital stock and surplus shall surrender such excess stock. When a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve bank and be released from its stock subscription not previously called. In any such case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of 1 per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve bank."

(b) Section 6 of the Federal Reserve Act, as amended, is amended by striking out the last paragraph thereof.

SEC. 320. The fifth paragraph of section 9 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following sentence: "Such reports of condition shall be in such form and shall contain such information as the Board of Governors of the Federal Reserve System may require and shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe."

SEC. 321. (a) The first sentence of paragraph (m) of section 11 of the Federal Reserve Act, as amended, is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That with respect to loans represented by obligations in the form of notes secured by not less than a like amount of bonds

or notes of the United States issued since April 24, 1917, certificates of indebtedness of the United States, Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States, such limitation of 10 per centum on loans to any person shall not apply, but State member banks shall be subject to the same limitations and conditions as are applicable in the case of national banks under paragraph (8) of section 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 84)".

(b) Paragraph (8) of section 5200 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, sec. 84), is amended by inserting after the comma following the words "certificates of indebtedness of the United States", the words "Treasury bills of the United States, or obligations fully guaranteed both as to principal and interest by the United States".

SEC. 322. The third paragraph of section 13 of the Federal Reserve Act, as amended, is amended by changing the words "indorsed and otherwise secured to the satisfaction of the Federal Reserve bank" in that paragraph to read "indorsed or otherwise secured to the satisfaction of the Federal Reserve bank".

SEC. 323. Subsection (e) of section 13b of the Federal Reserve Act, as amended, is amended by striking out "upon the date this section takes effect", and inserting in lieu thereof "on and after June 19, 1934"; and by striking out "the par value of the holdings of each Federal Reserve bank of Federal Deposit Insurance Corporation stock", and inserting in lieu thereof "the amount paid by each Federal Reserve bank for stock of the Federal Deposit Insurance Corporation".

SEC. 324. (a) The first paragraph of section 19 of the Federal Reserve Act, as amended, is amended to read as follows:

"SEC. 19. The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms 'demand deposits', 'gross demand deposits', 'deposits payable on demand', 'time deposits', 'savings deposits', and 'trust funds', to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: *Provided*, That, within the meaning of the provisions of this section regarding the reserves required of member banks, the term 'time deposits' shall include 'savings deposits'."

(b) The tenth paragraph of such section 19 is amended to read as follows:

"In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System."

(c) The last two paragraphs of such section 19 are amended to read as follows:

"No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be con-

strued as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

"The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia."

(d) Such section 19 is amended by adding at the end thereof the following new paragraph:

"Notwithstanding the provisions of the First Liberty Bond Act, as amended, the Second Liberty Bond Act, as amended, and the Third Liberty Bond Act, as amended, member banks shall be required to maintain the same reserves against deposits of public moneys by the United States as they are required by this section to maintain against other deposits."

SEC. 325. Section 21 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following paragraph:

"Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to sub-

mit to examination, the Board of Governors of the Federal Reserve System or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank."

SEC. 326. (a) Subsection (a) of section 22 of the Federal Reserve Act, as amended, is amended by inserting in the first paragraph thereof after "No member bank" the following: "and no insured bank as defined in subsection (c) of section 12B of this Act"; by inserting before the period at the end of the first sentence of such paragraph "or assistant examiner, who examines or has authority to examine such bank"; and by inserting after "any member bank" in the second paragraph thereof "or insured bank"; by inserting before the period at the end thereof "or Federal Deposit Insurance Corporation examiner"; and by adding at the end of such subsection a new paragraph, as follows:

"The provisions of this subsection shall apply to all public examiners and assistant examiners who examine member banks of the Federal Reserve System or insured banks, whether appointed by the Comptroller of the Currency, by the Board of Governors of the Federal Reserve System, by a Federal Reserve agent, by a Federal Reserve bank, or by the Federal Deposit Insurance Corporation, or appointed or elected under the laws of any State; but shall not apply to private examiners or assistant examiners employed only by a clearing-house association or by the directors of a bank."

(b) Subsection (b) of such section 22 is amended by inserting therein after "no national bank examiner" the following: "and no Federal Deposit Insurance Corporation examiner"; and by inserting after "member bank" the following: "or insured bank"; and by inserting after "from the Comptroller of the Currency," the following: "as to a national bank, the Board of Governors of the Federal Reserve System as to a State member bank, or the Federal Deposit Insurance Corporation as to any other insured bank,".

(c) Subsection (g) of such section 22 is amended to read as follows:

"(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers: *Provided*, That loans made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from such date where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank: *Provided further*, That with the prior approval of a majority of the entire board of directors, any member bank may extend credit to any executive officer thereof, and such officer may become indebted thereto, in an amount not exceeding $2,500. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank

of which he is an executive officer, he shall make a written report to the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership, shall be considered within the prohibition of this subsection. Nothing contained in this subsection shall prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of such bank any loan or other asset which shall have been previously acquired by such bank in good faith or from incurring any indebtedness to such bank for the purpose of protecting such bank against loss or giving financial assistance to it. The Board of Governors of the Federal Reserve System is authorized to define the term 'executive officer', to determine what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit, for the purposes of this subsection, and to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of this subsection in accordance with its purposes and to prevent evasions of such provisions. Any executive officer of a member bank accepting a loan or extension of credit which is in violation of the provisions of this subsection shall be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933: *Provided*, That for each day that a loan or extension of credit made in violation of this subsection exists, it shall be deemed to be a continuation of such violation within the meaning of said section 30."

SEC. 327. The third paragraph of section 23A of the Federal Reserve Act, as amended, is amended to read as follows:

"For the purpose of this section, the term 'affiliate' shall include holding-company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged on June 16, 1934, in holding the bank premises of the member bank with which it is affiliated or in maintaining and operating properties acquired for banking purposes prior to such date; (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or livestock loan company; (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (4) organized under section 25 (a) of this Act, as amended, or a subsidiary of such affiliate, all the stock of which (except qualifying shares of directors in an amount not to exceed 10 per centum) is owned by such affiliate; (5) engaged solely in holding obligations of the United States or obligations fully guaranteed by the United States as to principal and interest, the Federal intermediate credit banks, the Federal land banks, the Federal Home Loan Banks, or the Home Owners' Loan Corporation; (6) where the affiliate relationship has arisen out of a bona fide debt contracted prior to the date of the creation of such relationship; or (7) where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor, administrator, trustee, receiver,

agent, depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations. The provisions of this section shall likewise not apply to indebtedness of any affiliate for unpaid balances due a bank on assets purchased from such bank or to loans secured by, or extensions of credit against, obligations of the United States or obligations fully guaranteed by the United States as to principal and interest."

SEC. 328. Section 24 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following new paragraph:

" Loans made to established industrial or commercial businesses (a) which are in whole or in part discounted or purchased or loaned against as security by a Federal Reserve bank under the provisions of section 13b of this Act, (b) for any part of which a commitment shall have been made by a Federal Reserve bank under the provisions of said section, (c) in the making of which a Federal Reserve bank participates under the provisions of said section, or (d) in which the Reconstruction Finance Corporation cooperates or purchases a participation under the provisions of section 5d of the Reconstruction Finance Corporation Act, shall not be subject to the restrictions or limitations of this section upon loans secured by real estate."

SEC. 329. Section 25 of the Federal Reserve Act, as amended, is further amended by striking out the last paragraph of such section; the paragraph of section 25 (a) of the Federal Reserve Act, as amended, which commences with the words "A majority of the shares of the capital stock of any such corporation " is amended by striking out all of said paragraph except the first sentence thereof; and the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes " (38 Stat. 730), approved October 15, 1914, as amended, is further amended (a) by striking out section 8A thereof and (b) by substituting for the first three paragraphs of section 8 thereof the following:

" SEC. 8. No private banker or director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time a director, officer, or employee of any other bank, banking association, savings bank, or trust company organized under the National Bank Act or organized under the laws of any State or of the District of Columbia, or any branch thereof, except that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof; but the foregoing prohibition shall not apply in the case of any one or more of the following or any branch thereof:

"(1) A bank, banking association, savings bank, or trust company, more than 90 per centum of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per centum of the stock.

"(2) A bank, banking association, savings bank, or trust company which has been placed formally in liquidation or which is in the

hands of a receiver, conservator, or other official exercising similar functions.

"(3) A corporation, principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act.

"(4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank.

"(5) A bank, banking association, savings bank, or trust company not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto.

"(6) A bank, banking association, savings bank, or trust company not engaged in a class or classes of business in which such member bank is engaged.

"(7) A mutual savings bank having no capital stock.

"Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve System, or any branch thereof, who is lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on the date of enactment of the Banking Act of 1935, from continuing such service.

"The Board of Governors of the Federal Reserve System is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose."

SEC. 330. (a) Section 1 of the Act of November 7, 1918, as amended (U. S. C., title 12, sec. 33; Supp. VII, title 12, sec. 33), is amended by striking out the second proviso down to and including the words "to be ascertained" and inserting in lieu thereof the following: "*And provided further*, That if such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of each of the associations proposing to consolidate, any shareholder of any of the associations so consolidated, who has voted against such consolidation at the meeting of the association of which he is a shareholder or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval".

(b) Such section 1 is further amended by adding at the end thereof the following paragraphs:

"Publication of notice and notification by registered mail of the meeting provided for in the foregoing paragraph may be waived by unanimous action of the shareholders of the respective associations. Where a dissenting shareholder has given notice as above provided to the association of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than

thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the Comptroller of the Currency to appoint such appraiser to act on the appraisal committee for and on behalf of such association.

"If shares, when sold at public auction in accordance with this section, realize a price greater than their final appraised value, the excess in such sale price shall be paid to the shareholder. The consolidated association shall be liable for all liabilities of the respective consolidating associations. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern."

SEC. 331. (a) Section 3 of the Act of November 7, 1918, as amended (U. S. C., Supp. VII, title 12, sec. 34 (a)), is amended by striking out the first sentence following the proviso down to and including the words "to be ascertained" and inserting in lieu thereof the following: "If such consolidation shall be voted for at said meetings by the necessary majorities of the shareholders of the association and of the State or other bank proposing to consolidate, and thereafter the consolidation shall be approved by the Comptroller of the Currency, any shareholder of either the association or the State or other bank so consolidated, who has voted against such consolidation at the meeting of the association of which he is a stockholder, or has given notice in writing at or prior to such meeting to the presiding officer that he dissents from the plan of consolidation, shall be entitled to receive the value of the shares so held by him if and when said consolidation shall be approved by the Comptroller of the Currency, such value to be ascertained as of the date of the Comptroller's approval."

(b) Such section 3 is further amended by adding at the end thereof the following paragraph:

"Where a dissenting shareholder has given notice as provided in this section to the bank of which he is a shareholder of his dissent from the plan of consolidation, and the directors thereof fail for more than thirty days thereafter to appoint an appraiser of the value of his shares, said shareholder may request the Comptroller of the Currency to appoint such appraiser to act on the appraisal committee for and on behalf of such bank. In the event one of the appraisers fails to agree with the others as to the value of said shares, then the valuation of the remaining appraisers shall govern."

SEC. 332. The Act entitled "An Act to prohibit offering for sale as Federal farm-loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words 'Federal', 'United States', or 'reserve', or a combination of such words, to prohibit false advertising, and for other purposes", approved May 24, 1926 (U. S. C., Supp. VII, title 12, secs. 584–588), is amended by inserting in section 2 thereof after "the words 'United States'", the following: "the words 'Deposit Insurance'"; and by inserting in said section after the words "the laws of the United States", the following: "nor to any new bank organized by the Federal Deposit Insurance Corporation as provided in section 12B of the Federal Reserve Act, as amended,"; and by striking out the period at the end of section 4 and inserting the following: "or the Federal Deposit Insurance Corporation."

SEC. 333. The Act entitled "An Act to provide punishment for certain offenses committed against banks organized or operating under laws of the United States or any member of the Federal Reserve System", approved May 18, 1934 (48 Stat. 783), is amended by striking out the period after "United States" in the first section thereof and inserting the following: "and any insured bank as defined in subsection (c) of section 12B of the Federal Reserve Act, as amended."

SEC. 334. Section 5143 of the Revised Statutes, as amended, is hereby amended by striking out everything following the words "Comptroller of the Currency", where such words last appear in such section, and substituting the following: "and no shareholder shall be entitled to any distribution of cash or other assets by reason of any reduction of the common capital of any association unless such distribution shall have been approved by the Comptroller of the Currency and by the affirmative vote of at least two-thirds of the shares of each class of stock outstanding, voting as classes."

SEC. 335. Section 5139 of the Revised Statutes, as amended, is amended by adding at the end of the first paragraph the following new paragraph:

"Certificates hereafter issued representing shares of stock of the association shall state (1) the name and location of the association, (2) the name of the holder of record of the stock represented thereby, (3) the number and class of shares which the certificate represents, and (4) if the association shall issue stock of more than one class, the respective rights, preferences, privileges, voting rights, powers, restrictions, limitations, and qualifications of each class of stock issued shall be stated in full or in summary upon the front or back of the certificates or shall be incorporated by a reference to the articles of association set forth on the front of the certificates. Every certificate shall be signed by the president and the cashier of the association, or by such other officers as the bylaws of the association shall provide, and shall be sealed with the seal of the association."

SEC. 336. The last sentence of section 301 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, is amended to read as follows: "No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid in and notice thereof, duly acknowledged before a notary public by the president, vice president, or cashier of said association, has been transmitted to the Comptroller of the Currency and his certificate obtained specifying the amount of such issue of preferred stock and his approval thereof and that the amount has been duly paid in as a part of the capital of such association; which certificate shall be deemed to be conclusive evidence that such preferred stock has been duly and validly issued."

SEC. 337. The additional liability imposed by section 4 of the Act of March 4, 1933, as amended (D. C. Code, Supp. I, title 5, sec. 300a), upon the shareholders of savings banks, savings companies, and banking institutions and the additional liability imposed by section 734 of the Act of March 3, 1901 (D. C. Code, title 5, sec. 361), upon the shareholders of trust companies, shall cease to apply on July 1, 1937, with respect to such savings banks, savings companies, banking institutions, and trust companies which shall be transacting business

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on such date: *Provided*, That not less than six months prior to such date, the savings bank, savings company, banking institution, or trust company, desiring to take advantage hereof, shall have caused notice of such prospective termination of liability to be published in a newspaper published in the District of Columbia and having general circulation therein. In the event of failure to give such notice as and when above provided, a termination of such additional liability may thereafter be accomplished as of the date six months subsequent to publication in the manner above provided. Each such savings bank, savings company, banking institution, and trust company shall, before the declaration of a dividend on its shares of common stock, carry not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common stock: *Provided*, That for the purposes of this section, any amounts paid into a fund for the retirement of any preferred stock or debentures of any such savings bank, savings company, banking institution, or trust company, out of its net earnings for such half-year period shall be deemed to be an addition to its surplus if, upon the retirement of such preferred stock or debentures, the amount so paid into such retirement fund for such period may then properly be carried to surplus. In any such case the savings bank, savings company, banking institution, or trust company shall be obligated to transfer to surplus the amount so paid into such retirement fund for such period on account of the preferred stock or debentures as such stock or debentures are retired.

SEC. 338. The second paragraph of section 9 of the Federal Reserve Act, as amended, is amended by striking out the period at the end thereof and adding thereto the following: "except that the approval of the Board of Governors of the Federal Reserve System, instead of the Comptroller of the Currency, shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated."

SEC. 339. Section 5234 of the Revised Statutes, as amended (U. S. C., title 12, sec. 192), is amended by striking out the period after the words " money so deposited " at the end of the next to the last sentence of such section and inserting in lieu of such period a colon and the following: "*Provided*, That no security in the form of deposit of United States bonds, or otherwise, shall be required in the case of such parts of the deposits as are insured under section 12B of the Federal Reserve Act, as amended."

SEC. 340. Section 61 of the Act entitled "An Act to establish a uniform system of bankruptcy throughout the United States", approved July 1, 1898, as amended, is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That no security in form of a bond or otherwise shall be required in the case of such part of the deposits as are insured under section 12B of the Federal Reserve Act, as amended".

SEC. 341. Section 8 of the Act entitled "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes", approved June 25, 1910, as amended (U. S. C., title 39, sec.

758; Supp. VII, title 39, sec. 758), is amended by striking out the first sentence thereof and inserting in lieu thereof the following: "Notwithstanding any other provision of law, (1) each deposit in a postal savings depository office shall be a savings deposit, and interest thereon shall be allowed and entered to the credit of the depositor once for each quarter beginning with the first day of the month following the date of such deposit, but no interest shall be allowed to any such depositor with respect to the whole or any part of the funds to his or her credit for any period of less than three months; (2) no interest shall be paid on any such deposit at a rate in excess of that which may lawfully be paid on savings deposits under regulations prescribed by the Board of Governors of the Federal Reserve System pursuant to the Federal Reserve Act, as amended, for member banks of the Federal Reserve System located in or nearest to the place where such depository office is situated; and (3) postal savings depositories may deposit funds on time in member banks of the Federal Reserve System subject to the provisions of the Federal Reserve Act, as amended, and the regulations of the Board of Governors of the Federal Reserve System, with respect to the payment of time deposits and interest thereon."

SEC. 342. The last sentence of the third paragraph of subsection (k) of section 11 of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 248 (k)), is amended to read as follows: "The State banking authorities may have access to reports of examination made by the Comptroller of the Currency insofar as such reports relate to the trust department of such bank, but nothing in this Act shall be construed as authorizing the State banking authorities to examine the books, records, and assets of such bank."

SEC. 343. The first sentence after the third proviso of section 5240 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, secs. 481 and 482), is amended by striking out the word "is" after the words "whose compensation" and inserting in lieu thereof a comma and the following: "including retirement annuities to be fixed by the Comptroller of the Currency, is and shall be"; and such section 5240 is further amended by striking out "The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency," and inserting in lieu thereof "The Comptroller of the Currency".

SEC. 344. (a) Section 1 of the National Housing Act is amended by adding at the end thereof the following new sentence: "The Administrator shall, in carrying out the provisions of this title and titles II and III, be authorized, in his official capacity, to sue and be sued in any court of competent jurisdiction, State or Federal."

(b) The first sentence of section 2 of the National Housing Act, as amended, is further amended by striking out the words "including the installation of equipment and machinery" and inserting in lieu thereof the words "and the purchase and installation of equipment and machinery on real property".

(c) Subsection (a) of section 203 of the National Housing Act is amended by inserting the words "property and" before the word "projects" in clause (1) of such subsection.

(d) The last sentence of section 207 of the National Housing Act is amended by inserting the words "property or" before the word "project".

SEC. 345. If any part of the capital of a national bank, State member bank, or bank applying for membership in the Federal Reserve System consists of preferred stock, the determination of whether or not the capital of such bank is impaired and the amount of such impairment shall be based upon the par value of its stock even though the amount which the holders of such preferred stock shall be entitled to receive in the event of retirement or liquidation shall be in excess of the par value of such preferred stock. If any such bank or trust company shall have outstanding any capital notes or debentures of the type which the Reconstruction Finance Corporation is authorized to purchase pursuant to the provisions of section 304 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, the capital of such bank may be deemed to be unimpaired if the sound value of its assets is not less than its total liabilities, including capital stock, but excluding such capital notes or debentures and any obligations of the bank expressly subordinated thereto. Notwithstanding any other provision of law, the holders of preferred stock issued by a national banking association pursuant to the provisions of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, shall be entitled to receive such cumulative dividends at a rate not exceeding six per centum per annum on the purchase price received by the association for such stock and, in the event of the retirement of such stock, to receive such retirement price, not in excess of such purchase price plus all accumulated dividends, as may be provided in the articles of association with the approval of the Comptroller of the Currency. If the association is placed in voluntary liquidation, or if a conservator or a receiver is appointed therefor, no payment shall be made to the holders of common stock until the holders of preferred stock shall have been paid in full such amount as may be provided in the articles of association with the approval of the Comptroller of the Currency, not in excess of such purchase price of such preferred stock plus all accumulated dividends.

SEC. 346. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons and circumstances, shall not be affected thereby.

Approved, August 23, 1935.

[PUBLIC RESOLUTION—No. 25—74TH CONGRESS]

[H. J. Res. 320]

JOINT RESOLUTION

To extend from June 16, 1935, to June 16, 1938, the period within which loans made prior to June 16, 1933, to executive officers of member banks of the Federal Reserve System may be renewed or extended.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (g) of section 22 of the Federal Reserve Act is hereby amended by striking out: "*Provided*, That loans heretofore made to any such officer may be renewed or extended not more than two years from the date this paragraph takes effect, if in accord with sound banking practice." and inserting in lieu thereof: "*Provided*, That loans made to any such officer prior to June 16, 1933, may be renewed or extended for periods expiring not more than five years from such date where the board of directors of the member bank shall have satisfied themselves that such extension or renewal is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation, these findings to be evidenced by resolution of the board of directors spread upon the minute book of the bank."

Approved, June 14, 1935.

[PUBLIC RESOLUTION—No. 38—74TH CONGRESS]

[S. J. Res. 152]

JOINT RESOLUTION

To extend to August 31, 1935, the temporary plan for deposit insurance provided for by section 12B of the Federal Reserve Act as amended.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That section 12B of the Federal Reserve Act, as amended, is amended (1) by striking out "July 1, 1935" wherever it appears in subsections (e), (l) and (y), and inserting in lieu thereof "August 31, 1935"; and (2) by striking "June 30, 1935" where it appears in the first sentence of the eighth paragraph of subsection (y), and inserting in lieu thereof "August 31, 1935"; and (3) by adding to subsection (y) the following additional paragraph "The deposits in banks which are on June 30, 1935, members of the fund or the fund for mutuals shall continue to be insured during such extended period to August 31, 1935, without liability on the part of such banks to further calls or assessment."

Approved, June 28, 1935.

[PUBLIC RESOLUTION—No. 63—74TH CONGRESS]

[H. J. Res. 348]

JOINT RESOLUTION

Authorizing exchange of coins and currencies and immediate payment of gold-clause securities by the United States; withdrawing the right to sue the United States thereon; limiting the use of certain appropriations; and for other purposes.

Whereas in order to maintain the uniform value of all coins and currencies of the United States, Public Resolution Numbered 10 of June 5, 1933, declared provisions known as "gold clauses" to be against public policy, prohibited their use in obligations thereafter incurred, and provided that money of the United States legal tender for obligations generally was legal tender for all obligations with or without gold clauses; and

Whereas the United States has paid and will continue to pay to the holders of all its securities their principal and interest, dollar for dollar, in lawful money of the United States: Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the lawful holders of the coins or currencies of the United States shall be entitled to exchange them, dollar for dollar, for other coins or currencies which may be lawfully acquired and are legal tender for public and private debts; and that the owners of the gold clause securities of the United States shall be, at their election, entitled to receive immediate payment of the stated dollar amount thereof with interest to the date of payment or to prior maturity or to prior redemption date, whichever is earlier. The Secretary of the Treasury is authorized and directed to make such exchanges and payments upon presentation hereunder in the manner provided in regulations prescribed by him. The period within which the owners of gold-clause securities shall be entitled hereunder to receive payment prior to maturity shall expire January 1, 1936, or on such later date, not after July 1, 1936, as may be fixed by the Secretary of the Treasury.

SEC. 2. Any consent which the United States may have given to the assertion against it of any right, privilege, or power whether by way of suit, counterclaim, set-off, recoupment, or other affirmative action or defense in its own name or in the name of any of its officers, agents, agencies, or instrumentalities in any proceeding of any nature whatsoever (1) upon any gold-clause securities of the United States or for interest thereon, or (2) upon any coin or currency of the United States, or (3) upon any claim or demand arising out of any surrender, requisition, seizure, or acquisition of any such coin or currency or of any gold or silver and involving the effect or validity of any change in the metallic content of the dollar or other regulation of the value of money, is withdrawn: *Provided*, That this section shall not apply to any suit heretofore commenced or which may be commenced by January 1, 1936, or to any proceeding referred to in this section in which no claim is made for payment or credit in an amount in excess of the face or nominal value in dollars

of the securities, coins or currencies of the United States involved in such proceeding.

SEC. 3. Except in cases with respect to which consent is not withdrawn under section 2, no sums, whether heretofore or hereafter appropriated or authorized to be expended, shall be available for, or expended in, payment upon securities, coins, or currencies of the United States except on an equal and uniform dollar for dollar basis.

SEC. 4. As used in this resolution the phrase "gold clause" means a provision contained in or made with respect to an obligation which purports to give the obligee a right to require payment in gold, or in a particular kind of coin or currency of the United States, or in an amount in money of the United States measured thereby, declared to be against public policy by Public Resolution Numbered 10 of June 5, 1933; and the phrase "securities of the United States" means the domestic public debt obligations of the United States, including bonds, notes, certificates of indebtedness, and Treasury bills, and other obligations for the repayment of money, or for interest thereon, made, issued or guaranteed by the United States.

Approved, August 27, 1935, six p. m., E. S. T.

[PUBLIC RESOLUTION—No. 83—74TH CONGRESS]

[S. J. Res. 230]

JOINT RESOLUTION

Amending paragraph (4) of subsection (n) of section 12B of the Federal Reserve Act, as amended.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph (4) of subsection (n) of section 12B of the Federal Reserve Act, as amended, is amended by striking out "July 1, 1936" and inserting in lieu thereof "July 1, 1938".

Approved, April 21, 1936.

[PUBLIC—No. 9—75TH CONGRESS]

[CHAPTER 20—1ST SESSION]

[S. 417]

AN ACT

To extend the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal Reserve bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates: *Provided, however*, That until June 30, 1939, the Board of Governors of the Federal Reserve System may, should it deem it in the public interest, upon the affirmative vote of not less than a majority of its members, authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept, as such collateral security, direct obligations of the United States. At the close of business on such date, or sooner should the Board of Governors of the Federal Reserve System so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal Reserve notes. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve agent shall each day notify the Board of Governors of the Federal Reserve System of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Board of Governors of the Federal Reserve System may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it."

Approved, March 1, 1937.

[PUBLIC—No. 197—75TH CONGRESS]

[CHAPTER 471—1ST SESSION]

[H. R. 6287]

AN ACT

To amend Public Act Numbered 467, Seventy-third Congress, entitled "Federal Credit Union Act."

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Credit Union Act is amended by inserting at the end thereof the following new section:

"SEC. 21. Upon application by any credit union organized under State law or by any Federal credit union organized in accordance with the terms of this Act, the membership of which is composed exclusively of Federal employees and members of their families, which application shall be addressed to the officer or agency of the United States charged with the allotment of space in the Federal buildings in the community or district in which said credit union or Federal credit union does business, such officer or agency may in his or its discretion allot space to such credit union if space is available without charge for rent or services."

Approved, July 9, 1937.

[PUBLIC—No. 287—75TH CONGRESS]

[CHAPTER 627—1ST SESSION]

[H. R. 7512]

AN ACT

To amend the Act approved March 26, 1934.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act approved March 26, 1934, to authorize annual appropriations to meet losses sustained by officers and employees of the United States in foreign countries due to appreciation of foreign currencies in their relation to the American dollar, be, and is hereby, amended by substitution of the date "July 1, 1933," for "July 15, 1933," as the date from which officers and employees of the United States in service in foreign countries may be reimbursed for losses sustained due to the appreciation of foreign currencies in their relation to the American dollar, and reimbursement of losses sustained for such additional period is authorized to be paid from any unexpended balance of funds appropriated for exchange relief remaining in the Treasury which are otherwise unencumbered.

Approved, August 14, 1937.

[PUBLIC—No. 291—75TH CONGRESS]

[CHAPTER 631—1ST SESSION]

[H. R. 8025]

AN ACT

To amend section 3528 of the Revised Statutes relating to the purchase of metal for minor coins of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3528 of the Revised Statutes, as amended (U. S. C., 1934 edition, title 31, sec. 340), is hereby further amended by striking out the figures "$400,000" and inserting in lieu thereof the figures "$600,000".

Approved, August 14, 1937.

[PUBLIC—No. 349—75TH CONGRESS]

[CHAPTER 747—1ST SESSION]

[H. R. 5900]

AN ACT

To amend the bank-robbery statute to include burglary and larceny.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (a) of section 2 of the Act of May 18, 1934 (48 Stat. 783; U. S. C., title 12, sec. 588b), be and the same is hereby, amended to read as follows:

"(a) Whoever, by force and violence, or by putting in fear, feloniously takes, or feloniously attempts to take, from the person or presence of another any property or money or any other thing of value belonging to, or in the care, custody, control, management, or possession of, any bank; or whoever shall enter or attempt to enter any bank, or any building used in whole or in part as a bank, with intent to commit in such bank or building, or part thereof, so used, any felony or larceny, shall be fined not more than $5,000 or imprisoned not more than twenty years, or both; or whoever shall take and carry away, with intent to steal or purloin, any property or money or any other thing of value exceeding $50 belonging to, or in the care, custody, control, management, or possession of any bank, shall be fined not more than $5,000 or imprisoned not more than ten years, or both; or whoever shall take and carry away, with intent to steal or purloin, any property or money or any other thing of value not exceeding $50 belonging to, or in the care, custody, control, management, or possession of any bank, shall be fined not more than $1,000 or imprisoned not more than one year, or both."

Approved, August 24, 1937.

(EXTRACT FROM)

[CORRECTED PRINT]

[PUBLIC—No. 412—75TH CONGRESS]

[CHAPTER 896—1ST SESSION]

[S. 1685]

AN ACT

To provide financial assistance to the States and political subdivisions thereof for the elimination of unsafe and insanitary housing conditions, for the eradication of slums, for the provision of decent, safe, and sanitary dwellings for families of low income, and for the reduction of unemployment and the stimulation of business activity, to create a United States Housing Authority, and for other purposes.

FINANCIAL PROVISIONS

SEC. 17. The Authority shall have a capital stock of $1,000,000, which shall be subscribed by the United States and paid by the Secretary of the Treasury out of any available funds. Receipts for such payment shall be issued to the Secretary of the Treasury by the Authority and shall evidence the stock ownership of the United States of America.

SEC. 18. There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $26,000,000 for the fiscal year ending June 30, 1938, of which $1,000,000 shall be available to pay the subscription to the capital stock of the Authority. Such sum, and all receipts and assets of the Authority, shall be available for the purposes of this Act until expended.

SEC. 19. Any funds available under any Act of Congress for allocation for housing or slum clearance may, in the discretion of the President, be allocated to the Authority for the purposes of this Act.

SEC. 20. (a) The Authority is authorized to issue obligations, in the form of notes, bonds, or otherwise, which it may sell to obtain funds for the purposes of this Act. The Authority may issue such obligations in an amount not to exceed $100,000,000 on or after the date of enactment of this Act, an additional amount not to exceed $200,000,000 on or after July 1, 1938, and an additional amount not to exceed $200,000,000 on or after July 1, 1939. Such obligations shall be in such forms and denominations, mature within such periods not exceeding sixty years from date of issue, bear such rates of interest not exceeding 4 per centum per annum, be subject to such terms and conditions, and be issued in such manner and sold at such prices as may be prescribed by the Authority, with the approval of the Secretary of the Treasury.

(b) Such obligations shall be exempt, both as to principal and interest, from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States or by any State, county, municipality, or local taxing authority.

(c) Such obligations shall be fully and unconditionally guaranteed upon their face by the United States as to the payment of both interest and principal, and, in the event that the Authority shall be unable to make any such payment upon demand when due, payments shall be made to the holder by the Secretary of the Treasury with money hereby authorized to be appropriated for such purpose out of any money in the Treasury not otherwise appropriated. To the extent of such payment the Secretary of the Treasury shall succeed to all the rights of the holder.

(d) Such obligations shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or agency thereof. The Secretary of the Treasury is likewise authorized to purchase any such obligations, and for such purchases he may use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act, as amended, are extended to include any such purchases. The Secretary of the Treasury may at any time sell any of the obligations acquired by him pursuant to this section, and all redemptions, purchases, and sales by him of such obligations shall be treated as public-debt transactions of the United States.

(e) Such obligations may be marketed for the Authority at its request by the Secretary of the Treasury, utilizing all the facilities of the Treasury Department now authorized by law for the marketing of obligations of the United States.

SEC. 21. (a) Any money of the Authority not otherwise employed may be deposited, subject to check, with the Treasurer of the United States or in any Federal Reserve bank, or may be invested in obligations of the United States or used in the purchase or retirement or redemption of any obligations issued by the Authority.

(b) The Federal Reserve banks are authorized and directed to act as depositories, custodians, and fiscal agents for the Authority in the general exercise of its powers, and the Authority may reimburse any such bank for its services in such manner as may be agreed upon.

(c) The Authority may be employed as a financial agent of the Government. When designated by the Secretary of the Treasury, and subject to such regulations as he may prescribe, the Authority shall be a depository of public money, except receipts from customs.

(d) Not more than 10 per centum of the funds provided for in this Act, either in the form of a loan, grant, or annual contribution, shall be expended within any one State.

Approved, September 1, 1937.

97102°—52——20

[PUBLIC—No. 416—75TH CONGRESS]

[CHAPTER 3—2D SESSION]

[S. 2675]

AN ACT

To amend certain sections of the Federal Credit Union Act approved June 26, 1934 (Public, Numbered 467, Seventy-third Congress).

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6 of the Federal Credit Union Act, approved June 26, 1934 (U. S. C., 1934 edition, title 12, sec. 1756), be, and the same is hereby, amended to read as follows:

"SEC. 6. Federal credit unions shall be under the supervision of the Governor, and shall make such financial reports to him (at least annually) as he may require. Each Federal credit union shall be subject to examination by, and for this purpose shall make its books and records accessible to, any person designated by the Governor. The Governor shall fix a scale of examination fees to be paid by Federal credit unions, giving due consideration to the time and expense incident to such examinations, and to the ability of Federal credit unions to pay such fees, which fees shall be assessed against and paid by each Federal credit union promptly after the completion of such examination. Examination fees collected under the provisions of this section shall be deposited to the credit of the special fund created by section 5 hereof, and shall be available for the purposes specified in said section 5."

SEC. 2. Paragraph (7) of section 7 of the Federal Credit Union Act (U. S. C., 1934 edition, title 12, sec. 1757) is hereby amended by striking out the period at the end thereof, inserting a semicolon, and adding the following: "(c) in accordance with rules and regulations prescribed by the Governor, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (d) and in shares or accounts of Federal savings and loan associations."

SEC. 3. Section 16 of the Federal Credit Union Act (U. S. C., 1934 edition, title 12, sec. 1766) is hereby amended by adding subsection (e) to read as follows:

"(e) The Governor is hereby authorized to make investigations and to conduct researches and studies of the problems of persons of small means in obtaining credit at reasonable rates of interest, and of the methods and benefits of cooperative saving and lending among such persons. He is further authorized to make reports of such investigations and to publish and disseminate the same."

SEC. 4. Section 18 of the Federal Credit Union Act (U. S. C., 1934 edition, title 12, sec. 1768) is hereby amended to read as follows:

"SEC. 18. The Federal credit unions organized hereunder, their property, their franchises, capital, reserves, surpluses, and other funds, and their income shall be exempt from all taxation now or hereafter imposed by the United States or by any State, Territorial,

or local taxing authority; except that any real property and any tangible personal property of such Federal credit unions shall be subject to Federal, State, Territorial, and local taxation to the same extent as other similar property is taxed. Nothing herein contained shall prevent holdings in any Federal credit union organized hereunder from being included in the valuation of the personal property of the owners or holders thereof in assessing taxes imposed by authority of the State or political subdivision thereof in which the Federal credit union is located: *Provided, however*, That the duty or burden of collecting or enforcing the payment of such tax shall not be imposed upon any such Federal credit union and the tax shall not exceed the rate of taxes imposed upon holdings in domestic credit unions."

SEC. 5. Provision by an employer of facilities for the operations of a Federal Credit Union on the premises of such employer shall not be deemed to be intimidation, coercion, interference, restraint or discrimination within the provisions of sections 7 and 8 of the National Labor Relations Act, approved July 5, 1935, or acts amendatory thereof.

Approved, December 6, 1937.

(EXTRACT FROM)

[PUBLIC—NO. 424—75TH CONGRESS]

[CHAPTER 13—3D SESSION]

[H. R. 8730]

AN ACT

To amend the National Housing Act, and for other purposes.

SEC. 13. The last sentence of paragraph "Seventh" of section 5136 of the Revised Statutes, as amended, is further amended by inserting before the colon after the words "guaranteed as to principal and interest by the United States" a comma and the following: "or obligations of national mortgage associations".

Approved, February 3, 1938.

[PUBLIC—No. 492—75TH CONGRESS]

[CHAPTER 173—3D SESSION]

[S. 3400]

AN ACT

To extend from June 16, 1938, to June 16, 1939, the period within which loans made prior to June 16, 1933, to executive officers of member banks of the Federal Reserve System may be renewed or extended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (g) of section 22 of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 375a), is amended by striking out the word "five" in the first sentence of such subsection and inserting in lieu thereof the word "six".

Approved, April 25, 1938.

[PUBLIC—No. 544—75TH CONGRESS]

[CHAPTER 276—3D SESSION]

[H. R. 7187]

AN ACT

To amend section 12B of the Federal Reserve Act, as amended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph (7) of subsection (l) of section 12B of the Federal Reserve Act, as amended (U. S. C., 1934 edition, Supp. II, title 12, sec. 264), be amended to read as follows:

"In the case of a closed national bank or District bank, the Corporation, upon the payment of any depositor as provided in paragraph (6) of this subsection, shall be subrogated to all rights of the depositor against the closed bank to the extent of such payment. In the case of any other closed insured bank, the Corporation shall not make any payment to any depositor until the right of the Corporation to be subrogated to the rights of such depositor on the same basis as provided in the case of a closed national bank under this section shall have been recognized either by express provision of State law, by allowance of claims by the authority having supervision of such bank, by assignment of claims by depositors, or by any other effective method. In the case of any closed insured bank, such subrogation shall include the right on the part of the Corporation to receive the same dividends from the proceeds of the assets of such closed bank and recoveries on account of stockholders' liability as would have been payable to the depositor on a claim for the insured deposit, but such depositor shall retain his claim for any uninsured portion of his deposit: *Provided*, That, with respect to any bank which closes after the date this paragraph as amended takes effect, the Corporation shall waive, in favor only of any person against whom stockholders' individual liability may be asserted, any claim on account of such liability in excess of the liability, if any, to the bank or its creditors, for the amount unpaid upon his stock in such bank; but any such waiver shall be effected in such manner and on such terms and conditions as will not increase recoveries or dividends on account of claims to which the Corporation is not subrogated: *Provided further*, That the rights of depositors and other creditors of any State bank shall be determined in accordance with the applicable provisions of State law."

Approved, May 25, 1938.

[PUBLIC—No. 165—76TH CONGRESS]

[CHAPTER 260—1ST SESSION]

[H. R. 3325]

AN ACT

To extend the time within which the powers relating to the stabilization fund and alteration of the weight of the dollar may be exercised.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (a) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is further amended by striking out the period at the end of such subsection and adding thereto the words "and to the Congress."

SEC. 2. Subsection (c) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is further amended to read as follows:

"(c) All the powers conferred by this section shall expire June 30, 1941, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated."

SEC. 3. The second sentence added to paragraph (b) (2) of Section 43, title III, of the Act approved May 12, 1933, by section 12 of said Gold Reserve Act of 1934, as amended, is further amended to read as follows: "The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire June 30, 1941, unless the President shall sooner declare the existing emergency ended."

SEC. 4. (a) Each United States coinage mint shall receive for coinage into standard silver dollars any silver which such mint, subject to regulations prescribed by the Secretary of the Treasury, is satisfied has been mined subsequently to July 1, 1939, from natural deposits in the United States or any place subject to the jurisdiction thereof.

(b) The Director of such mint with the consent of the owner shall deduct and retain of such silver so received 45 per centum as seigniorage for services performed by the Government of the United States relative to the coinage and delivery of silver dollars. The balance of such silver so received, that is 55 per centum, shall be coined into standard silver dollars and the same or any equal number of other standard silver dollars shall be delivered to the owner or depositor of such silver, and no provisions of law taxing transfers of silver shall extend or apply to any delivery of silver to a United States mint under this section. The 45 per centum of such silver so deducted shall be retained as bullion by the Treasury or coined into standard silver dollars and held or disposed of in the same manner as other bullion or silver dollars held in or belonging to the Treasury.

(c) The Secretary of the Treasury is authorized to prescribe regulations to carry out the purposes of this section. Such regulations

shall contain provisions substantially similar to the provisions contained in the regulations issued pursuant to the Act of Congress approved April 23, 1918 (40 Stat. L., p. 535), known as the Pittman Act, with such changes as he shall determine prescribing how silver tendered to such mints shall be identified as having been produced from natural deposits in the United States or any places subject to its jurisdiction subsequent to July 1, 1939.

Approved, July 6, 1939.

[CORRECTED PRINT]

[PUBLIC—NO. 828—76TH CONGRESS]
[CHAPTER 796—3D SESSION]
[S. 4353]

AN ACT

To restrict or regulate the delivery of checks drawn against funds of the United States, or any agency or instrumentality thereof, to addresses outside the United States, its Territories, and possessions, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter no check or warrant drawn against funds of the United States, or any agency or instrumentality thereof, shall be sent from the United States (including its Territories and possessions and the Commonwealth of the Philippine Islands) for delivery in a foreign country in any case in which the Secretary of the Treasury determines that postal, transportation, or banking facilities in general, or local conditions in the country to which such check or warrant is to be delivered, are such that there is not a reasonable assurance that the payee will actually receive such check or warrant and be able to negotiate the same for full value.

SEC. 2. Any check or warrant, the sending of which is prohibited under the provisions of section 1 hereof, shall be held by the drawer until the close of the calendar quarter next following its date, during which period such check or warrant may be released for delivery if the Secretary of the Treasury determines that conditions have so changed as to provide a reasonable assurance that the payee will actually receive the check or warrant and be able to negotiate it for full value. At the end of such quarter, unless the Secretary of the Treasury shall otherwise direct, the drawer shall transmit all checks and warrants withheld in accordance with the provisions of this Act to the drawee thereof, and forward a report stating fully the name and address of the payee; the date, number, and amount of the check or warrant; and the account against which it was drawn, to the Bureau of Accounts of the Treasury Department. The amounts of such undelivered checks and warrants so transmitted shall thereupon be transferred by the drawee from the account of the drawer to a special deposit account with the Treasurer of the United States entitled "Secretary of the Treasury, Proceeds of Withheld Foreign Checks", at which time such checks and warrants shall be marked "Paid into Withheld Foreign Check Account". Thereafter the drawee shall deliver such checks and warrants, together with other paid checks and warrants, to the Comptroller General of the United States, who shall allow credit therefor in the accounts of the drawer and the drawee.

In the case of checks representing payments under laws administered by the Veterans' Administration, when the amount transferred to the special deposit account on behalf of any individual payee equals $1,000, the amounts of any further checks, except checks under contracts of insurance, payable to such payee under such laws shall

be covered into the Treasury as miscellaneous receipts. The deposit in the special deposit account or the covering into the Treasury as miscellaneous receipts, pursuant to the provisions of this section, of the amount of any check issued under laws administered by the Veterans' Administration shall be considered for all purposes, including determinations of rights under section 305 of the World War Veterans' Act, 1924, as amended, as payment to the person entitled thereto.

SEC. 3. Payment of the amounts which have been deposited in the special deposit account in accordance with section 2 hereof shall be made by checks drawn against such special deposit account by the Secretary of the Treasury, only after the claimant shall have established his right to the amount of the check or warrant to the satisfaction of the Secretary of the Treasury (or, in the case of claims based upon checks representing payments under laws administered by the Veterans' Administration, to the satisfaction of the Administrator of Veterans' Affairs) and the Secretary of the Treasury has determined that there is a reasonable assurance that the claimant will actually receive such check in payment of his claim and be able to negotiate the same for full value.

In the case of the death of the payee of any check in payment of pension, compensation, or emergency officers' retirement pay accruing under laws administered by the Veterans' Administration, while the amount thereof remains in the special deposit account, such amount shall, subject to the other conditions of this Act, be payable as follows: (a) Upon death of the veteran, first to the widow; if there is no widow, to his child or children under the age of eighteen at his death; (b) upon death of the widow, to her children under the age of eighteen years at her death; (c) upon the death, prior to disbursement of all or any part of the apportioned amount, of an apportionee of a part of the veteran's pension, compensation, or emergency officers' retirement pay, such apportioned amount not disbursed shall be payable to the veteran; (d) in all other cases no disbursement whatsoever of such pension, compensation, or emergency officers' retirement pay shall be made or allowed except so much as may be necessary to reimburse the person who bore the expense of burial: *Provided, however*, That no disbursement shall be made unless claim therefor be filed in the Veterans' Administration within one year from the date of the death of the person entitled and perfected by the submission of the necessary evidence within six months from the date of the request of the Veterans' Administration therefor. Such benefits shall include only amounts due and unpaid at the time of death under then existing ratings or decisions.

SEC. 4. The provisions of sections 2 and 3 hereof shall apply to all checks or warrants the delivery of which is now being, or may hereafter be, withheld pursuant to Executive Order Numbered 8389 of April 10, 1940, as amended, as well as to all checks or warrants the delivery of which is now being withheld pursuant to administrative action, which administrative action is hereby ratified and confirmed: *Provided*, That any check or warrant the delivery of which has already been withheld for more than one quarter prior to the enactment of this Act shall be immediately delivered to the drawee thereof for disposition in accordance with the provisions of sections

2 and 3 hereof: *Provided further*, That nothing in this Act shall be construed to dispense with the necessity of obtaining a license to authorize the delivery and payment of checks in payment of claims under section 3 hereof in those cases where a license is now or hereafter may be required by law to authorize such delivery and payment.

SEC. 5. The Secretary of the Treasury is hereby authorized to prescribe such rules and regulations as he in his discretion may deem necessary or proper for the administration and execution of this Act.

SEC. 6. Nothing contained in this Act shall be construed as affecting or applying to checks or warrants issued in payment of salaries or wages or for goods purchased by the Government of the United States in foreign countries.

Approved, October 9, 1940.

97102°—52——21

[PUBLIC—No. 832—76TH CONGRESS]

[CHAPTER 841—3D SESSION]

[S. 844]

AN ACT

To simplify the accounts of the Treasurer of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That after the reimbursement to the Treasury from funds derived from assessments made pursuant to section 8 of the Act of July 12, 1882, 22 Stat. 164, as amended (U. S. C., title 12, sec. 177), of all costs lawfully charged thereto for the fiscal year ending June 30, 1941, the balance of such funds shall be covered into the Treasury as miscellaneous receipts; and thereafter the cost of transporting and redeeming such outstanding national bank notes and Federal Reserve bank notes as may be presented to the Treasurer of the United States for redemption shall be paid from the regular annual appropriations for the Treasury Department.

Approved, October 10, 1940.

[PUBLIC LAW 31—77TH CONGRESS]

[CHAPTER 43—1ST SESSION]

[S. 390]

AN ACT

Relating to foreign accounts in Federal Reserve banks and insured banks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (e) of section 14 of the Federal Reserve Act, as amended, is amended by inserting before the period at the end of the first sentence thereof the following: ", or for foreign banks or bankers, or for foreign states as defined in section 25 (b) of this Act".

SEC. 2. Section 25 (b) of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following new paragraphs:

"Whenever (1) any Federal Reserve bank has received any property from or for the account of a foreign state which is recognized by the Government of the United States, or from or for the account of a central bank of any such foreign state, and holds such property in the name of such foreign state or such central bank; (2) a representative of such foreign state who is recognized by the Secretary of State as being the accredited representative of such foreign state to the Government of the United States has certified to the Secretary of State the name of a person as having authority to receive, control, or dispose of such property; and (3) the authority of such person to act with respect to such property is accepted and recognized by the Secretary of State, and so certified by the Secretary of State to the Federal Reserve bank, the payment, transfer, delivery, or other disposal of such property by such Federal Reserve bank to or upon the order of such person shall be conclusively presumed to be lawful and shall constitute a complete discharge and release of any liability of the Federal Reserve bank for or with respect to such property.

"Whenever (1) any insured bank has received any property from or for the account of a foreign state which is recognized by the Government of the United States, or from or for the account of a central bank of any such foreign state, and holds such property in the name of such foreign state or such central bank; (2) a representative of such foreign state who is recognized by the Secretary of State as being the accredited representative of such foreign state to the Government of the United States has certified to the Secretary of State the name of a person as having authority to receive, control, or dispose of such property; and (3) the authority of such person to act with respect to such property is accepted and recognized by the Secretary of State, and so certified by the Secretary of State to such insured bank, the payment, transfer, delivery, or other disposal of such property by such bank to or upon the order of such person shall be conclusively presumed to be lawful and shall constitute a complete discharge and release of any liability of such bank for or with respect to such property. Any suit or other legal pro-

ceeding against any insured bank or any officer, director, or employee thereof, arising out of the receipt, possession, or disposition of any such property shall be deemed to arise under the laws of the United States and the district courts of the United States shall have exclusive jurisdiction thereof, regardless of the amount involved; and any such bank or any officer, director, or employee thereof which is a defendant in any such suit may, at any time before trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law.

"Nothing in this section shall be deemed to repeal or to modify in any manner any of the provisions of the Gold Reserve Act of 1934 (ch. 6, 48 Stat. 337), as amended, the Silver Purchase Act of 1934 (ch. 674, 48 Stat. 1178), as amended, or subdivision (b) of section 5 of the Act of October 6, 1917 (40 Stat. 411), as amended, or any actions, regulations, rules, orders, or proclamations taken, promulgated, made, or issued pursuant to any of such statutes. In any case in which a license to act with respect to any property referred to in this section is required under any of said statutes, regulations, rules, orders, or proclamations, notification to the Secretary of State by the proper Government officer or agency of the issuance of an appropriate license or that appropriate licenses will be issued on application shall be a prerequisite to any action by the Secretary of State pursuant to this section, and the action of the Secretary of State shall relate only to such property as is included in such notification. Each such notification shall include the terms and conditions of such license or licenses and a description of the property to which they relate.

"For the purposes of this section, (1) the term 'property' includes gold, silver, currency, credits, deposits, securities, choses in action, and any other form of property, the proceeds thereof, and any right, title, or interest therein; (2) the term 'foreign state' includes any foreign government or any department, district, province, county, possession, or other similar governmental organization or subdivision of a foreign government, and any agency or instrumentality of any such foreign government or of any such organization or subdivision; (3) the term 'central bank' includes any foreign bank or banker authorized to perform any one or more of the functions of a central bank; (4) the term 'person' includes any individual, or any corporation, partnership, association, or other similar organization; and (5) the term 'insured bank' shall have the meaning given to it in section 12B of this Act."

Approved, April 7, 1941.

[PUBLIC LAW 656—77TH CONGRESS]

[CHAPTER 488—2D SESSION]

[S. 2565]

AN ACT

To amend sections 12A and 19 of the Federal Reserve Act, as amended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (a) of section 12A of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 263), is amended by striking out the second and third sentences thereof and substituting the following: "Such representatives shall be presidents or first vice presidents of Federal Reserve banks and, beginning with the election for the term commencing March 1, 1943, shall be elected annually as follows: One by the board of directors of the Federal Reserve Bank of New York, one by the boards of directors of the Federal Reserve Banks of Boston, Philadelphia, and Richmond, one by the boards of directors of the Federal Reserve Banks of Cleveland and Chicago, one by the boards of directors of the Federal Reserve Banks of Atlanta, Dallas, and St. Louis, and one by the boards of directors of the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco. In such elections each board of directors shall have one vote; and the details of such elections may be governed by regulations prescribed by the committee, which may be amended from time to time. An alternate to serve in the absence of each such representative shall likewise be a president or first vice president of a Federal Reserve bank and shall be elected annually in the same manner."

SEC. 2. The sixth paragraph of section 19 of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 462b), is amended to read as follows:

"Notwithstanding the other provisions of this section, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both (1) by member banks in central reserve cities or (2) by member banks in reserve cities or (3) by member banks not in reserve or central reserve cities or (4) by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required by law to be maintained by such bank on the date of enactment of the Banking Act of 1935 nor more than twice such amount."

SEC. 3. The ninth paragraph of section 19 of the Federal Reserve Act, as amended (U. S. C., title 12, sec. 464), is amended by striking out the proviso thereof, so that the paragraph will read as follows:

"The required balance carried by a member bank with a Federal

Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Board of Governors of the Federal Reserve System, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities."

Approved, July 7, 1942.

[PUBLIC LAW 783—77TH CONGRESS]

[CHAPTER 659—2D SESSION]

[H. R. 7408]

AN ACT

To amend the Act of October 9, 1940, entitled "An Act to restrict or regulate the delivery of checks drawn against funds of the United States, or any agency or instrumentality thereof, to addresses outside the United States, its Territories, and possessions, and for other purposes".

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1 of the Act of October 9, 1940 (54 Stat. 1086; U. S. C., title 31, sec. 123), is hereby amended by substituting for the period at the end thereof a colon and adding the following: "*Provided*, That any check drawn against funds of the United States for benefits under the laws administered by the Veterans' Administration, for delivery in the United States, its Territories, or possessions, to a guardian, curator, conservator, or other person legally vested with the care of any person in a foreign country, shall be deemed to be drawn for delivery in such foreign country and subject to the provisions of this Act, and the Secretary of the Treasury shall be furnished necessary notification by the Administrator of Veterans' Affairs as to each such check: *Provided further*, That the Administrator of Veterans' Affairs is authorized to except from the provisions of the foregoing proviso any check wherein the application of this amendment would result in reduction, discontinuance, or denial of benefits which otherwise might be used for the care of a dependent of such person."

Approved, December 2, 1942.

[PUBLIC LAW 815—77TH CONGRESS]

[CHAPTER 767—2D SESSION]

[S. 2889]

AN ACT

To further the war effort by authorizing the substitution of other materials for strategic metals used in minor coinage, to authorize the forming of worn and uncurrent standard silver dollars into bars, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) there shall be included among the coins of the United States one or more special series of coins: *Provided*, That the coinage, issuance, and circulation of the coins provided for by this section shall be subject in all respects to the conditions, terms, provisions, limitations, and exceptions specified in subsections (b) to (j) hereof.

(b) No denomination or series of coins provided for by this section shall be coined unless and until the Secretary of the Treasury shall have issued an order that shall (1) prescribe the particular denomination or series, stating the pertinent physical properties, including content, weight, dimensions, shape, and design: *Provided*, That in determining such physical properties the Secretary shall take into consideration the use of such coins in coin-operated devices; and (2) state that he has determined, after consultation with the appropriate officials charged with the production of war material, that the coinage and circulation of the particular series will operate to conserve strategic metals in furtherance of the war effort.

(c) There shall be no coinage pursuant to the provisions of this section after December 31, 1946.

(d) The coinage provided for by this section shall not be of other denominations than 1 cent piece and 3 cent piece, and the amount of coinage of each such denomination shall be prescribed by the Secretary of the Treasury.

(e) Each denomination of coins provided for by this section shall constitute a series: *Provided*, That if one denomination is coined in more than one physical form or composition, the pieces of each different physical form or composition shall constitute a separate series.

(f) The coinage provided for by this section shall be in pieces of such metallic, or other or different content, weight, dimensions, shape, limits of tolerance, and design (including devices and legends), as the Secretary of the Treasury may by regulation prescribe for the particular denomination or series: *Provided*, That no silver shall be used for the coinage provided for by this section except as specified in subsection (g) hereof.

(g) For the coinage of any series, the Secretary of the Treasury is hereby authorized to allocate to the Director of the Mint, at such times and in such amounts as the Secretary of the Treasury deems necessary, any silver bullion in the monetary stocks of the United States not then held for redemption of any outstanding silver certificates. Silver contained in any pieces coined under section 1 of

this Act shall be accounted for by entries in the fund established for the purchase of metal for minor coinage: *Provided*, That the value of any silver bullion accounted for in said fund shall not be considered for the purpose of determining the statutory limit of said fund: *Provided further*, That the gain from the coinage of silver hereunder shall be accounted for by entries in the minor coinage profit fund. If any series is coined of silver or in part of silver, the pieces of said series shall nevertheless be deemed to be other than silver coins, subsidiary silver coins, silver coinage, or subsidiary silver coinage within the meaning of the monetary laws of the United States.

(h) The coinage provided for by this section shall be minor coinage, and the provisions of amended section 3528 of the Revised Statutes (U. S. C., title 31, sec. 340) shall apply with respect to any necessary purchases of metal or other material for the coinage provided for by this section: *Provided, however*, That contracts for said purchases may be entered into in accordance with the provisions of title II of the First War Powers Act, 1941 (55 Stat. 839; U. S. C., Supp. 1, title 50, app., sec. 611).

(i) For the purpose of amended section 3529 of the Revised Statutes (U. S. C., title 31, sec. 341), the coinage provided for in this section shall be in the same category as the minor coins referred to in said section 3529.

(j) Except as provided in this Act, the coinage provided for by this section shall be subject in all respects to the monetary laws of the United States, including, but not by way of limitation, the laws pertaining to counterfeiting, to legal tender, and to the distribution, exchange, and redemption of coins and currency.

SEC. 2. During the period when the coinage provided for by section 1 of this Act may be coined, the Secretary of the Treasury is hereby authorized in his discretion to cause the coinage of any or all of the other minor coins to be suspended for the whole of said period or for any part or parts thereof.

SEC. 3. The Secretary of the Treasury shall cause all worn and uncurrent minor coin of the United States, heretofore or hereafter issued, received in the Treasury, to be melted down, the resulting metal and material to be used for coinage or sold, which sale is hereby authorized. Such coin (including any metal and material derived therefrom), and any loss resulting from the difference between the nominal or face value of such coin and the amount the same will produce in new coin, and any loss resulting from the sale of the metal or other material, shall be accounted for by entries in the fund established for the purchase of metal for minor coinage and said fund shall be reimbursed out of the special fund denominated the minor coinage profit fund: *Provided*, That the value of any coin (including any metal and material derived therefrom) accounted for as provided herein shall not be considered for the purpose of determining the statutory limit of the fund established for the purchase of metal for minor coinage. The proceeds from any sale pursuant to this section shall be accounted for by entries in the fund established for the purchase of metal for minor coinage.

SEC. 4. All worn and uncurrent standard silver dollars now held or hereafter received in the Treasury shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treas-

ury may direct; and the Director of the Mint is hereby authorized to cause the bars obtained pursuant to the provisions of this section to be used for coinage: *Provided, however*, That whenever such bars are obtained from standard silver dollars held as security for outstanding silver certificates, an equal amount of silver shall be allocated as security for outstanding silver certificates when such bars are used for coinage.

SEC. 5. The Director of the Mint shall cause the coinage provided for by section 1 of this Act to be coined in the United States coinage mints or to be coined in whole or in part at such other places or plants as the Director may, with the approval of the Secretary of the Treasury, designate; and the Director, with the approval of the Secretary, is hereby authorized to enter into such contracts as may be necessary to carry out the purposes of this Act.

SEC. 6. There is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $5,000,000 which shall be available for expenditure under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with the carrying out of this Act.

SEC. 7. The Secretary of the Treasury is hereby authorized to issue such orders, regulations, and instructions as he may deem necessary or proper to carry out the purposes of this Act.

Approved, December 18, 1942.

[PUBLIC LAW 519—78TH CONGRESS]

[CHAPTER 624—2D SESSION]

[S. 1954]

AN ACT

To amend the Act entitled "An Act to authorize the use for war purposes of silver held or owned by the United States", approved July 12, 1943.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2 of the Act entitled "An Act to authorize the use for war purposes of silver held or owned by the United States", approved July 12, 1943 (Public Law 137, Seventy-eighth Congress), is amended to read as follows:

"SEC. 2. This Act shall expire on December 31, 1945."

Approved December 20, 1944.

[PUBLIC LAW 4—79TH CONGRESS]

[CHAPTER 4—1ST SESSION]

[S. 375]

AN ACT

To provide for the effective administration of certain lending agencies of the Federal Government.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Loan Agency, created by section 402 of the President's Reorganization Plan Numbered I under authority of the Reorganization Act of 1939, shall continue as an independent establishment of the Federal Government and shall continue to be administered under the direction and supervision of the Federal Loan Administrator in the same manner and to the same extent as if Executive Order 9071, dated February 24, 1942, transferring the functions of the Federal Loan Agency to the Department of Commerce, had not been issued.

SEC. 2. All powers, functions, and duties of the Department of Commerce and of the Secretary of Commerce which relate to the Federal Loan Agency (together with the respective personnel, records, and property, including office equipment, relating to the exercise of such functions, powers, and duties) are hereby transferred to the Federal Loan Agency to be administered under the direction and supervision of the Federal Loan Administrator.

SEC. 3. The unexpended balance of the funds made available to the Secretary of Commerce by Public Law 365, Seventy-eighth Congress, approved June 28, 1944, for administrative expenses of supervising loan agencies, shall be transferred to the Federal Loan Agency to be used for the administrative expenses of that Agency.

SEC. 4. No functions, powers, or duties shall be transferred from the Federal Loan Agency under the provisions of title I of the First War Powers Act, 1941, or any other law unless the Congress shall otherwise by law provide.

SEC. 5. (a) The financial transactions of all Government corporations shall be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States. The audit shall be conducted at the place or places where the accounts of the respective corporations are normally kept. The representatives of the General Accounting Office shall have access to all books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the respective corporations and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians. The audit shall begin with the current fiscal year.

(b) A report of each such audit for each fiscal year ending on June 30 shall be made by the Comptroller General to the Congress

not later than January 15 following the close of the fiscal year for which such audit is made. The report shall set forth the scope of the audit of each corporation and shall include a statement (showing intercorporate relations) of assets and liabilities, capital and surplus, or deficit; a statement of surplus or deficit analysis; a statement of income and expense; and such comments and information as may be deemed necessary to keep Congress informed of the operations and financial condition of the several corporations, together with such recommendations with respect thereto as the Comptroller General may deem advisable, including a report of any impairment of capital noted in the audit and recommendations for the return of such Government capital or the payment of such dividends as, in his judgment, should be accomplished. The report shall also show specifically every program, expenditure, or other financial transaction or undertaking, which, in the opinion of the Comptroller General, has been carried on or made without authority of law. A copy of each report shall be furnished to the President and to the corporation concerned at the time submitted to the Congress.

(c) The expenses of auditing the financial transactions of all Government corporations as provided in section 5 (a) of this Act may be paid out of appropriations to the General Accounting Office and appropriations in such sums as may be necessary are hereby authorized for the purpose: *Provided*, That by agreement between the General Accounting Office and said corporation the expenses of said audit may be paid from funds of such corporation.

Approved February 24, 1945.

[PUBLIC LAW 28—79TH CONGRESS]

[CHAPTER 51—1ST SESSION]

[H. R. 2404]

AN ACT

To increase the debt limit of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Public Debt Act of 1945".

SEC. 2. Section 21 of the Second Liberty Bond Act, as amended, is further amended to read as follows:

"SEC. 21. The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $300,000,000,000 outstanding at any one time."

SEC. 3. Subsections (h) and (i) of section 22 of the Second Liberty Bond Act, as amended, as added by the Public Debt Act of 1943, are hereby amended to read as follows:

"(h) The Secretary of the Treasury, under such regulations as he may prescribe, may authorize or permit payments in connection with the redemption of savings bonds to be made by commercial banks, trust companies, savings banks, savings and loan associations, building and loan associations (including cooperative banks), credit unions, cash depositories, industrial banks, and similar financial institutions. No bank or other finanical institution shall act as a paying agent until duly qualified as such under the regulations prescribed by the Secretary, nor unless (1) it is incorporated under Federal law or under the laws of a State, Territory, possession, the District of Columbia, or the Commonwealth of the Philippine Islands; (2) in the usual course of business it accepts, subject to withdrawal, funds for deposit or the purchase of shares; (3) it is under the supervision of the banking department or equivalent authority of the jurisdiction in which it is incorporated; and (4) it maintains a regular office for the transaction of its business.

"(i) Any losses resulting from payments made in connection with the redemption of savings bonds shall be replaced out of the fund established by the Government Losses in Shipment Act, as amended, under such regulations as may be prescribed by the Secretary of the Treasury. The Treasurer of the United States, any Federal Reserve bank, or any qualified paying agent authorized or permitted to make payments in connection with the redemption of such bonds, shall be relieved from liability to the United States for such losses, upon a determination by the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Treasurer, the Federal Reserve bank, or the qualified paying agent. The Post Office Department or the Postal Service shall be relieved from such liability

upon a joint determination by the Postmaster General and the Secretary of the Treasury that such losses resulted from no fault or negligence on the part of the Post Office Department or the Postal Service. The provisions of section 3 of the Government Losses in Shipment Act, as amended, with respect to the finality of decisions by the Secretary of the Treasury shall apply to the determinations made pursuant to this subsection. All recoveries and repayments on account of such losses, as to which replacement shall have been made out of the fund, shall be credited to it and shall be available for the purposes thereof. The Secretary of the Treasury shall include in his annual report to the Congress a statement of all payments made from the fund pursuant to this subsection."

SEC. 4. The Second Liberty Bond Act, as amended, is further amended by adding at the end thereof the following sections:

"SEC. 23. A finding of death made by any official or agency of the United States authorized by section 5 of the Act of March 7, 1942, as amended (U. S. C., Supp. III, title 50, Appendix, sec. 1005), or by any other law to make such a finding, or by the Secretary of War or the Secretary of the Navy, shall be a sufficient proof of death to support the allowance of credit in the accounts of any Federal Reserve bank or accountable officer of the Treasury Department in any case involving the transfer, exchange, reissue, redemption, or payment of bonds and other obligations of the United States, including those obligations guaranteed by the United States for which the Treasury Department acts as transfer agent.

"SEC. 24. Whenever any direct obligation of the United States, bearing interest or sold on a discount basis, is donated to the United States, is bequeathed by will to the United States, become the property of the United States under the terms of a trust, or is by its terms payable upon the death of the owner to the United States or any officer thereof in his official capacity, the Treasurer of the United States upon receipt of such obligation shall effect redemption thereof. If under applicable law such gift, bequest, or other transfer to the United States is subject to a gift or inheritance tax, the Treasurer shall pay such tax out of the proceeds of redemption and shall deposit the balance in the Treasury as miscellaneous receipts or as otherwise authorized by law. If no tax is payable the entire proceeds shall be so deposited."

SEC. 5. (a) Notwithstanding the provisions of section 3749 of the Revised Statutes, as amended, the Secretary of the Treasury is authorized to sell, exchange, or otherwise dispose of any bonds, notes, or other securities, acquired by him on behalf of the United States under judicial process or otherwise, or delivered to him by an executive department or agency of the United States for disposal, or to enter into arrangements for the extension of the maturity thereof, in such manner, in such amounts, at such prices, for cash, securities, or other property, or any combination thereof, and upon such terms and conditions as he may deem advisable and in the public interest. No such bonds, notes, or other securities of any single issuer having at the date of disposal an aggregate face or par value, or in the case of no-par stock an aggregate stated or book value, in excess of $1,000,000, which may be held by the Secretary of the Treasury at any one time,

shall be sold or otherwise disposed of under the authority of this section.

(b) Nothing contained in this section shall be construed to supersede or impair any authority otherwise granted to any officer or executive department or agency of the United States to sell, exchange, or otherwise dispose of any bonds, notes, or other securities, acquired by the United States under judicial process or otherwise.

Approved April 3, 1945.

[PUBLIC LAW 42—79TH CONGRESS]

[CHAPTER 98—1ST SESSION]

[S. 105]

AN ACT

To extend the life of the Smaller War Plants Corporation.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 4 (d) of the Act entitled "An Act to mobilize the productive facilities of small business in the interests of successful prosecution of the war, and for other purposes", approved June 11, 1942, as amended, is amended to read as follows: "The Corporation shall not have succession beyond December 31, 1946, except for purposes of liquidation, unless its life is extended beyond such date pursuant to an Act of Congress."

SEC. 2. (a) Section 4 (c) of such Public Law 603 is amended to read as follows:

"(c) The management of the Corporation shall be vested in a board of five directors who shall be appointed by the President, by and with the advice and consent of the Senate, from among individuals who are familiar with the problems of small business. The President shall designate one of the members as chairman."

(b) Notwithstanding the amendment made by subsection (a) of this section, the members of the board of directors of the Smaller War Plants Corporation holding office at the time of the enactment of this Act shall continue in office until five members have been appointed pursuant to section 4 (c) of such Public Law 603 as amended by this section.

Approved April 27, 1945.

[PUBLIC LAW 84—79TH CONGRESS]

[CHAPTER 186—1ST SESSION]

[S. 510]

AN ACT

To amend sections 11 (c) and 16 of the Federal Reserve Act, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the third paragraph of section 16 of the Federal Reserve Act, as amended, is amended by changing the first sentence of such paragraph to read as follows:

"Every Federal Reserve bank shall maintain reserves in gold certificates of not less than 25 per centum against its deposits and reserves in gold certificates of not less than 25 per centum against its Federal Reserve notes in actual circulation: *Provided*, *however*, That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(b) The first sentence of the fourth paragraph of section 16 of the Federal Reserve Act, as amended, is amended by striking therefrom "40 per centum reserve hereinbefore required" and by inserting in lieu thereof "25 per centum reserve hereinbefore required to be maintained against Federal Reserve notes in actual circulation".

(c) Subsection (c) of section 11 of the Federal Reserve Act, as amended, is amended to read as follows:

"(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the reserve held against Federal Reserve notes falls below 25 per centum, the Board of Governors of the Federal Reserve System shall establish a graduated tax of not more than 1 per centum per annum upon such deficiency until the reserves fall to 20 per centum, and when said reserve falls below 20 per centum, a tax at the rate increasingly of not less than 1½ per centum per annum upon each 2½ per centum or fraction thereof that such reserve falls below 20 per centum. The tax shall be paid by the Reserve bank, but the Reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Board of Governors of the Federal Reserve System."

SEC. 2. The second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal Reserve bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of

collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates, or direct obligations of the United States. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve agent shall each day notify the Board of Governors of the Federal Reserve System of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Board of Governors of the Federal Reserve System may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it."

SEC. 3. All power and authority with respect to the issuance of circulating notes, known as Federal Reserve bank notes, pursuant to the sixth paragraph of section 18 of the Federal Reserve Act, as amended by section 401 of the Act approved March 9, 1933 (48 Stat. 1, 6), shall cease and terminate on the date of enactment of this Act.

SEC. 4. All power and authority of the President and the Secretary of the Treasury under section 43 (b) (1) of the Act approved May 12, 1933 (48 Stat. 31, 52), with respect to the issuance of United States notes, shall cease and terminate on the date of enactment of this Act.

Approved June 12, 1945.

[PUBLIC LAW 171—79TH CONGRESS]

[CHAPTER 339—1ST SESSION]

[H. R. 3314]

AN ACT

To provide for the participation of the United States in the International Monetary Fund and the International Bank for Reconstruction and Development.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Bretton Woods Agreements Act".

ACCEPTANCE OF MEMBERSHIP

SEC. 2. The President is hereby authorized to accept membership for the United States in the International Monetary Fund (hereinafter referred to as the "Fund"), and in the International Bank for Reconstruction and Development (hereinafter referred to as the "Bank"), provided for by the Articles of Agreement of the Fund and the Articles of Agreement of the Bank as set forth in the Final Act of the United Nations Monetary and Financial Conference dated July 22, 1944, and deposited in the archives of the Department of State.

APPOINTMENT OF GOVERNORS, EXECUTIVE DIRECTORS, AND ALTERNATES

SEC. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a governor of the Fund who shall also serve as a governor of the Bank, and an executive director of the Fund and an executive director of the Bank. The executive directors so appointed shall also serve as provisional executive directors of the Fund and the Bank for the purposes of the respective Articles of Agreement. The term of office for the governor of the Fund and of the Bank shall be five years. The term of office for the executive directors shall be two years, but the executive directors shall remain in office until their successors have been appointed.

(b) The President, by and with the advice and consent of the Senate, shall appoint an alternate for the governor of the Fund who shall also serve as alternate for the governor of the Bank. The President, by and with the advice and consent of the Senate, shall appoint an alternate for each of the executive directors. The alternate for each executive director shall be appointed from among individuals recommended to the President by the executive director. The terms of office for alternates for the governor and the executive directors shall be the same as the terms specified in subsection (a) for the governor and executive directors.

(c) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, or alternate.

NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

SEC. 4. (a) In order to coordinate the policies and operations of the representatives of the United States on the Fund and the Bank and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange or monetary transactions, there is hereby established the National Advisory Council on International Monetary and Financial Problems (hereinafter referred to as the "Council"), consisting of the Secretary of the Treasury, as Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Trustees of the Export-Import Bank of Washington.

(b) (1) The Council, after consultation with the representatives of the United States on the Fund and the Bank, shall recommend to the President general policy directives for the guidance of the representatives of the United States on the Fund and the Bank.

(2) The Council shall advise and consult with the President and the representatives of the United States on the Fund and the Bank on major problems arising in the administration of the Fund and the Bank.

(3) The Council shall coordinate, by consultation or otherwise, so far as is practicable, the policies and operations of the representatives of the United States on the Fund and the Bank, the Export-Import Bank of Washington and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions.

(4) Whenever, under the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, the approval, consent or agreement of the United States is required before an act may be done by the respective institutions, the decision as to whether such approval, consent, or agreement, shall be given or refused shall (to the extent such decision is not prohibited by section 5 of this Act) be made by the Council, under the general direction of the President. No governor, executive director, or alternate representing the United States shall vote in favor of any waiver of condition under article V, section 4, or in favor of any declaration of the United States dollar as a scarce currency under article VII, section 3, of the Articles of Agreement of the Fund, without prior approval of the Council.

(5) The Council from time to time, but not less frequently than every six months, shall transmit to the President and to the Congress a report with respect to the participation of the United States in the Fund and the Bank.

(6) The Council shall also transmit to the President and to the Congress special reports on the operations and policies of the Fund and the Bank, as provided in this paragraph. The first report shall be made not later than two years after the establishment of the Fund

and the Bank, and a report shall be made every two years after the making of the first report. Each such report shall cover and include: The extent to which the Fund and the Bank have achieved the purposes for which they were established; the extent to which the operations and policies of the Fund and the Bank have adhered to, or departed from, the general policy directives formulated by the Council, and the Council's recommendations in connection therewith; the extent to which the operations and policies of the Fund and the Bank have been coordinated, and the Council's recommendations in connection therewith; recommendations on whether the resources of the Fund and the Bank should be increased or decreased; recommendations as to how the Fund and the Bank may be made more effective; recommendations on any other necessary or desirable changes in the Articles of Agreement of the Fund and of the Bank or in this Act; and an over-all appraisal of the extent to which the operations and policies of the Fund and the Bank have served, and in the future may be expected to serve, the interests of the United States and the world in promoting sound international economic cooperation and furthering world security.

(7) The Council shall make such reports and recommendations to the President as he may from time to time request, or as the Council may consider necessary to more effectively or efficiently accomplish the purposes of this Act or the purposes for which the Council is created.

(c) The representatives of the United States on the Fund and the Bank, and the Export-Import Bank of Washington (and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions) shall keep the Council fully informed of their activities and shall provide the Council with such further information or data in their possession as the Council may deem necessary to the appropriate discharge of its responsibilities under this Act.

CERTAIN ACTS NOT TO BE TAKEN WITHOUT AUTHORIZATION

SEC. 5. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States (a) request or consent to any change in the quota of the United States under article III, section 2, of the Articles of Agreement of the Fund; (b) propose or agree to any change in the par value of the United States dollar under article IV, section 5, or article XX, section 4, of the Articles of Agreement of the Fund, or approve any general change in par values under article IV, section 7; (c) subscribe to additional shares of stock under article II, section 3, of the Articles of Agreement of the Bank; (d) accept any amendment under article XVII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (e) make any loan to the Fund or the Bank. Unless Congress by law authorizes such action, no governor or alternate appointed to represent the United States shall vote for an increase of capital stock of the Bank under article II, section 2, of the Articles of Agreement of the Bank.

DEPOSITORIES

SEC. 6. Any Federal Reserve bank which is requested to do so by the Fund or the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

PAYMENT OF SUBSCRIPTIONS

SEC. 7. (a) Subsection (c) of section 10 of the Gold Reserve Act of 1934, as amended (U. S. C., title 31, sec. 822a), is amended to read as follows:

"(c) The Secretary of the Treasury is directed to use $1,800,000,000 of the fund established in this section to pay part of the subscription of the United States to the International Monetary Fund; and any repayment thereof shall be covered into the Treasury as a miscellaneous receipt."

(b) The Secretary of the Treasury is authorized to pay the balance of $950,000,000 of the subscription of the United States to the Fund not provided for in subsection (a) and to pay the subscription of the United States to the Bank from time to time when payments are required to be made to the Bank. For the purpose of making these payments, the Secretary of the Treasury is authorized to use as a public-debt transaction not to exceed $4,125,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payment under this subsection of the subscription of the United States to the Fund or the Bank and repayments thereof shall be treated as public-debt transactions of the United States.

(c) For the purpose of keeping to a minimum the cost to the United States of participation in the Fund and the Bank, the Secretary of the Treasury, after paying the subscription of the United States to the Fund, and any part of the subscription of the United States to the Bank required to be made under article II, section 7 (i), of the Articles of Agreement of the Bank, is authorized and directed to issue special notes of the United States from time to time at par and to deliver such notes to the Fund and the Bank in exchange for dollars to the extent permitted by the respective Articles of Agreement. The special notes provided for in this subsection shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include the purposes for which special notes are authorized and directed to be issued under this subsection, but such notes shall bear no interest, shall be nonnegotiable, and shall be payable on demand of the Fund or the Bank, as the case may be. The face amount of special notes issued to the Fund under the authority of this subsection and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Fund, and the face amount of such notes issued to the Bank and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Bank under

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article II, section 7 (i), of the Articles of Agreement of the Bank.

(d) Any payment made to the United States by the Fund or the Bank as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

OBTAINING AND FURNISHING INFORMATION

SEC. 8. (a) Whenever a request is made by the Fund to the United States as a member to furnish data under article VIII, section 5, of the Articles of Agreement of the Fund, the President may, through any agency he may designate, require any person to furnish such information as the President may determine to be essential to comply with such request. In making such determination the President shall seek to collect the information only in such detail as is necessary to comply with the request of the Fund. No information so acquired shall be furnished to the Fund in such detail that the affairs of any person are disclosed.

(b) In the event any person refuses to furnish such information when requested to do so, the President, through any designated governmental agency, may by subpoena require such person to appear and testify or to appear and produce records and other documents, or both. In case of contumacy by, or refusal to obey a subpoena served upon any such person, the district court for any district in which such person is found or resides or transacts business, upon application by the President or any governmental agency designated by him, shall have jurisdiction to issue an order requiring such person to appear and give testimony or appear and produce records and documents, or both; and any failure to obey such order of the court may be punished by such court as a contempt thereof.

(c) It shall be unlawful for any officer or employee of the Government, or for any advisor or consultant to the Government, to disclose, otherwise than in the course of official duty, any information obtained under this section, or to use any such information for his personal benefit. Whoever violates any of the provisions of this subsection shall, upon conviction, be fined not more than $5,000, or imprisoned for not more than five years, or both.

(d) The term "person" as used in this section means an individual, partnership, corporation or association.

FINANCIAL TRANSACTIONS WITH FOREIGN GOVERNMENTS IN DEFAULT

SEC. 9. The Act entitled "An Act to prohibit financial transactions with any foreign government in default on its obligations to the United States", approved April 13, 1934 (U. S. C., title 31, sec. 804a), is amended by adding at the end thereof a new section to read as follows:

"SEC. 3. While any foreign government is a member both of the International Monetary Fund and of the International Bank for Reconstruction and Development, this Act shall not apply to the sale or purchase of bonds, securities, or other obligations of such government or any political subdivision thereof or of any organization or association acting for or on behalf of such government or political subdivision, or to the making of any loan to such government, political subdivision, organization, or association."

JURISDICTION AND VENUE OF ACTIONS

SEC. 10. For the purpose of any action which may be brought within the United States or its Territories or possessions by or against the Fund or the Bank in accordance with the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, the Fund or the Bank, as the case may be, shall be deemed to be an inhabitant of the Federal judicial district in which its principal office in the United States is located, and any such action at law or in equity to which either the Fund or the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of any such action. When either the Fund or the Bank is a defendant in any such action, it may, at any time before the trial thereof, remove such action from a State court into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.

STATUS, IMMUNITIES AND PRIVILEGES

SEC. 11. The provisions of article IX, sections 2 to 9, both inclusive, and the first sentence of article VIII, section 2 (b), of the Articles of Agreement of the Fund, and the provisions of article VI, section 5 (i), and article VII, sections 2 to 9, both inclusive, of the Articles of Agreement of the Bank, shall have full force and effect in the United States and its Territories and possessions upon acceptance of membership by the United States in, and the establishment of, the Fund and the Bank, respectively.

STABILIZATION LOANS BY THE BANK

SEC. 12. The governor and executive director of the Bank appointed by the United States are hereby directed to obtain promptly an official interpretation by the Bank as to its authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans. If the Bank does not interpret its powers to include the making or guaranteeing of such loans, the governor of the Bank representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of explicitly authorizing the Bank, after consultation with the Fund, to make or guarantee such loans. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States.

STABILIZATION OPERATIONS BY THE FUND

SEC. 13. (a) The governor and executive director of the Fund appointed by the United States are hereby directed to obtain promptly an official interpretation by the Fund as to whether its authority to use its resources extends beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any

member for current transactions, and whether it has authority to use its resources to provide facilities for relief, reconstruction, or armaments, or to meet a large or sustained outflow of capital on the part of any member.

(b) If the interpretation by the Fund answers in the affirmative any of the questions stated in subsection (a), the governor of the Fund representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of expressly negativing such interpretation. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States.

FURTHER PROMOTION OF INTERNATIONAL ECONOMIC RELATIONS

SEC. 14. In the realization that additional measures of international economic cooperation are necessary to facilitate the expansion and balanced growth of international trade and render most effective the operations of the Fund and the Bank, it is hereby declared to be the policy of the United States to seek to bring about further agreement and cooperation among nations and international bodies, as soon as possible, on ways and means which will best reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the expansion and balanced growth of international trade and promote the stability of international economic relations. In considering the policies of the United States in foreign lending and the policies of the Fund and the Bank, particularly in conducting exchange transactions, the Council and the United States representatives on the Fund and the Bank shall give careful consideration to the progress which has been made in achieving such agreement and cooperation.

Approved July 31, 1945.

[PUBLIC LAW 173—79TH CONGRESS]
[CHAPTER 341—1ST SESSION]
[H. R. 3771]

AN ACT

To provide for increasing the lending authority of the Export-Import Bank of Washington, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Export-Import Bank Act of 1945".

SEC. 2. (a) The Export-Import Bank of Washington, District of Columbia, a banking corporation organized under the laws of the District of Columbia as an agency of the United States, is continued as an agency of the United States, and in addition to existing charter powers, and without limitation as to the total amount of obligations thereto of any borrower, endorser, acceptor, obligor, or guarantor at any time outstanding, it is hereby authorized and empowered to make loans, to discount, rediscount or guarantee notes, drafts, bills of exchange, and other evidences of debt, or participate in the same, for the purpose of aiding in the financing and facilitating of exports and imports and the exchange of commodities between the United States or any of its Territories or insular possessions and any foreign country or the agencies or nationals thereof. The Bank is hereby authorized to use all its assets, including capital and net earnings therefrom, and to use all moneys which have been or may hereafter be allocated to or borrowed by it, in the exercise of its functions as such agency.

(b) It is the policy of the Congress that the Bank in the exercise of its functions should supplement and encourage and not compete with private capital, and that loans, so far as possible consistently with carrying out the purposes of subsection (a), shall generally be for specific purposes, and, in the judgment of the Board of Directors, offer reasonable assurance of repayment.

SEC. 3. (a) (1) The management of the Export-Import Bank of Washington shall be vested in a Board of Directors consisting of the Administrator of the Foreign Economic Administration, who shall serve as Chairman, the Secretary of State, and three persons appointed by the President of the United States by and with the advice and consent of the Senate. The Secretary of State, to such extent as he deems it advisable, may designate to act for him in the discharge of his duties as a member of the Board of Directors any officer of the Department of State who shall have been appointed by and with the advice and consent of the Senate.

(2) If the Foreign Economic Administration ceases to exist in the Office for Emergency Management in the Executive Office of the President, the President of the United States shall appoint by and with the advice and consent of the Senate another member of the Board of Directors. The member so appointed shall serve for the remainder of the existing terms of the other three appointed members, but suc-

cessors shall be appointed for terms of five years. After the Foreign Economic Administrator ceases to be a member of the Board of Directors the President of the United States shall, from time to time, designate one of the members of the Board to serve as Chairman.

(3) Of the five members of the Board, not more than three shall be members of any one political party. Each of the appointed directors shall devote his time not otherwise required by the business of the United States principally to the business of the Bank. Before entering upon his duties each of the directors so appointed and each officer of the Bank shall take an oath faithfully to discharge the duties of his office. The terms of the appointed directors shall be five years, except that the terms of the directors first appointed shall run from the date of appointment until June 30, 1950. Whenever a vacancy occurs among the directors so appointed, the person appointed to fill such vacancy shall hold office for the unexpired portion of the term of the director whose place he is selected to fill. Each of the appointed directors shall receive a salary at the rate of $12,000 per annum, unless he is an officer of the Bank, in which event he may elect to receive the salary of such officer. No director, officer, attorney, agent, or employee of the Bank shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his personal interests, or the interests of any corporation, partnership, or association in which he is directly or indirectly personally interested.

(b) A majority of the Board of Directors shall constitute a quorum.

(c) The Board of Directors shall adopt such bylaws as are necessary for the proper management and functioning of the Export-Import Bank of Washington, and may amend the same.

(d) There shall be an Advisory Board consisting of the Chairman of the Export-Import Bank of Washington, who shall serve as Chairman, the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, and the Chairman of the Board of Governors of the Federal Reserve System, which shall meet at the call of the Chairman. The Advisory Board may make such recommendations to the Board of Directors as it deems advisable, and the Board of Directors shall consult the Advisory Board on major questions of policy.

(e) Until October 31, 1945, or until at least two of the members of the Board of Directors to be appointed have qualified as such directors, whichever is the earlier, the affairs of the Bank shall continue to be managed by the existing Board of Trustees.

(f) The Export-Import Bank of Washington shall constitute an independent agency of the United States and neither the Bank nor any of its functions, powers, or duties shall be transferred to or consolidated with any other department, agency, or corporation of the Government unless the Congress shall otherwise by law provide.

SEC. 4. The Export-Import Bank of Washington shall have a capital stock of $1,000,000,000 subscribed by the United States. Payment for $1,000,000 of such capital stock shall be made by the surrender to the Bank for cancellation of the common stock heretofore issued by the Bank and purchased by the United States. Payment for $174,000,000 of such capital stock shall be made by the surrender to the Bank for cancellation of the preferred stock heretofore issued by the Bank and purchased by the Reconstruction Finance Corporation. Payment for the $825,000,000 balance of such capital stock shall be subject to

call at any time in whole or in part by the Board of Directors of the Bank. For the purpose of making payments of such balance, the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payment under this section of the subscription of the United States to the Bank and repayments thereof shall be treated as public-debt transactions of the United States. Certificates evidencing stock ownership of the United States shall be issued by the Bank to the President of the United States, or to such other person or persons as he may designate from time to time, to the extent of the common and preferred stock surrendered and other payments made for the capital stock of the Bank under this section.

SEC. 5. (a) The Secretary of the Treasury shall pay to the Reconstruction Finance Corporation the par value of the preferred stock upon its surrender to the Bank for cancellation. For the purpose of making such payments to the Reconstruction Finance Corporation the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payment under this subsection to the Reconstruction Finance Corporation shall be treated as public-debt transactions of the United States.

(b) Any dividends on the preferred stock accumulated and unpaid to the date of its surrender for cancellation shall be paid to the Reconstruction Finance Corporation by the Bank.

SEC. 6. The Export-Import Bank of Washington is authorized to issue from time to time for purchase by the Secretary of the Treasury its notes, debentures, bonds, or other obligations; but the aggregate amount of such obligations outstanding at any one time shall not exceed two and one-half times the authorized capital stock of the Bank. Such obligations shall be redeemable at the option of the Bank before maturity in such manner as may be stipulated in such obligations and shall have such maturity and bear such rate of interest as may be determined by the Board of Directors of the Bank with the approval of the Secretary of the Treasury. The Secretary of the Treasury is hereby authorized and directed to purchase any obligations of the Bank issued hereunder and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payment under this section of the purchase price of such obligations of the Bank and repayments thereof by the Bank shall be treated as public-debt transactions of the United States.

SEC. 7. The Export-Import Bank of Washington shall not have outstanding at any one time loans and guaranties in an aggregate amount in excess of three and one-half times the authorized capital stock of the Bank.

SEC. 8. The provisions of the existing charter of the Bank relating to the term of its existence, to the management of its affairs, and to its capital stock are superseded by the provisions of this Act and

the Bank shall be exempt from compliance with any provisions of law relating to the amendment of certificates of incorporation or to the retirement or increase of stock of District of Columbia corporations and from the payment of any fee or tax to the Recorder of Deeds of the District of Columbia determined upon the value or amount of capital stock of the Bank or any increase thereof.

SEC. 9. The Export-Import Bank of Washington shall transmit to the Congress semiannually a complete and detailed report of its operations. The report shall be as of the close of business on June 30 and December 31 of each year.

SEC. 10. Section 9 of the Act of January 31, 1935 (49 Stat. 4, ch. 2), as amended, is repealed.

SEC. 11. Notwithstanding the provisions of the Act of April 13, 1934 (48 Stat., ch. 112, p. 574), any person, including any individual, partnership, corporation, or association, may act for or participate with the Export-Import Bank of Washington in any operation or transaction, or may acquire any obligation issued in connection with any operation or transaction, engaged in by the Bank.

Approved July 31, 1945.

[PUBLIC LAW 243—79TH CONGRESS]

[CHAPTER 515—1ST SESSION]

[H. R. 4350]

AN ACT

To amend section 3646 of the Revised Statutes, as amended, relating to the issuance of checks in replacement of lost, stolen, destroyed, mutilated, or defaced checks of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3646 of the Revised Statutes of the United States, as amended (U. S. C., title 31, sec. 528), is further amended to read as follows:

"(a) Except as hereinafter provided, whenever it is clearly proved to the satisfaction of the Secretary of the Treasury that any original check of the United States is lost, stolen, or wholly or partly destroyed, or is so mutilated or defaced as to impair its value to its owner or holder, the Secretary of the Treasury is authorized, before the close of the fiscal year following the fiscal year in which the original check was issued to transfer the amount of the original check from the account of the drawer to a special deposit account carried in the name of the Secretary of the Treasury on the books of the Treasurer of the United States, and to issue against such special deposit account to the owner or holder thereof a substitute under current date showing such information as may be necessary to identify the original check, upon the receipt and approval by the Secretary of the Treasury of an undertaking to indemnify the United States, in such form and amount and with such surety, sureties, or security, if any, as the Secretary of the Treasury may require; but no such substitute shall be payable if the original check shall first have been paid: *Provided*, That nothing herein contained shall be deemed to relieve any certifying officer or his sureties or any disbursing officer or his sureties of any liability to the United States on account of any payment resulting from the erroneous issuance of the original check: *And provided further*, That the authority herein conferred to issue substitute checks may, in the case of checks issued on account of public-debt obligations and transactions regarding the administration of banking and currency laws, be exercised without limitation of time.

"(b) An undertaking of indemnity shall not be required under subsection (a) of this section in any of the following classes of cases except as provided in this subsection: (1) If the Secretary of the Treasury is satisfied that the loss, theft, destruction, mutilation, or defacement, as the case may be, occurred without fault of the owner or holder and while the check was in the custody or control of the United States (including the postal service when carrying mail for any officer, employee, agent, or agency of the United States when performing services in connection with an official function of the United States, but not including the postal service when otherwise acting solely in its capacity as a public carrier of the mail), or of a

person thereunto duly authorized as lawful agent of the United States, or while it was in the course of shipment effected pursuant to and in accordance with the regulations issued under the provisions of the Government Losses in Shipment Act; (2) if substantially the entire check is presented and surrendered by the owner or holder and the Secretary of the Treasury is satisfied as to the identity of the check presented and that any missing portions are not sufficient to form the basis of a valid claim against the United States; (3) if the Secretary of the Treasury is satisfied that the original check is not negotiable and cannot be made the basis of a valid claim against the United States; (4) if the amount of the check is not more than $200; (5) if the owner or holder is the United States or an officer or employee thereof in his official capacity, a State, the District of Columbia, a Territory or possession of the United States, including the Commonwealth of the Philippine Islands, a municipal corporation or political subdivision of any of the foregoing, a corporation, the whole of whose capital is owned by the United States, a foreign government, or a Federal Reserve bank: *Provided, however*, That in any of the foregoing classes of cases the Secretary of the Treasury may require an undertaking of indemnity if he deems it essential to the public interest.

"(c) Notwithstanding the provisions of subsections (a) and (b) of this section whenever it is clearly proved to the satisfaction of the Secretary of the Treasury that any original check of the United States drawn on a depositary in a foreign country or a Territory or possession of the United States, including the Panama Canal Zone and the Philippine Islands, is lost, stolen, or wholly or partly destroyed, or is so mutilated or defaced as to impair its value to its owner or holder, the drawer of the original check or such other officer or employee of the United States as may be authorized by the Secretary of the Treasury with the concurrence of the head of the department or agency upon whose behalf the original check was issued is authorized, before the close of the fiscal year following the fiscal year in which the original check was issued, to issue to the owner or holder thereof a substitute under current date showing such information as may be necessary to identify the original check, drawn against the account of the drawer of the original check or such other account as may be available for the payment of such substitute, upon the receipt and approval by the Secretary of the Treasury of an undertaking, to indemnify the United States, in such form and amount and with such surety, sureties, or security, if any, as the Secretary of the Treasury may require; but no such substitute shall be payable if the original check shall first have been paid. Nothing herein contained shall be deemed to relieve any certifying officer or his sureties or any disbursing officer or his sureties of any liability to the United States on account of any payment resulting from the erroneous issuance of the original check.

"(d) The Secretary of the Treasury shall have the power to make such rules and regulations as he may deem necessary for the administration of the provisions of this section.

"(e) Notwithstanding the provisions of subsections (a), (b), (c), and (d) of this section, whenever any original check of the Post Office Department has been lost, stolen, or destroyed, the Postmaster

General may authorize the issuance of a substitute, marked 'duplicate' and showing the number, date, and payee of the original check, before the close of the fiscal year following the fiscal year in which the original check was issued, upon the execution by the owner thereof of such bond of indemnity as the Postmaster General may prescribe: *Provided*, That when such original check does not exceed in amount the sum of $100 and the payee or owner is, at the date of the application, an officer or employee in the service of the Post Office Department, whether by contract, designation, or appointment, the Postmaster General may, in lieu of an indemnity bond, authorize the issuance of a substitute check or warrant upon such an affidavit as he may prescribe, to be made before any postmaster by the payee or owner of an original check.

"(f) Substitutes issued under this section, drawn on the Treasurer of the United States, except those for checks issued on account of public-debt obligations and transactions regarding the administration of banking and currency laws, shall be deemed to be original checks and shall be payable under the conditions set forth in section 21 of the Permanent Appropriation Repeal Act, 1934 (U. S. C., title 31, sec. 725t). Substitutes for checks issued on account of public-debt obligations and transactions regarding the administration of banking and currency laws shall be payable without limitation of time.

"(g) The term 'original check' wherever used in this section means any check, warrant, or other order for the payment of money, payable upon demand and not bearing interest, drawn by a duly authorized officer or agent of the United States, the District of Columbia, or the District Unemployment Compensation Board, on their behalf against an account or funds of the United States, the District of Columbia, or the District Unemployment Compensation Board, including instruments issued by any corporation or other entity owned or controlled by the United States, the funds of which are deposited and covered into the Treasury of the United States or deposited with the Treasurer of the United States, but does not include money, coins, or currency of the United States; as used in subsection (e) of this section it means such an instrument drawn by a duly authorized officer or employee of the Post Office Department.

"(h) Any power, authority, or discretion conferred upon the Secretary of the Treasury by this section may be delegated by him, in whole or in part, subject to such terms and conditions as he may prescribe, to such individuals as he may designate within the Treasury Department or to the head of any other department or agency of the Government or of any Federal Reserve bank, and the head of such department or agency or Federal Reserve bank may, when such action is not inconsistent with the terms and conditions of the delegation by the Secretary of the Treasury, redelegate any power, authority, or discretion conferred upon him pursuant to this subsection to any officer or employee within such department, agency, or Federal Reserve bank."

SEC. 2. Sections 300 and 3647 of the Revised Statutes, as amended (U. S. C., title 31, sec. 119), are hereby repealed.

SEC. 3. This Act shall become effective on December 1, 1945.

Approved December 3, 1945.

[PUBLIC LAW 248—79TH CONGRESS]
[CHAPTER 557—1ST SESSION]
[H. R. 3660]

AN ACT

To provide for financial control of Government corporations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Government Corporation Control Act".

DECLARATION OF POLICY

SEC. 2. It is hereby declared to be the policy of the Congress to bring Government corporations and their transactions and operations under annual scrutiny by the Congress and provide current financial control thereof.

TITLE I—WHOLLY OWNED GOVERNMENT CORPORATIONS

SEC. 101. As used in this Act the term "wholly owned Government corporation" means the Commodity Credit Corporation; Federal Intermediate Credit Banks; Production Credit Corporations; Regional Agricultural Credit Corporations; Farmers Home Corporation; Federal Crop Insurance Corporation; Federal Farm Mortgage Corporation; Federal Surplus Commodities Corporation; Reconstruction Finance Corporation; Defense Plant Corporation; Defense Supplies Corporation; Metals Reserve Company; Rubber Reserve Company; War Damage Corporation; Federal National Mortgage Association; the RFC Mortgage Company; Disaster Loan Corporation; Inland Waterways Corporation; Warrior River Terminal Company; The Virgin Islands Company; Federal Prison Industries, Incorporated; United States Spruce Production Corporation; Institute of Inter-American Affairs; Institute of Inter-American Transportation; Inter-American Educational Foundation, Incorporated; Inter-American Navigation Corporation; Prencinradio, Incorporated; Cargoes, Incorporated; Export-Import Bank of Washington; Petroleum Reserves Corporation; Rubber Development Corporation; U. S. Commercial Company; Smaller War Plants Corporation; Federal Public Housing Authority (or United States Housing Authority) and including public housing projects financed from appropriated funds and operations thereof; Defense Homes Corporation; Federal Savings and Loan Insurance Corporation; Home Owners' Loan Corporation; United States Housing Corporation; Panama Railroad Company; Tennessee Valley Authority; and Tennessee Valley Associated Cooperatives, Incorporated.

SEC. 102. Each wholly owned Government corporation shall cause to be prepared annually a budget program, which shall be submitted

to the President through the Bureau of the Budget on or before September 15 of each year. The Bureau of the Budget, under such rules and regulations as the President may establish, is authorized and directed to prescribe the form and content of, and the manner in which such budget program shall be prepared and presented. The budget program shall be a business-type budget, or plan of operations, with due allowance given to the need for flexibility, including provision for emergencies and contingencies, in order that the corporation may properly carry out its activities as authorized by law. The budget program shall contain estimates of the financial condition and operations of the corporation for the current and ensuing fiscal years and the actual condition and results of operation for the last completed fiscal year. Such budget program shall include a statement of financial condition, a statement of income and expense, an analysis of surplus or deficit, a statement of sources and application of funds, and such other supplementary statements and information as are necessary or desirable to make known the financial condition and operations of the corporation. Such statements shall include estimates of operations by major types of activities, together with estimates of administrative expenses, estimates of borrowings, and estimates of the amount of Government capital funds which shall be returned to the Treasury during the fiscal year or the appropriations required to provide for the restoration of capital impairments.

SEC. 103. The budget programs of the corporations as modified, amended, or revised by the President shall be transmitted to the Congress as a part of the annual Budget required by the Budget and Accounting Act, 1921. Amendments to the annual budget programs may be submitted from time to time.

Budget programs shall be submitted for all wholly owned Government corporations covering operations for the fiscal year commencing July 1, 1946, and each fiscal year thereafter.

SEC. 104. The budget programs transmitted by the President to the Congress shall be considered and, if necessary, legislation shall be enacted making available such funds or other financial resources as the Congress may determine. The provisions of this section shall not be construed as preventing wholly owned Government corporations from carrying out and financing their activities as authorized by existing law, nor shall any provisions of this section be construed as affecting in any way the provisions of section 26 of the Tennessee Valley Authority Act, as amended. The provisions of this section shall not be construed as affecting the existing authority of any wholly owned Government corporation to make contracts or other commitments without reference to fiscal-year limitations.

SEC. 105. The financial transactions of wholly owned Government corporations shall be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States: *Provided*, That such rules and regulations may provide for the retention at the offices of such corporations, in whole or in part, of any accounts of accountable officers, covering corporate financial transactions, which are required by existing law to be settled and adjusted

in the General Accounting Office, and for the settlement and adjustment of such accounts in whole or in part upon the basis of examinations in the course of the audit herein provided, but nothing in this proviso shall be construed as affecting the powers reserved to the Tennessee Valley Authority in the Act of November 21, 1941 (55 Stat. 775). The audit shall be conducted at the place or places where the accounts of the respective corporations are normally kept. The representatives of the General Accounting Office shall have access to all books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the respective corporations and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians. The audit shall begin with the first fiscal year commencing after the enactment of this Act.

SEC. 106. A report of each such audit for each fiscal year ending on June 30 shall be made by the Comptroller General to the Congress not later than January 15 following the close of the fiscal year for which such audit is made. The report shall set forth the scope of the audit and shall include a statement (showing intercorporate relations) of assets and liabilities, capital and surplus or deficit; a statement of surplus or deficit analysis; a statement of income and expense; a statement of sources and application of funds; and such comments and information as may be deemed necessary to keep Congress informed of the operations and financial condition of the several corporations, together with such recommendations with respect thereto as the Comptroller General may deem advisable, including a report of any impairment of capital noted in the audit and recommendations for the return of such Government capital or the payment of such dividends as, in his judgment, should be accomplished. The report shall also show specifically any program, expenditure, or other financial transaction or undertaking observed in the course of the audit, which, in the opinion of the Comptroller General, has been carried on or made without authority of law. A copy of each report shall be furnished to the President, to the Secretary of the Treasury, and to the corporation concerned at the time submitted to the Congress.

SEC. 107. Whenever it is deemed by the Director of the Bureau of the Budget, with the approval of the President, to be practicable and in the public interest that any wholly owned Government corporation be treated with respect to its appropriations, expenditures, receipts, accounting, and other fiscal matters as if it were a Government agency other than a corporation, the Director shall include in connection with the budget program of such corporation in the Budget a recommendation to that effect. If the Congress approves such recommendation in connection with the budget program for any fiscal year, such corporation, with respect to subsequent fiscal years, shall be regarded as an establishment other than a corporation for the purposes of the Budget and Accounting Act, 1921, and other provisions of law relating to appropriations, expenditures, receipts, accounts, and other fiscal matters, and shall not be subject to the provisions of this Act other than this section. The corporate entity shall not be affected by this section.

TITLE II—MIXED-OWNERSHIP GOVERNMENT CORPORATIONS

SEC. 201. As used in this Act the term "mixed-ownership Government corporations" means (1) the Central Bank for Cooperatives and the Regional Banks for Cooperatives, (2) Federal Land Banks, (3) Federal Home Loan Banks, and (4) Federal Deposit Insurance Corporation.

SEC. 202. The financial transactions of mixed-ownership Government corporations for any period during which Government capital has been invested therein shall be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as may be prescribed by the Comptroller General of the United States. The audit shall be conducted at the place or places where the accounts of the respective corporations are normally kept. The representatives of the General Accounting Office shall have access to all books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the respective corporations and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians. The audit shall begin with the first fiscal year commencing after the enactment of this Act.

SEC. 203. A report of each such audit for each fiscal year ending on June 30 shall be made by the Comptroller General to the Congress not later than January 15, following the close of the fiscal year for which such audit is made. The report shall set forth the scope of the audit and shall include a statement (showing intercorporate relations) of assets and liabilities, capital and surplus or deficit; a statement of surplus or deficit analysis; a statement of income and expense; a statement of sources and application of funds; and such comments and information as may be deemed necessary to keep Congress informed of the operations and financial condition of, and the use of Government capital by, each such corporation, together with such recommendations with respect thereto as the Comptroller General may deem advisable, including a report of any impairment of capital or lack of sufficient capital noted in the audit and recommendations for the return of such Government capital or the payment of such dividends as, in his judgment, should be accomplished. The report shall also show specifically any program, expenditure, or other financial transaction or undertaking observed in the course of the audit, which, in the opinion of the Comptroller General, has been carried on or made without authority of law. A copy of each report shall be furnished to the President, to the Secretary of the Treasury, and to the corporation concerned at the time submitted to the Congress.

SEC. 204. The President shall include in the annual Budget any recommendations he may wish to make as to the return of Government capital to the Treasury by any mixed-ownership corporation.

TITLE III—GENERAL PROVISIONS

SEC. 301. (a) The expenses of auditing the financial transactions of wholly owned and mixed-ownership Government corporations as pro-

vided in sections 105 and 202 of this Act shall be borne out of appropriations to the General Accounting Office, and appropriations in such sums as may be necessary are hereby authorized: *Provided*, That each such corporation shall reimburse the General Accounting Office for the full cost of any such audit as billed therefor by the Comptroller General, and the General Accounting Office shall deposit the sums so reimbursed into the Treasury as miscellaneous receipts: *Provided further*, That in making the audits provided in said sections the Comptroller General shall, to the fullest extent deemed by him to be practicable, utilize reports of examinations of Government corporations made by a supervising administrative agency pursuant to law.

(b) For the purpose of conducting such audit the Comptroller General is authorized in his discretion to employ not more than ten persons without regard to the Classification Act of 1923, as amended, only one of whom may be compensated at a rate of as much as but not more than $10,000 per annum, and to employ by contract, without regard to section 3709 of the Revised Statutes, professional services of firms and organizations for temporary periods or for special purposes.

(c) The audit provided in sections 105 and 202 of this Act shall be in lieu of any audit of the financial transactions of any Government corporation required to be made by the General Accounting Office for the purpose of a report to the Congress or to the President under any existing law.

(d) Unless otherwise expressly provided by law, no funds of any Government corporation shall be used to pay the cost of any private audit of the financial records of the offices of such corporation, except the cost of such audits contracted for and undertaken prior to April 25, 1945.

SEC. 302. The banking or checking accounts of all wholly owned and mixed-ownership Government corporations shall be kept with the Treasurer of the United States, or, with the approval of the Secretary of the Treasury, with a Federal Reserve bank, or with a bank designated as a depositary or fiscal agent of the United States: *Provided*, That the Secretary of the Treasury may waive the requirements of this section under such conditions as he may determine: *And provided further*, That this section will not apply to the establishment and maintenance in any bank for a temporary period of banking and checking accounts not in excess of $50,000 in any one bank. The provisions of this section shall not be applicable to Federal Intermediate Credit Banks, Production Credit Corporations, the Central Bank for Cooperatives, the Regional Banks for Cooperatives, or the Federal Land Banks, except that each such corporation shall be required to report annually to the Secretary of the Treasury the names of the depositaries in which such corporation keeps a banking or checking account, and the Secretary of the Treasury may make a report in writing to the corporation, to the President, and to the Congress which he deems advisable upon receipt of any such annual report.

SEC. 303. (a) All bonds, notes, debentures, and other similar obligations which are hereafter issued by any wholly owned or mixed-ownership Government corporation and offered to the public shall be in such forms and denominations, shall have such maturities, shall

bear such rates of interest, shall be subject to such terms and conditions, shall be issued in such manner and at such times and sold at such prices as have been or as may be approved by the Secretary of the Treasury.

(b) Hereafter, no wholly owned or mixed-ownership Government corporation shall sell or purchase any direct obligation of the United States or obligation guaranteed as to principal or interest, or both, for its own account and in its own right and interest, at any one time aggregating in excess of $100,000, without the approval of the Secretary of the Treasury: *Provided*, That the Secretary of the Treasury may waive the requirement of his approval with respect to any transaction or classes of transactions subject to the provisions of this subsection for such period of time and under such conditions as he may determine.

(c) The Secretary of the Treasury is hereby authorized to exercise any of the functions vested in him by this section through any officer, or employee of any Federal agency whom he may designate, with the concurrence of the head of the agency concerned, for such purpose.

(d) Any mixed-ownership Government corporation from which Government capital has been entirely withdrawn shall not be subject to the provisions of section 302 or of this section during the period such corporation remains without Government capital. The provisions of subsections (a) and (b) of this section shall not be applicable to Federal Intermediate Credit Banks, Production Credit Corporations, the Central Bank for Cooperatives, the Regional Banks for Cooperatives, or the Federal Land Banks, except that each such corporation shall be required to consult with the Secretary of the Treasury prior to taking any action of the kind covered by the provisions of subsections (a) and (b) of this section, and in the event an agreement is not reached, the Secretary of the Treasury may make a report in writing to the corporation, to the President, and to the Congress stating the grounds for his disagreement.

SEC. 304. (a) No corporation shall be created, organized, or acquired hereafter by any officer or agency of the Federal Government or by any Government corporation for the purpose of acting as an agency or instrumentality of the United States, except by Act of Congress or pursuant to an Act of Congress specifically authorizing such action.

(b) No wholly owned Government corporation created by or under the laws of any State, Territory, or possession of the United States or any political subdivision thereof, or under the laws of the District of Columbia, shall continue after June 30, 1948, as an agency or instrumentality of the United States, and no funds of, or obtained from, the United States or any agency thereof, including corporations, shall be invested in or employed by any such corporation after that date, except for purposes of liquidation. The proper corporate authority of every such corporation shall take the necessary steps to institute dissolution or liquidation proceedings on or before that date: *Provided*, That prior thereto any such corporation may be reincorporated by Act of Congress for such purposes and term of existence and with such powers, privileges, and duties as authorized by such Act, including the power to take over the assets and assume the liabilities of its respective predecessor corporation.

Approved December 6, 1945.

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[PUBLIC LAW 282—79TH CONGRESS]

[CHAPTER 602—1ST SESSION]

[H. R. 4683]

AN ACT

To authorize the Export-Import Bank of Washington to extend its operations to include the Philippine Islands.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2 (a) of the Export-Import Bank Act of 1945 (Public Law 173, Seventy-ninth Congress, approved July 31, 1945) is hereby amended by inserting immediately after the word "country" the following: "(or the Philippine Islands)".

Approved December 28, 1945.

[PUBLIC LAW 308—79TH CONGRESS]
[CHAPTER 48—2D SESSION]
[H. R. 129]

AN ACT

To provide for the barring of certain claims by the United States in connection with Government checks and warrants.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That no proceeding in any court shall be brought by the United States or by any agency or official of the United States to enforce the liability of any endorser, transferor, or depositary, or financial agent, arising out of a forged or unauthorized signature or endorsement upon or alteration of any check, checks, warrant, or warrants issued by the Secretary of the Treasury, the Postmaster General, the Treasurer and Assistant Treasurers of the United States, or by disbursing officers and agents of the United States, unless such proceeding is commenced within six years after the presentation to the Treasurer of the United States or other drawee of such issued checks or warrants for payment of such check, checks, warrant, or warrants, or unless within that period written notice shall have been given by the United States or an agency thereof to such endorser, transferor, or depositary, or financial agent of a claim on account of such liability. Unless a court proceeding shall have been brought or such notice given within the period prescribed herein, any claim against such endorser, transferor, or depositary, or financial agent on account of such liability shall be forever barred: *Provided*, That in connection with any claim presented to the General Accounting Office within the time limitation prescribed by section 2 of the Act of June 22, 1926 (44 Stat. 76; U. S. C., title 31, sec. 122), the period within which such a proceeding may be brought or such notice given shall be extended by an additional one hundred and eighty days, and unless such notice shall be given or a court proceeding brought within such extended period any claim against such endorser, transferor, depositary, or financial agent on account of such liability shall be forever barred.

SEC. 2. The Comptroller General of the United States is authorized and directed to allow credit in the accounts of the Treasurer of the United States for the amount of any check, checks, warrant, or warrants with respect to which court proceedings shall have been barred pursuant to the provisions of this Act upon a showing that the barring of such proceedings did not result from any negligence on the part of the Treasurer of the United States in failing to give the notice required by the provision of section 1 of the Act.

SEC. 3. If any endorser, transferor, or depositary, or financial agent who is liable to any of the actions mentioned in this Act shall fraudulently conceal the cause of such action from the knowledge of

the United States or any agency or official of the United States entitled to bring such action, the action may be commenced at any time within two years after the United States or any agency or official of the United States who is entitled to bring the same shall discover that the United States or any agency or official of the United States had such cause of action, although such action would be otherwise barred by the provisions of this Act.

Approved March 6, 1946.

[PUBLIC LAW 455—79TH CONGRESS]

[CHAPTER 501—2D SESSION]

[H. R. 6699]

AN ACT

To decrease the amount of obligations, issued under the Second Liberty Bond Act, which may be outstanding at any one time.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 21 of the Second Liberty Bond Act, as amended, is hereby amended to read as follows:

"SEC. 21. The face amount of obligations issued under authority of this Act, and the face amount of obligations guaranteed as to principal and interest by the United States (except such guaranteed obligations as may be held by the Secretary of the Treasury), shall not exceed in the aggregate $275,000,000,000 outstanding at any one time. The current redemption value of any obligation issued on a discount basis which is redeemable prior to maturity at the option of the holder thereof shall be considered, for the purposes of this section, to be the face amount of such obligation."

SEC. 2. This Act may be cited as the "Public Debt Act of 1946".

Approved June 26, 1946.

[PUBLIC LAW 509—79TH CONGRESS]

[CHAPTER 577—2D SESSION]

[S. J. Res. 138]

JOINT RESOLUTION

To implement further the purposes of the Bretton Woods Agreements Act by authorizing the Secretary of the Treasury to carry out an agreement with the United Kingdom, and for other purposes.

Whereas in the Bretton Woods Agreements Act the Congress has declared it to be the policy of the United States "to seek to bring about further agreement and cooperation among nations and international bodies, as soon as possible, on ways and means which will best reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the expansion and balanced growth of international trade and promote the stability of international economic relations"; and

Whereas in further implementation of the purposes of the Bretton Woods Agreements, the Governments of the United States and the United Kingdom have negotiated an agreement dated December 6, 1945, designed to expedite the achievement of stable and orderly exchange arrangements, the prompt elimination of exchange restrictions and discriminations, and other objectives of the above-mentioned policy declared by the Congress: Therefore be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury, in consultation with the National Advisory Council on International Monetary and Financial Problems, is hereby authorized to carry out the agreement dated December 6, 1945, between the United States and the United Kingdom which was transmitted by the President to the Congress on January 30, 1946.

SEC. 2. For the purpose of carrying out the agreement dated December 6, 1945, between the United States and the United Kingdom, the Secretary of the Treasury is authorized to use as a public-debt transaction not to exceed $3,750,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payments to the United Kingdom under this joint resolution and pursuant to the agreement and repayments thereof shall be treated as public-debt transactions of the United States. Payments of interest to the United States under the agreement shall be covered into the Treasury as miscellaneous receipts.

Approved July 15, 1946.

[PUBLIC LAW 535—79TH CONGRESS]

[CHAPTER 607—2D SESSION]

[H. R. 4484]

AN ACT

Relating to the construction and maintenance of building and improvements for banking purposes on the Fort Ord Military Reservation, California.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of War may, upon such terms and conditions as he may prescribe, authorize the use and occupancy of land on the Fort Ord Military Reservation, California, by the Monterey County Trust and Savings Bank, Salinas, California, for the purpose of constructing and maintaining a building or buildings and other improvements for use in conducting a branch bank on such reservation.

Approved July 24, 1946.

[PUBLIC LAW 559—79TH CONGRESS]

[CHAPTER 686—2D SESSION]

[H. J. Res. 321]

JOINT RESOLUTION

To authorize the making of settlement on account of certain currency destroyed at Fort Mills, Philippine Islands, and for other purposes.

Whereas during the emergency in the Philippine Islands at the time of the Japanese invasion, agents of the United States High Commissioner, acting under a delegation of authority from the President of the United States and the specific instructions of the Secretary of the Treasury, accepted sums of United States paper currency from banks, individuals, and the Government of the Commonwealth of the Philippine Islands, and destroyed this currency by incineration to preclude its seizure by the enemy; and

Whereas the face value of the currency so destroyed was reported to be $2,563,981 and due to the difficult circumstances under which the program was undertaken, including lack of facilities, exposure to incessant enemy attack, and lack of personnel familiar with the technical details imposed by law with respect to the separate accounting for various kinds of currency, it was not possible to record in full detail the description of the currency which was burned; and

Whereas the United States Treasury is assured that the aggregate amount of currency destroyed is correct as reported by the High Commissioner and his staff with respect to the procedures followed in accepting deposits and in verifying the count in each such deposit and that the distribution by denomination and depositor is accurate; and

Whereas $603,158 of the total currency destroyed cannot be identified from the information available to the Treasury Department as to kind of currency and, in the case of Federal Reserve notes, as to bank of issue; and

Whereas the currency has been destroyed and it appears that no further information will become available: Therefore be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding any provisions of law to the contrary, the Treasurer of the United States or the Comptroller of the Currency, as the case may be, is authorized and directed, on the basis of the receipt of evidence of destruction acceptable to the Secretary of the Treasury, to record the destruction of the United States currency and Federal Reserve notes delivered to the High Commissioner to the Philippine Islands at the time of the Japanese invasion to preclude its seizure by the enemy, in the aggregate amount of $603,158, as follows: Silver certificates, $202,502 of $1 denomination, $51,200 of $5 denomination, and $300 of $10 denomination, aggregating $254,002; United States notes, $8,796 of $2 denomination and $25,590 of $5 denomination, aggregating $34,386; and Federal Reserve notes, $1,170 of $5 denomination, $126,360 of $10

denomination, $185,840 of $20 denomination, $400 of $50 denomination, and $1,000 of $100 denomination, aggregating $314,770, which shall be apportioned as to denominations among the several Federal Reserve banks as determined by the Secretary of the Treasury within the limitations as provided in section 2 hereof, as to the aggregate amount to be apportioned to each Federal Reserve bank.

SEC. 2. The Treasurer of the United States is authorized to pay to the Secretary of the Treasury for account of the owners of the United States currency referred to in this joint resolution as silver certificates and United States notes the value thereof from the appropriate Treasury funds and to pay to the Secretary of the Treasury for account of the owners of the currency described as Federal Reserve notes the amount thereof from the Federal Reserve note redemption fund. The several Federal Reserve banks shall respectively reimburse the Federal Reserve redemption fund for the amounts paid by the Treasurer of the United States from said fund pursuant to this section, in the following amounts: Federal Reserve Bank of Boston, $205; Federal Reserve Bank of New York, $4,555; Federal Reserve Bank of Philadelphia, $150; Federal Reserve Bank of Cleveland, $195; Federal Reserve Bank of Richmond, $480; Federal Reserve Bank of Atlanta, $250; Federal Reserve Bank of Chicago, $290; Federal Reserve Bank of St. Louis, $55; Federal Reserve Bank of Minneapolis, $120; Federal Reserve Bank of Kansas City, $270; Federal Reserve Bank of Dallas, $300; and Federal Reserve Bank of San Francisco, $307,900.

Approved July 27, 1946.

[PUBLIC LAW 574—79TH CONGRESS]

[CHAPTER 711—2D SESSION]

[H. R. 6372]

AN ACT

To amend the Federal Credit Union Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Credit Union Act, as amended, is hereby further amended as follows: Paragraph (5) of section 7 is amended by adding at the end thereof the following: "The taking, receiving, reserving, or charging a rate of interest greater than is allowed by this subsection, when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. In case the greater rate of interest has been paid the person by whom it has been paid, or his legal representatives, may recover back, in an action in the nature of an action of debt, the entire amount of interest thus paid from the credit union taking or receiving the same: *Provided*, That such action is commenced within two years from the time the usurious transaction occurred."

SEC. 2. Section 9 of such Act is amended by adding at the end thereof the following:

"Shares may be issued in joint tenancy with right of survivorship with any person designated by the credit union member, but no joint tenant shall be permitted to vote, obtain loans, or hold office, unless he is within the field of membership and is a qualified member."

SEC. 3. Subsection (c) of section 11 of such Act is amended by striking out the clause "fix the amount and character of the surety bond required of any officer having custody of funds" and inserting in lieu thereof the following: "require any officer or employee having custody of or handling funds to give bond with good and sufficient surety in an amount and character to be determined, from time to time, by the board and authorize the payment of the premium or premiums therefor from the funds of the Federal credit union".

SEC. 4. Subsection (d) of section 11 of such Act is amended by striking out in the first sentence thereof the following: "(by the treasurer)".

SEC. 5. The fourth sentence of subsection (d) of section 11 of such Act is amended to read as follows: "No loan shall be made to any member which shall cause such member to become indebted to the Federal credit union in the aggregate, upon loans made to such member, in excess of $200 or 10 per centum of the Federal credit union's paid-in and unimpaired capital and surplus, whichever is greater, or in excess of $300 unless such excess over $300 is adequately secured."

SEC. 6. Subsection (e) of section 11 of such Act is amended by adding at the end thereof the following:

"As used in this subsection the term 'passbook' shall include any book, statement of account, or other record approved by the Governor for use by Federal credit unions."

SEC. 7. At the end of such Act a new section is added as follows:

"SEC. 22. The provisions of this Act shall be extended to and include the Panama Canal Zone."

SEC. 8. Subsection (b) of section 16 of such Act is amended to read as follows:

"(b) (1) The Governor may suspend or revoke the charter of any Federal credit union, or place the same in involuntary liquidation and appoint a liquidating agent therefor, upon his finding that the organization is bankrupt or insolvent or has violated any provisions of its charter, its bylaws, or of this chapter, or of any regulations issued thereunder.

"(2) The Governor, through such persons as he shall designate, may examine any Federal credit union in voluntary liquidation and, upon his finding that such voluntary liquidation is not being conducted in an orderly or efficient manner or in the best interests of its members, may terminate such voluntary liquidation and place such organization in involuntary liquidation and appoint a liquidating agent therefor.

"(3) Such liquidating agent shall have power and authority, subject to the control and supervision of the Governor and under such rules and regulations as the Governor may prescribe, (i) to receive and take possession of the books, records, assets, and property of every description of the Federal credit union in liquidation, to sell, enforce collection of, and liquidate all such assets and property, to compound all bad or doubtful debts, and to sue in his own name or in the name of the Federal credit union in liquidation, and defend such actions as may be brought against him as liquidating agent or against the Federal cerdit union; (ii) to receive, examine, and pass upon all claims against the Federal credit union in liquidation, including claims of members on shares; (iii) to make distribution and payment to creditors and members as their interests may appear; and (iv) to execute such documents and papers and to do such other acts and things which he may deem necessary or desirable to discharge his duties hereunder.

"(4) Subject to the control and supervision of the Governor and under such rules and regulations as the Governor may prescribe, the liquidating agent of a Federal credit union in involuntary liquidation shall (i) cause notice to be given to creditors and members to present their claims and make legal proof thereof, which notice shall be published once a week in each of three successive weeks in a newspaper of general circulation in each county in which the Federal credit union in liquidation maintained an office or branch for the transaction of business on the date it ceased unrestricted operations: *Provided*, That whenever the aggregate book value of the assets and property of a Federal credit union in involuntary liquidation is less than $1,000, unless the Governor shall find that its books and records do not contain a true and accurate record of its liabilities, he shall declare such Federal credit union in liquidation to be a 'no publication' liquidation, and

publication of notice to creditors and members shall not be required in such case; (ii) from time to time, make a ratable dividend on all such claims as may have been proved to his satisfaction or adjudicated in a court of competent jurisdiction and, after the assets of such organization have been liquidated, shall make further dividends on all claims previously proved or adjudicated; and the liquidating agent may accept in lieu of a formal proof of claim on behalf of any creditor or member the statement of any amount due to such creditor or member as shown on the books and records of the credit union: *Provided*, That all claims not filed before payment of the final dividend shall be barred and claims rejected or disallowed by the liquidating agent shall be likewise barred unless suit be instituted thereon within three months after notice of rejection or disallowance; (iii) in a 'no publication' liquidation, determine from all sources available to him, and within the limits of available funds of the Federal credit union, the amounts due to creditors and members, and after sixty days shall have elapsed from the date of his appointment, shall distribute the funds of the Federal credit union to creditors and members ratably and as their interests may appear.

"(5) Upon certification by the liquidating agent in the case of an involuntary liquidation, and upon such proof as shall be satisfactory to the Governor in the case of a voluntary liquidation, that distribution has been made and that liquidation has been completed, as provided herein, the Governor shall cancel the charter of such Federal credit union: *Provided*, That the corporate existence of the Federal credit union shall continue for a period of three years from the date of such cancellation of its charter, during which period the liquidating agent, or his duly appointed successor, or such persons as the Governor shall designate, may act on behalf of the Federal credit union for the purpose of paying, satisfying, and discharging any existing liabilities or obligations, collecting and distributing its assets, and doing all other acts required to adjust and wind up its business and affairs, and it may sue and be sued in its corporate name.

"(b) After the expiration of five years from the date of cancellation of the charter of a Federal credit union the Governor may, in his discretion, destroy any or all books and records of such Federal credit union in his possession or under his control."

Approved July 31, 1946.

[PUBLIC LAW 89—80TH CONGRESS]
[CHAPTER 101—1ST SESSION]

[S. 993]

AN ACT

To provide for the reincorporation of Export-Import Bank of Washington, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2 (a) of the Export-Import Bank Act of 1945, as amended (59 Stat. 526, 666), is hereby amended to read as follows:

"SEC. 2. (a) There is hereby created a corporation with the name Export-Import Bank of Washington, which shall be an agency of the United States of America. The objects and purposes of the bank shall be to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States or any of its Territories or insular possessions and any foreign country or the agencies or nationals thereof. In connection with and in furtherance of its objects and purposes, the bank is authorized and empowered to do a general banking business except that of circulation; to receive deposits; to purchase, discount, rediscount, sell, and negotiate, with or without its endorsement or guaranty, and to guarantee notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase, sell, and guarantee securities but not to purchase with its funds any stock in any other corporation except that it may acquire any such stock through the enforcement of any lien or pledge or otherwise to satisfy a previously contracted indebtedness to it; to accept bills and drafts drawn upon it; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to perform any act herein authorized in participation with any other person, including any individual, partnership, corporation, or association; to adopt, alter, and use a corporate seal, which shall be judicially noticed; to sue and to be sued, to complain and to defend in any court of competent jurisdiction; and the enumeration of the foregoing powers shall not be deemed to exclude other powers necessary to the achievement of the objects and purposes of the bank. The bank shall be entitled to the use of the United States mails in the same manner and upon the same conditions as the executive departments of the Government. The bank is hereby authorized to use all of its assets and all moneys which have been or may hereafter be allocated to or borrowed by it in the exercise of its functions. Net earnings of the bank after reasonable provision for possible losses shall be used for payment of dividends on capital stock. Any such dividends shall be deposited into the Treasury as miscellaneous receipts."

SEC. 2. The Export-Import Bank Act of 1945, as amended, is hereby amended by striking out from section 6 thereof the words "Such obligations shall be redeemable at the option of the bank before maturity in such manner as may be stipulated in such obligations and shall have such maturity and bear such rate of interest as may be determined

by the Board of Directors of the bank with the approval of the Secretary of the Treasury" and substituting in lieu thereof the following: "Such obligations shall be redeemable at the option of the bank before maturity in such manner as may be stipulated in such obligations and shall have such maturity as may be determined by the Board of Directors of the bank with the approval of the Secretary of the Treasury. Each such obligation shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the issuance of the obligation of the bank".

SEC. 3. The Export-Import Bank Act of 1945, as amended, is hereby amended by striking out section 8 therefrom and substituting in lieu thereof a new section 8 as follows:

"SEC. 8. Export-Import Bank of Washington shall continue to exercise its functions in connection with and in furtherance of its objects and purposes until the close of business on June 30, 1953, but the provisions of this section shall not be construed as preventing the bank from acquiring obligations prior to such date which mature subsequent to such date or from assuming prior to such date liability as guarantor, endorser, or acceptor of obligations which mature subsequent to such date or from issuing, either prior or subsequent to such date, for purchase by the Secretary of the Treasury, its notes, debentures, bonds, or other obligations which mature subsequent to such date or from continuing as a corporate agency of the United States and exercising any of its functions subsequent to such date for purposes of orderly liquidation, including the administration of its assets and the collection of any obligations held by the bank."

SEC. 4. The Export-Import Bank Act of 1945, as amended, is hereby amended by the addition of a section 12 as follows:

"SEC. 12. The Export-Import Bank of Washington created hereby shall by virtue of this Act succeed to all of the rights and assume all of the liabilities of Export-Import Bank of Washington, a District of Columbia corporation, and any outstanding capital stock of the District of Columbia corporation shall be deemed to have been issued by and shall be capital stock of the corporation created by this Act and all of the personnel, property, records, funds (including all unexpended balances of appropriations, allocations, or other funds now available), assets, contracts, obligations, and liabilities of the District of Columbia corporation are hereby transferred to, accepted, and assumed by the corporation created by this Act without the necessity of any act or acts on the part of the corporation created by this Act or of the District of Columbia corporation, their officers, employees, or agents or of any other department or agency of the United States to carry out the purposes hereof and it shall be unnecessary to take any further action to effect the dissolution or liquidation of Export-Import Bank of Washington, a District of Columbia corporation. The members of the Board of Directors of the District of Columbia corporation, appointed pursuant to the provisions of the Export-Import Bank Act of 1945, shall, during the unexpired portion of the terms for which they were appointed, continue in office as members of the Board of Directors of the corporation created by this Act."

Approved June 9, 1947.