

April 28, 1916

Dr. Royall J. Miller,
No. 103 Peachtree Place,
Atlanta, Georgia.

S i r : -

Your letter of April 20th was duly received and referred to the Board for attention.

In reply you are advised that in the opinion of Counsel a discretion is vested in the Board as to what amount of interest, if any, shall be charged Federal reserve banks for the use of Federal reserve notes, and that in the exercise of its discretion the Board must take into consideration the purpose and intent of Congress.

It will be recalled that the banks pay all expenses of the preparation, issue and redemption of these notes; that unlike the tax on national bank note circulation the interest collected is not used for the purpose of defraying any of the incidental expenses; that after the payment of the expenses of the Federal reserve banks and the cumulative dividends on their stock, and after appropriating a certain amount to the surplus account of such banks, all of the earnings are paid to the Government in lieu of franchise and other taxes. To impose a tax, therefore, on Federal reserve notes merely as a means of raising revenue for the Government would not in the end increase the Government's revenue since it would merely increase the expenses of the banks and would thus deplete the amount that the Government receives from the earnings over and above the dividends on the stock.

One of the primary purposes of this provision was to enable the Federal Reserve Board to control the volume of notes of this character placed in circulation. In other words, if these notes become redundant the Board can, by imposing an interest charge or by increasing a charge already imposed, force a retirement and so furnish the desired elasticity to our currency. It has not been deemed necessary by the Board to force a retirement of these notes since the amount in circulation is no larger than is needed for the volume of business now being done by the banks. A nominal rate of interest, therefore, would serve no useful purpose and in the opinion of Counsel is not required under the law, nor would such a nominal charge seem to be within the purpose and intent of Congress.

I trust this will give you the information desired.

Respectfully,

Governor.