a) Robert L Byfield
7
Ames, Emerich + Co
NYC.
1925

AMES, EMERICH & CO.
INVESTMENT SECURITIES
CHICAGO-NEW YORK-MILWAUKEE

TELEPHONE RECTOR 2402
5 NASSAU STREET
NEW YORK

October 1, 1925

Telephoned to disregard because of Chicago advice
BS 10/2/25

Benjamin Strong, Esq., Governor,
Federal Reserve Bank,
33 Liberty Street,
New York, N. Y.

Dear Sir:

If possible, I would like to make an appointment to see you for a few moments at your convenience.

The purpose of my call will be to extend through you an invitation to Dr. Schacht, whom I understand is expected in this country next week.

Will you kindly let me know what hour would be most convenient for you?

Very truly yours,

Robert S. Byfield

RSB:JM

SEP 7 1925 9 26 AM

RECEIVED
GOVERNOR'S OFFICE

b) C. T. Carey
?
Halbrook, Carey & Co.

1914
commercial paper

TELEPHONES {5320 / 5321} CORTLANDT

HOLBROOK, COREY & CO.

DEALERS IN COMMERCIAL PAPER

31 NASSAU ST. NEW YORK

THE ROOKERY CHICAGO

50 CONGRESS ST. BOSTON

EDW[illegible] HOLBROOK
CLA[illegible]NCE T. COREY
EDWARD D. PAGE SPECIAL

NEW YORK August 21st, 1914.

RECEIVED
AUG 22 1914
REFERRED TO OFFICE

Mr. F. N. B. Close, Vice Pres't,
Bankers Trust Company,
New York City.

Dear Sir:-

Confirming the writer's conversation of this afternoon, we would say that our sales of Commercial Paper for the month of July were 63 7/100 % of our maturities, and our sales from August 1st to and including the 21st are slightly in excess of 14 % of the amount of maturities through our office thus far this month, with a fairly large volume of maturities for the remaining ten days of August. This is not the season of the year, as stated to you, when Merchants liquidate, depending on their receipts which come in later in the year to do so.

Yours very truly,

Holbrook Corey & Co

CTC-G.

a Allen B Forbes
banker; head of
Harris, Forbes + Co

1914, 1921
NYC

director of Bankers Trust Co
etc
US Mortgage + Trust
1886-1923

CABLE ADDRESS: SABA NEW YORK

HARRIS, FORBES & COMPANY
PINE STREET COR. WILLIAM
NEW YORK

CHICAGO CORRESPONDENT
HARRIS TRUST AND SAVINGS BANK
BOSTON CORRESPONDENT
N. W. HARRIS & CO., (INC.)

August 21, 1914.

Attention Mr. Mott

Bankers Trust Company,

16 Wall St., N. Y. City.

Gentlemen:

Referring to your request for information in regard to the amount of maturing Municipal Bonds between now and including the first of January, we wish to say that we have, after careful consideration, found no method by which we can ascertain this information in anything like accurate form, but we are presenting for your consideration figures which, for the reasons as explained verbally by the writer to Mr. Mott, we believe are as comprehensive as anything which can be compiled on short notice.

If we can be of any further service we will be pleased to have you call upon us.

Very truly yours,

Harris Forbes & Co HHB

HFB-T
Encl

PERMANENT FINANCING OF STATES, COUNTIES AND MUNICIPALITIES WITHIN TERRITORIAL LIMITS OF THE UNITED STATES

	Chronicle	Bond Buyer
1904	$250,754,946	$286,708,289
1905	183,080,023	197,719,077
1906	201,743,346	301,168,061
1907	227,643,208	301,048,503
1908	313,797,549	355,384,466
1909	339,424,560	363,630,786
1910	320,036,181	324,360,955
1911	396,859,646	452,113,716
1912	386,551,828	399,046,083
1913	403,246,518	408,477,402
	$3,023,137,805	$3,389,657,338

2 1/2

1694828669
6779314676
6Q $\boxed{8,474,143,345}$ total Issues
141,235,556.

BONDS MATURING SEPT. 1, 1914 to JAN. 1, 1915 INCLUSIVE, OF STATES, COUNTIES AND MUNICIPALITIES WITHIN THE TERRITORIAL LIMITS OF THE UNITED STATES FROM STATE & CITY SUPPLEMENT OF THE COMMERCIAL & FINANCIAL CHRONICLE FOR MAY 30, 1914.

(N.B.) It is estimated that one-third of the municipalities which have bonded indebtedness are listed in this issue of the Chronicle; but the total debt shown is probably 60% of the total outstanding indebtedness of all states and municipalities in the United States. Most of the small municipalities for many years past have been issuing serial bonds, which are retired out of annual tax revenues.

	Counties and Municipalities	State	
Alabama	$118,000		No Sinking Fund
Arizona	38,500		
Arkansas	151,000		Serial
California	1,219,980		All Serial
Colorado	172,400		Straight Sinking Fund
Connecticut	457,683		" " "
Delaware	64,000		" " "
Florida	74,920		" " "
Georgia	237,440	$100,000	Serial and Sinking Fund
Idaho	65,240		Sinking Fund
Illinois (Chicago $4,711,000)	5,295,000		Serial
Indiana	485,000	500,000	Straight Sinking Fund
Iowa	465,000		Serial
Kansas	519,000		Serial and Sinking Fund

	Counties and Municipalities	State	
Kentucky	$148,000		Straight sinking fund.
Louisiana	100,000		Mostly Serial.
Maine	153,400	$7,800	" Straight.
Maryland	41,000		Serial and Sinking Fund.
Massachusetts (Boston $2,145,000)	5,666,000	525,000	Both.
Michigan	550,000		Straight Sinking Fund.
Minnesota	659,000		" " "
Mississippi	170,840		Serial and Sinking Fund.
Missouri	166,030		" " "
Montana	72,320		Straight Sinking Fund.
Nebraska	195,500		Serial.
Nevada	57,000		Straight Sinking Fund.
New Hampshire	272,000		" " "
New Jersey	899,860		Serial and "
New Mexico			" " "
New York (New York City $102,000,000) *	105,180,000		" " "
North Carolina	282,000		Straight Sinking Fund.
North Dakota	91,980		Serial and Sinking Fund.
Ohio	3,061,320		Serial and Sinking Fund.
Oklahoma	327,591		" " " "

	Counties and Municipalities	State	
Oregon	$ 96,152		Straight Sinking Fund.
Pennsylvania	3,894,000		Mostly Serial.
Rhode Island	52,800		Straight Sinking Fund.
South Carolina	133,900		Serial and Sinking Fund.
South Dakota	47,500		" " " "
Tennessee	717,000	1,600,000.	Mostly Sinking Fund.
Texas	757,630		Serial and Sinking Fund.
Utah	32,400		Straight Sinking Fund.
Vermont	74,000		" " "
Virginia	959,000		Mostly Straight Sinking Fund.
Washington	509,000		Serial and Sinking Fund.
West Virginia	85,000		" " " "
Wisconsin	407,000		Mostly Serial.
Wyoming	62,900		Straight Sinking Fund.
TOTAL	$135,285,286	$2,732,800	

GRAND TOTAL $138,018,086

* New York City - Of this amount $82,000,000 are due on or before January 1, 1913 being Revenue Warrants. The City has $5,000,000 in cash on hand towards paying off the above. The remaining $77,000,000 are payable out of the taxes which have been anticipated. Of the $102,000,000,$25,000,000

is issued in the form of short-time notes in anticipation of the sale of long-time corporate stock.

RWR AB

August 21, 1914.

PERSONAL

June 13, 1921.

My dear Mr. Forbes:

We have only within the last few weeks been able to conclude the final accounting of the expenses of the various Liberty Loans, and determine to what extent, if any, expenditures made by the organization could not be reimbursed by the Treasury under existing law, or rules of the Department. We find that the total amount of such items that cannot be reimbursed is $2,535.97. Of this sum, the Federal Reserve Bank is able to absorb $2,229.74. The remainder, $306.23, I have paid personally.

The Liberty Loan Committee passed a resolution, agreeing personally to assume certain charges, up to a limited amount, which as I recall was $1,000. If the members of the committee care to pay their respective shares of this sum, the amount of each committeeman's proportion will be $23.55.

Had these operations been conducted since the passage of the Volstead Act, it would not have been necessary to ask the committee to make any contribution.

Yours very truly,

Allen B. Forbes, Esq.,
56 William St.,
New York, N. Y.

BS:MM

HARRIS, FORBES & COMPANY
PINE STREET COR. WILLIAM
NEW YORK

BOSTON CORRESPONDENT
HARRIS, FORBES & COMPANY (INC.)
CHICAGO CORRESPONDENT
HARRIS TRUST AND SAVINGS BANK

June 14, 1921.

P.A.

JUN 15 1921

Benjamin Strong, Esq.,
Federal Reserve Bank of New York,
Equitable Bldg., N.Y.City.

My dear Ben:-

I have your letter of the 13th inst. in regard to the deficit of the Liberty Loan Committee Fund and take pleasure in enclosing my check for $23.55, my share of the amount.

I note with reminiscent interest your pathetic last paragraph but cannot, after all, feel regretful that the Act to which you refer was not in force during the strenuous days of that campaign.

Very truly yours,

ABF F
PP

June 15, 1921.

My dear Mr. Forbes:

I thank you for the remittance of $23.55 enclosed in your favor of June 14.

Yours very truly,

Allen B. Forbes, Esq.,
56 William St.,
New York, N. Y.

GB:MM

a) W. G. Heath

Campbell?, Heath + Co

1914

NYC

Campbell, Heath & Co.

5 Nassau Street,

Chicago
Philadelphia
Boston
San Francisco
Hartford

New York August 24-1914.

RECEIVED
AUG 25 1914
REFERRED TO
OFFICE

Mr. B. Strong, V.Pres.,
Bankers Trust Co.,
New York City.

Dear Mr. Strong:

Referring to the memorandum sent us by your institution in regard to paper that we have outstanding our recent sales and so forth, we are very pleased to advise you that the amount of paper maturing with us from July 28th to August 14th inclusive represented slightly under 14 percent of the total amount outstanding on our books, unmatured at that period.

Our sales for the same period represented about twnety percent of our normal volume, but it is interesting to note that the orders secured are daily increasing in volume, and cover a broader territory.

Of course, this business is being done principally with small interior country banks in all sections of the country. Of our total outstandings, unmatured, less than seven percent of the maturities are after January 1, 1915.

In regard to the total amount now outstanding unmatured, we prefer not to give you this information, but are very pleased to furnish you the foregoing, which we think will answer your purposes.

With best wishes, we are

Very truly yours,

Campbell Heath & Co

Dictated by
W.G.Heath
HK

RECEIVED
AUG 25 1914 11 09 AM
TELLERS DEPT.

E. Naumburg & Co
Bankers
14 Wall St

1914
NYC

E. NAUMBURG & CO.

BANKERS

BOSTON
CHICAGO
PHILADELPHIA
HARTFORD

14 WALL ST.,
NEW YORK

Aug. 21, 1914.

F. N. B. Close, Esq. Vice Pres.,
Bankers Trust Co.,
N.Y.City.

Dear Sir: -

In accordance with your telephonic conversation with the writer this morning, we are enclosing you herewith the slip which you were kind enough to send us, and which you assured us would be considered absolutely confidential and that our name would not in any way be disclosed as having supplied the figures in question.

You asked us in case we had any suggestions, bearing upon the situation, to write you our views. Some of this data the writer gave you through the telephone, but we can say in addition that in 1907 the situation was improved in the first place by the fact that Mr. James T. Woodward, President of the Hanover National Bank started the ball rolling by buying a little paper from the various brokers at high rates. Then some of the other banks in this city and elsewhere followed suit, and the situation was relieved. Thus it appears that Mr. Woodward was a public benefactor, and we think now that if a few of the New York banks and trust companies would buy a limited amount of paper from the various brokers at whatever they considered the proper rate, and this fact was duly advertised through the salesmen of the various brokerage houses throughout the country, then the country banks would follow suit, and the money stringency would be greatly relieved.

Wishing you success in your more than praiseworthy endeavor, believe us, to be,

Yours very truly,

E. Naumburg & Co.

WWN/w

ENCLOSURE

F Howard C. Smith

7

Hathaway, Smith, Folds
& Co. NYC
(bankers)
1914

HATHAWAY, SMITH, FOLDS & CO.

CHARLES HATHAWAY,
HOWARD C. SMITH,
CHARLES W. FOLDS,
ARTHUR B. HOLDEN,
FORREST RAYNOR,
STEWART S. HATHAWAY,
ROB'T B. WOODWARD,
SPECIAL.

COMMERCIAL PAPER

45 WALL STREET

NEW YORK, 45 WALL ST.
BOSTON, 60 CONGRESS ST.
CHICAGO, 137 SOUTH LA SALLE ST.
ST. LOUIS, 408 OLIVE ST.
PHILADELPHIA, 421 CHESTNUT ST.
PITTSBURGH, FIRST NAT'L BANK BUILDING.
SAN FRANCISCO, FIRST NAT'L BANK BUILDING.

HCS.J.

NEW YORK, October 5, 1914.

236

B.S.Jr.

OCT - 7 1914

Mr. Benjamin Strong, Jr.,

C/o Bankers Trust Company,

New York City.

Dear Ben:

I have been meaning to send you copy of a letter I received a couple of weeks ago, but delayed doing so. In your figuring on the banking situation the enclosed may be of interest to you.

Yours very truly,

Howard C. Smith

Copy Extract of Letter from Mr. Geo. E. Hume, Treasurer

to Howard [signature]

American Central Life Insurance Company
Indianapolis, Indiana.

September 10, 1914.

"While I was in Chicago, I had some talks with bankers there, who seemed somewhat discouraged because of the steady withdrawals of country bank deposits since the war. One Banker told me that he had lost over Six Million Dollars ($6,000,000.) of this class of deposits, much of which had gone into increased reserves in country banks and into pay-rolls paid out to banks through their correspondents in Cities like Cleveland and Detroit, and that very little of these pay-rolls had found their way back into the banks. In other words, that small hordings were sapping the reserves in the larger banks, making the financing of any considerable enterprises difficult, if not impossible. We propose within the next ninety days to increase our deposits in Chicago and elsewhere, considerably, with the thought of counteracting this withdrawal insofar as we are able."

Subject - Country Bank hoarding money

HATHAWAY, SMITH, FOLDS & CO.

CHARLES HATHAWAY,
HOWARD C. SMITH,
CHARLES W. FOLDS,
ARTHUR B. HOLDEN,
FORREST RAYNOR,
STEWART S. HATHAWAY,
ROB'T B. WOODWARD,
SPECIAL.

COMMERCIAL PAPER

45 WALL STREET

NEW YORK, 45 WALL ST.
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SAN FRANCISCO, FIRST NATL. BANK BUILDING.

B.S. Jr.

HCS. J.

OCT 16 1914

NEW YORK, October 15, 1914.

236

Mr. Benjamin Strong, Jr.,

C/o Bankers Trust Company,

New York City.

My dear Ben:

Referring to my brief on the standardization of commercial paper and the rediscount market which I gave you some time ago, I showed my memorandum to one of our brightest salesmen and received a reply from him commending it very strongly but expressing surprise that I do not recommend the registration of paper. I am now enclosing for your sight a copy of my reply to him on this subject, which may interest you personally.

I know that my views are rather different from those entertained by the Bankers and other Trust Companies and it is in no sense an attitude of unfriendliness but I am trying to analyze what the borrowers and the loaners would really get out of registration and it seems to me that the balance of argument is against it as the enclosed letter will indicate to you.

Yours very truly,

Howard C. Smith

Copy for Mr. Strong

HCS.J.   October 16, 1914.

Mr. L. A. Eddy, Jr.,

Syracuse, New York.

Dear Eddy:

Your letter of the 12th reached me duly and in reply would say that I have not been particularly enthusiastic over the registration of paper. The only advantage that I can discover from such registration would be the closing of one door to the rascal who endeavors to make a secret issue of paper, while many other doors are left open. On the other hand, there are numerous physical and other difficulties which would result from the registration of paper which, to my mind, would more than counterbalance any advantage thus arising.

Physically, if every note that was sold had to go to a registering office in a large city before it went into the hands of the broker or the bank, a certain amount of time would elapse, and if at a subsequent date there was occasion to change the denominations or maruritles of any such notes, the necessary readjustments and corrections of record that would follow and the consequent delay would seriously interfere with the progress of trade. The cost of such labor would, of course, be an additional burden on the borrower from which he would receive no commensurate return, and in fact the whole thing as far as labor is concerned, would produce nothing beyond the verification of one single item on a statement; leaving all others still open.

From a credit point of view,- you know country bankers well enough to know that if the record of the debt of a concern was at all times open to the knowledge of the world, this knowledge would be abused by competitors and in the case of a business that had large fluctuations between its high and low points of borrowing, would be the cause of undue fear and trepidation on the part of those bankers not fully cognizant with the business and its ability to liquidate, and thus improperly restrict a credit. If the amount of paper registered were not made public there certainly would be nothing to be gained by the registration.

It was purely to avoid such abuses on one side and troubles on the other that I devised the idea of having a standard form which should be certified to by an accountant without his making public the actual figures beyond the annual statement. I believe that the outline which I gave you would cover all the advantages which could be secured by the registration of paper.

As to the other part of your letter, if you feel that a larger amount than 25% of the paper now standing would meet the strenuous qualifications that are laid down, you pay a very gratifyingly high tribute to the conservative financial methods of the American business man. I hope you are right and to whatever extent you may be able to verify your statement I shall be most happy to know.

I will gladly talk with you again when opportunity offers.

Yours very truly,

REQUIREMENTS FOR STANDARD GRADE

COMMERCIAL PAPER.

In developing requirements for a standard grade, we must recognize that the requirements must vary with the different lines of business, and it would probably be necessary to classify them under heads somewhat as follows:

Manufacturers, Jobbers, Retailers, Refiners, Importers or Commission Merchants, Warehousemen and Cotton Factors, Tanners and Manufacturers of Chemicals, Textile Manufacturers, and others.

In order however to indicate what I mean by Standard Requirements, I will select only one class, namely, the average wholesale merchant or jobber, and follow that through in a rough way without attempting to develop all the details.

Form of Note.

The note is in the usual form now known in this country, drawn to the order of the maker and endorsed in blank, payable at a specific time (not over seven months) and at a specific place.

It shall bear a certification on the end signed by a Certified Public Accountant, to read somewhat as follows:

"We certify that on the date of our examination,- the required standard A was complied with in all respects. (Signed)

\- Certified Public Accountants."

Items of Standardization.

There is open for the inspection of buyers a certified balance sheet (not over fifteen months old) accompanied with the home State of Incorporation or the home office of the firm, the Officers and Directors or Partners, and the nature of the business.

REQUIREMENTS FOR STANDARD GRADE

COMMERCIAL PAPER.

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Items of Standardization.

There is open for the inspection of buyers a certified balance sheet (not over fifteen months old) accompanied with the home State of Incorporation or the home office of the firm, the Officers and Directors or Partners, and the nature of the business.

In giving his certificate, the Accountant shall cover the following items, but is not required to make them public.

1. Relation of notes and open accounts payable to cash and accounts receivable; or

2. Average monthly maturities against average monthly collections.

3. As to prior liens.

4. Net assets to total debts.

5. Average earnings.

6. Average dividends or withdrawals of partners.

7. Bank accomodations.

8. Merchandise notes outstanding.

9. Insurance.

10. Contingent liabilities.

Description of Above Items.

1. The amount of notes payable plus accounts payable does not exceed the cash balances and accounts receivable for goods sold and not past due and maturing within six months plus 25% of the merchandise account.

2. The average monthly maturities of notes and accounts payable does not exceed 60% of the average monthly collections for the past twelve months, the balance of the 40% being allowed for interest and running expenses.

3. There is no claim holding a prior lien over and above the notes of this issue.

4. The total net assets of the concern are not less than 120% of the total indebtedness excluding any mortgage on realty owned directly by the concern, which mortgage does not exceed 60% of a conservative appraised value made within two years.

5. Average earnings over a period of three years are not less than 8% per annum on the average net value of the business, excluding any value of good will or patents.

6. Cash dividends of a corporation or cash withdrawals of a partnership do not exceed the net earnings of the business figured on a three year period, except that a special dividend or special withdrawals may have been paid out of the surplus, provided the above standards of assets to debts are still maintained.

7. The borrower is to establish agreed bank credits at its own banks of discount, for a total amount not less than 70% of the total current note indebtedness plus merchandise bills over 30 days old, the amount to be figured on the total average indebtedness of the previous year.

8. No notes given in payment of merchandise accounts are outstanding against the concern. Acceptances for foreign purchases however are not to be included in this category.

9. Insurance up to 80% of the fair ownership value of merchandise and real estate is carried, unless the concern has developed an insurance fund of its own equal to 150% of the reserve required of Insurance Companies under the laws of the State of New York.

10. Contingent liability, if any, is recorded and does not exceed 75% of the surplus current revolving assets in excess of current debts, but if the current debts are less than the standard called for under No. 1, the contingent liability is increased by that difference.

The unmatured life of the note does not exceed seven months.

Certified Public Accountants.

The Clearing Houses of the Reserve and Central Reserve Cities shall prepare a list of Certified Public Accountants acceptable to them, and the certificate is to be made by one of these names in the list.

The object of the above is to establish a standard of paper that can liquidate itself to a moderate liquidation of business in normal or ordinarily strenuous times.

In short, paper conforming to such a standard represents the financing of goods in trade as truthfully as English Acceptances, though the trade is not written on the face of the note.

Had any such standard been applied to the Claflin paper in the past, the condition of that business must have been known.

I do not believe that the requirement of publicity so called for, would involve the revelation of the proper secrets of the business or open them to unfair competition.

Should all the information which the Accountant is to certify to be made public, then a serious danger of this nature might follow, and it is for this reason that I have suggested that the Accountant only certify that the requirements are fulfilled.

It may be suggested that these requirements would not be sufficient to make a concern independent of banks and unimpeachable as to its credits under conditions as they exist to-day, but I take it that no standard can possibly be evolved that may not fail in times of social or political cataclasm.

These ideas make no pretense of being final or complete, and are only given to indicate lines which might be followed up. Careful study and consultation is essential to make them complete, and safe.

HCS

Preliminary suggestions for the development of a rediscount market in the United States, applicable to existing business conditions.

September 3,1914.

In studying the question of developing a general rediscount market in the United States for the purpose of producing individual flexibility in banks, similar in results to those of the London discount market, certain facts and conditions must be borne in mind.

First we must accept the fact,as you have very properly said that development must be along natural lines and experience can only serve to guide and safeguard these natural developments. We cannot hope to tear down existing established business methods and then build entirely new to suit our ideals. We must unify and adapt the old. It is accepted for granted that our British cousins have worked out the most efficacious system of credit discounts and reserves and we should study them to properly determine what is best.

Let us first note the fundamental differences that exist,and must continue to exist for some time to come, between the English and American Markets:

1st. The number of joint stock banks generally doing business with the Bank of England are very few in number (twelve I believe) and are all large units with branches.

The number of banks that can discount with our new Reserve Bank is very large,exceeding 5,000, and of all sizes with probably 80% of the whole with deposits of under $1,000,000. The management of the English banks is compact and close; the management of the American banks is disjointed and individual and scattered over vast territories with varying interests.

2nd. On the side of the borrowers as merchants and manufacturers probably more than 75% of the englishmen's business is foreign to their shore. With the exception of food stuffs and cotton probably more than 75% of the American business is within our own shores.

3rd. Therefore the basis of English discounts - acceptances - is mostly foreign, while the basis of American discounts is mainly domestic. It may be asked; Why not get our American merchants on an acceptance basis as in England? The answer to this is that you cannot do this until you abolish the custom of allowing discounts for prompt cash payments and the abolition of that would not be advisable in a country growing like ours,where the bigger and more stable merchants must use just such methods of controlling their weaker and younger customers in growing communities. Furthermore the interjection of a bank or banks between buyer and seller which must follow an acceptance scheme would seriously weaken present relations of a nature to the disadvantage of both.

4th. The basis of English credits is the standing of the accepting house located in London, the original borrower does not count in the banking world. The basis of the American credit is the standing and demonstrated ability of the individual merchant or manufacturer.

In England single name credit does not extend beyond the borrowers own bank. In the United States the individual credit is very broad.

5th. In England mercantile credits are obtained through bills representing sales of merchandise generally accepted for a commission and gathered together by running brokers and by them sold to bill brokers and discount houses, and from them perhaps sold again to the joint stock banks who deal with the Bank of England. Under certain conditions the discount houses may deal direct with the Bank of England.

Every change of ownership in a bill involves a new endorsement, each endorser being careful to limit the amount of his endorsement of any one name as well as the total sum of his endorsements. In the United States credits are obtained by means of straight promissory notes which on their face show no sale of merchandise but which in fact are in a large majority of cases less in amount than the sum of ninety days' purchases plus ninety days' sales, which might be outstanding under the English system.

6th. As to the question of risk to the bankers: I am not acquainted with the losses in England and the percentage they bear annually to the average amount outstanding, but if rumor and newspaper reports are correct they are at least occasional. In the United States I can fairly say that in twenty years' experience in dealing in single named credits I have known but one failure that was not caused by some form of dishonesty or misrepresentation, and the loss on that one failure was only 3 1/2% . As to the dishonest borrowers they form a very infinitesimal part of the whole and while the average annual percentage of loss against average annual outstandings is substantially impossible to determine exactly, I think it does not equal one mill on one dollar.

I take it that the average British merchant and manufacturer is no more honest than our American of like standing and therefore I am willing to claim from the point of view of risk there is substantially no difference.

7th. Location of the consumers of discounts in the two countries: We have seen that in England with its system of joint stock banks and branches the large sums of cash and therefore the discounts all accumulated in London, substantially in one place. In America the consumers of commercial paper are scattered all over the country in small units, namely, the small country banks and in large city banks. I should say there are between 2500 and 3000 buyers. In times of easy money the smaller country banks send their money to the city institutions and take 2% on balances and at these times most of the buying is by city institutions. When money rates run from 4 1/2% and upward the country man then withdraws his balances and invests in paper at a satisfactory rate and the city institutions allow their holdings to mature.

The question of the collection and distribution of these bills is comparatively simple in London because of the small area and the small number of buyers, tho' the regulation of the volume is the result of a very delicate machinery, resulting from a combination of the bank rate and the call rate and exchange, and the bill broker is the instrument through whom regulation is affected.

In the United States there is no proper regulation of volume because the buying forces are so widely scattered with divergent interests. The american notebroker is the only pipe line or go between to carry money from where it accumulates to where it is needed.

The English bill broker by endorsement guarantees the note he sells and consequently limits the amount he can take of any one name not hesitating to divide the account with other brokers. The American does not guarantee his sales and is therefore in a position to control the entire output of a given name in a given market, omitting only discounts at a concerns own banks, and he can therefore follow closely the operations of the borrower and if he receives cooperation from the concern's banks of deposit he can pla an important part in safeguarding the financial interests of his client.

The large city banks have in recent years learned the advant of this cooperation, but unfortunately it is not as general as it should be.

Another point of difference between England and the United States is that when the English bank wants to increase its cash holdings it can either sell some part of its portfolio to a bill broker with its endorsement or rediscount with the Bank of England. Such a bank also generally has made call loans to bill brokers and it may call these, the final operation however in the event of the broker not getting call money elsewhere is the same as the first, viz: rediscount in the Bank of England.

One point must be borne in mind, England by her variation in the discount rate combined with her international exchange regulates the flow of gold to and from her borders. Unless we develop this country as a center of international exchange we cannot hope to regulate the general currency reserve beyond our own borders by means of a discount market rate. What we can do however by such a market is to throw material influences against the hoarding of currency in the small local banks.

Foreign Exchange under English control contributes to the ~~This gives~~ a flexibility to the English money market, both time and call, which is the crying need of our American system, ~~for~~ In the United States, when a bank has once bought paper it usually has no market for resale and cannot count on getting the proceeds before maturity of the note. In a few exceptional cases the stronger note brokers have been known to buy back paper from a bank without endorsement, but that is only in exceptional cases and never in times of generally tight money.

Without discussing the pros and cons of acceptances vs: single named paper which should be dealt with separately, let us see what is the logical and natural way to develop a general discount market and the first point of discussion is whether or not an endorsement on each change of ownership is essential to such a market. If we were to undertake to build up a discount market on the endorsement plan it means that we must first create a considerable number of incorporated discount houses, each with large capital whose endorsement must be of such a high quality that it must be accepted as substantially perfect by all the smaller country banks throughout the country as well as in the big cities.

Accepting the English theory that a guaranteeing or endorsing house may safely endorse ten times its capital if properly distributed and figuring that the "bought paper" in the United States amounts to 1,000 millions, this would involve a new capital investment of 100 millions in such corporations. This would also result in the general disappearance of the wonderful single named credit of our manufacturing and commercial institutions and its replacement by the credit of these new institutions.

The control of the whole credit of our commercial houses would then fall into the control of the few large endorsing organizations. If on the other hand we take the present American system with some modifications, the machinery for a discount market already exists just as soon as our reserve banks begin to operate.

The note broker is present to handle the trading back and forth that a discount market calls for. All that is needed is a certain standardization of quality in paper to make it open for rediscount in an open discount market. This can be accomplished in either of two ways:

1st. By the establishing of certain qualifications on the part of the maker which would insure a good note, accompanied by a certificate from a proper authority that the qualifications had been fulfilled.

2nd. By the endorsement of the bank originally purchasing the note.

I have not before me the new law but my recollection is that the limitation imposed by the law on amount of endorsement of any one bank is sufficient to assure the payment even of a bad note by the endorsing bank.

As to the qualifications of the maker I think this can be readily established. A year ago I made a study of developing qualifications in paper to insure a safe investment for savings banks of New York State in this class of security. I mean thereby qualifications which if adhered to would make the paper good without relying upon the judgment of the bank officer making the purchase. I do not suggest that paper failing in one or more of these qualifications is necessarily unsafe or risky or that all safe paper will fulfill these standards, but simply that any paper which does fulfill these standard requirements must necessarily be safe.

For your guidance I am appending a list of qualifications I suggest and I am of the opinion that 25% of the paper now outstanding is capable of meeting them. As to the other good and sound paper that by the nature of its business could not fulfill these standards and would be to an extent subject to the judgment of a banker, that could be covered into the rediscount market by the endorsement of the purchasing bank.

The whole of this scheme does not attempt to go beyond the region of that class of paper which is supposed to be the most risky,namely: single named uncollateralized notes.

Definite classes of collateralized paper could be added to the rediscount standards which would broaden the field of operations, but in developing this,further study on my part is necessary. Another calss of proper paper for rediscount should be acceptances arising out of foreign transactions which it is hoped the new law will develop, provided of course proper safeguards are thrown around these.

In fact this whole sketch make no pretense at completeness or finality.

I have prepared it rather hurriedly to give you a suggestion of natural lines that I believe could be safely followed.

The whole scheme should be submitted to rigid scrutiny from various points of view and then revised and tuned up as weaknesses develop. This is only the opening overture, but I am prepared at any time to take up and discuss the details from the point of view of one who has handled single named paper for a period of years.

The great problem is how to keep the innumerable small country banks from hoarding their money in times of stress and thus increasing the pressure in the big cities. I think the method outlined will tend to do that without upsetting and diminishing the rational and safe borrowing power and credit of our sound industrial institutions.

HCS

of Lloyd W. Smith
president
Harris, Forbes & Co
1925

HARRIS, FORBES & COMPANY
PINE STREET COR. WILLIAM
NEW YORK

BOSTON CORRESPONDENT
HARRIS, FORBES & COMPANY (INC.)

CHICAGO CORRESPONDENT
HARRIS TRUST AND SAVINGS BANK

LLOYD W. SMITH, PRESIDENT

October 23, 1925.

My dear Governor Strong:-

When I glanced around the table last night and noted the comparatively few bond men present among the many bank men, I could not help but feel that you had paid the house of Harris, Forbes & Company quite a marked compliment in the invitation which you had extended to me to be present.

On behalf of Harris, Forbes & Company, I wish to express our appreciation of being permitted to hear the general discussion and to get a little more clearly in mind the first-hand information in Germany with regard to their financial situation.

Sincerely,

Lloyd W. Smith

Benjamin Strong, Esquire,
Governor,
Federal Reserve Bank,
New York, N. Y.

Mr. Julian H Stewart

(Hambleton + Co

(bankers)

1925

NYC.

October 26, 1925.

Dear Mr. Stewart:

Mr. Case has handed me your note of this date.

There is nothing that I can write you at once in reply except to say that Dr. Schacht is himself awaiting some word from Germany in reply to his cables, of which you will be promptly advised.

I beg to remain,

Very truly yours,

B.S.

MSB

John H. Stewart, Esq.,
c/o Messrs. Hambleton & Co.,
43 Exchange Place, New York.

BS.LS

50-5-25-25

Schacht

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43 EXCHANGE PLACE

Dr. Schacht

New York, October 27th, 1925.

Benjamin Strong, Esq., Governor,
Federal Reserve Bank,
33 Liberty Street,
New York, N. Y.

Dear Mr. Strong:-

I thank you for your note of October 26th, and note that you will advise us as promptly as possible when Dr. Schacht has had advices from Germany.

Thanking you for your courtesy,

I am

Very truly yours,

John H. Stewart

JS/C

FEDERAL RESERVE BANK
OCT 28 1925 9 18 AM
RECEIVED
GOVERNORS OFFICE

F. C Walcott

Wm P. Bonbright & Co
NYC
1914

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14 WALL STREET

32

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10

NEW YORK January 19, 1914.

B.S. Jr.

Benjamin Strong, Jr., Esq.,
16 Wall St.,
New York City.

JAN 21 1913

My dear Ben:

I enclose herewith a letter from Howard Rodgers, who wrote our comparison of the Federal Reserve Act, which we sent out in bulletin form and copy of which I enclose herewith in case you have not seen it. It is exceedingly instructive and, I think, well put together. I would like to know what you think of the enclosed. Run through it and give me your comments at your convenience. This fellow Rodgers is a cousin of Star Childs, and he is a good deal of a student and sometimes shows a good deal of foresight.

Yours very truly,

F C Wilson

FCW*A*1

Enc. - 3.

Mighty interesting last night -
Very many thanks

Copy

SINGLE SERVICE PACKAGE CORPORATION OF AMERICA
71 BROADWAY
NEW YORK

My dear Star;

The enclosed is not, I sincerely hope, a real prophecy but merely an exhibit of possibilities which it behooves every one interested directly or indirectly in banking to bear in mind. I have no desire to pose as a pessimist but on the contrary would aid in every possible way towards working out a proper financial system. I cannot help but feel, however, that the second and third rate calibre of men from the West and South who are now running affairs in Washington are so determined to "do up" New York and its immediate interests that they are careless of whom and what they hit and their actions should be closely scrutinized. This particular "essay" is more or less confidential for the reading of yourself and immediate friends. It was suggested by your telephone request for statistics on N.Y. banks.

Yrs
Howard

Jany 15, 1914

TANGO OR CONTANGO?

Under the Federal Reserve Act most of the National Banks in the Reserve and Central Reserve Cities must dance, whether they like it or not. They face the loss of all their reserve deposits amounting to several hundred millions, and must contribute also to the capital for the Federal Reserve Banks. On the other hand to remain outside of the system involves an appalling loss in the value of Government Bonds held to secure circulation. These banks must decide before February 21st, 1914, otherwise they may lose their present reserve deposits thirty days thereafter.

The country banks, having no reserve deposits to lose may perhaps take the full year to decide whether they will join the system. This will give some opportunity to observe its workings. It may possibly be costly for these latter banks to delay in settling the question. They may lose some business and may antagonize public sentiment. The State Banks and Trust Companies, however, have a reasonable excuse for postponing action. The laws of several States, for instance, New York and Iowa, must be first amended in order to permit their banking institutions to hold stock in the Federal Reserve Banks.

The Banks should carefully note that after a sufficient number have entered the system it will be perfectly simple and easy to amend the law so that they cannot get out. For this the National Bank Act affords a precedent where it provides that the Banks can take out new circulation freely, but cannot retire same to exceed in aggregate $3,000,000.00. per month for all the banks in the country. In a corresponding manner the amount of capital that can in future be retired from the Federal Reserve Banks may be limited to a negligible figure.

Having reached this stage another two line amendment may permit the Reserve Banks to receive individual deposits from any one and the process will be complete. The Federal Reserve Banks with their branches will then have practically absorbed the operations of the member banks and put them out of business. The stockholders of these banks will be the heavy losers.

To indicate that these possibilities are not exaggerated may be cited the recent statement of the Secretary of the Treasury who is the head of the Federal Reserve Board, that they had now created new banks upon which it was impossible to have a run as the deposits could not be withdrawn, and the statement of the President that "the bankers were not on trial, but had been convicted".

The bankers, upon the whole, have recently made a very poor showing in their attempts to influence Congress and public sentiment by proper and appropriate methods. They have permitted undeserved criticism and censure to pass uncontroverted or even unchallenged, and for fear of being classed as obstructionists will probably supinely permit a gross seizure of property committed to their care by shareholders and their depositors. For their neglect they will suffer severely in the future.

The New York State Banks and Trust Companies have now the opportunity of a lifetime. They should ultimately withdraw their deposits from the local National Banks, keep their cash reserves strong and in their own vaults. They should also keep their assets in more convertible form. It may become necessary to make their collections direct and to form their own Clearing House, as Congress will probably attempt to apply further restrictions to the members of such association. Under the law as it stands today it is somewhat hazardous for large enterprises to do their banking business with the new system and further burdensome and highly unsound changes are already proposed with a fair chance for adoption.

Meanwhile, the New York National Banks have no alternative but to dance now or to suffer the heavy cost entailed by postponing a settlement of the question of whether or not to join the system.

TANGO OR CONTANGO?

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B.S. Jr.

NEW YORK January 27, 1914.

FEB - 4 1913

Benjamin Strong, Jr., Esq.,
16 Wall St.,
New York City.

Dear Sir:

Mr. Walcott was called away from the city today by the death of his aunt and requested me to hand you the enclosed communication from Mr. Burton with his sincere thanks, and advise you that he would have taken pleasure in seeing you personally with it but for his sudden departure from the city.

Yours very truly,

J. B. Lord
Sec'y to F. C. Walcott.

JBL*A

Enc.

[From B Strong Jr]

LE GRAND HÔTEL
HOULGATE s/ MER (CALVADOS)
D·DURAZZO, PROPre
TÉL. No 3.

June 18/14.

My dear Ben:-

This country is too much for me - I have been working hard every day since I reached London and now with my family comfortably settled in a Villa by the sea in a wonderful picturesque spot - I am going to steal a couple of weeks of loafing - motoring swimming & playing on the beach with the Kids. -

So will not catch the Vaterland - I am sorry to miss your company in crossing, your being on board helped a lot coming this way -

I shall probably sail the 1st wk. in July -

Good luck - will see you soon in N.Y.

Drum has decided to ~~offered~~ offer 12 mil. 1st Pfd. stock @ 82.50 directly to the stockholders and our foreign stockholders are opposed to it - I am afraid he will fall down it may teach him to play with the bankers next time. -

Yours.

J Cavalcoti

WILLIAM P. BONBRIGHT & CO.,

INCORPORATED.

14 WALL STREET

NEW YORK

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LONDON

BONBRIGHT & CO.
PARIS

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437 CHESTNUT STREET
BOSTON
55 CONGRESS STREET
DETROIT
1512 FORD BUILDING

NATIONAL BANKING SYSTEM

OF THE

United States

UNDER THE

Federal Reserve Act

BANKING AND CURRENCY SYSTEMS

OF

ENGLAND

FRANCE

CANADA

GERMANY

These outlines of the currency systems of five of the most important countries of the world have been compiled from original sources where accessible, supplemented by studies of standard reference books, together with recent private correspondence and cables. The currency systems in operation are the result of the interpretation through precedent and custom of extensive legislation; these summaries are intended to present only the most important features for purposes of comparison, and within these limits we believe them to be accurate.

January 1st, 1914.

National Banking and Currency System

OF THE

United States

UNDER FULL OPERATION OF THE

Federal Reserve Act

AS ENACTED DECEMBER 23, 1913

The Federal Reserve Act apportions the duties of the National Banking System among three principal bodies. These are the Federal Reserve Banks, the Federal Reserve Board and the Member Banks.

FEDERAL RESERVE BANKS

The Act provides for not less than eight nor more than twelve Reserve districts in the Continental United States, in each of which a Federal Reserve Bank with its branches is to be established.

The capital of these banks is to be obtained by subscription, under penalty of forfeiture of charter, from the National Banks, of 6% of their capital stock and surplus funds. Banks under State charters may subscribe under certain regulations to produce conformity. These subscribing banks are known as Member Banks. Each Federal Reserve bank must have a minimum capital of $4,000,000. If the bank subscriptions are insufficient, the public and later the United States may subscribe. No individual subscription shall exceed $25,000.

Only the stock held by banks that join the system has voting power. This latter stock cannot be sold, transferred or hypothecated. Shareholders in Federal Reserve Banks are liable equally and ratably, and not one for the other, to the extent of the par of their subscriptions in addition to the amounts subscribed.

Dividends are cumulative but limited to 6% per annum. Any excess earnings go one-half to establish a surplus fund, and one-half to the United States until a surplus of 40% of the capital is created. Then all the earnings in excess of the 6% dividend go to the United States. The shareholders have no interest in the above surplus, as in the event of liquidation of the bank or when shares are surrendered by retirement of a bank from the system, any surplus above the par value of the stock and accrued dividends will go to the United States.

Federal Reserve Banks are each to be governed by a Board of Directors of nine members selected as follows:

Three of Class A—Chosen by the Member Banks and may be bankers.

Three of Class B—Chosen by the Member Banks, shall be actively engaged in some commercial, agricultural or industrial pursuit.

Three of Class C—Chosen by the Federal Reserve Board. One of these shall be the Chairman and the Federal Reserve Agent. No director of Class B or C shall be an officer, director, employee or (if of Class C) a stockholder of any bank.

The Federal Reserve banks can receive deposits only from member banks, from the United States and for exchange purposes, solely, from other Federal Reserve Banks; but they can deal in nearly all forms of bills of exchange, domestic and foreign, and in commercial paper provided this matures within ninety days and is not issued for the purpose of carrying bonds (except U. S. bonds) or stocks. Agricultural and cattle paper running six months may be dealt in to an amount to be fixed by the Federal Reserve Board.

The Federal Reserve banks may issue currency notes which are to be obligations of the United States and to be receivable by all the banks in the system and for taxes, customs and public dues. These shall be redeemed in gold on demand at the Treasury in Washington or in gold or lawful money at any Federal Reserve Bank. These notes are to be issued at the discretion of the Federal Reserve Board, to the Federal Reserve banks through their Federal Reserve Agents. Each Federal Reserve bank must at all times keep on deposit with its agent collateral to the amount of its issued currency notes, this collateral consisting of the commercial paper that said bank has re-discounted for member banks and bearing the endorsements of the member banks. The Federal Reserve banks shall pay interest on their note issues at rates to be fixed by the Federal Reserve Board. These notes are a first lien upon the assets of the Federal Reserve banks.

Federal Reserve Banks shall maintain gold and lawful money reserves of 35% against deposits, and against currency notes in circulation, a gold reserve of 40%. To provide for redemptions at least 5/40 of this gold reserve for currency notes must be on deposit with the U. S. Treasurer in Washington.

Federal Reserve Banks may also issue notes against a deposit of Government bonds with the U. S. Treasurer in the manner heretofore provided for the National Banks but without limit as to amount.

FEDERAL RESERVE BOARD

The entire system of Federal Reserve banks is to be in charge of and controlled by a Federal Reserve Board sitting in Washington. This board is to consist of seven members including the Secretary of the Treasury, who is to be Chairman, the Comptroller of the Currency, both ex-officio, and five members appointed by the President and approved by the Senate, not more than one from any district. At least two of these latter must be persons experienced in banking or finance, but none can be an officer, director or stockholder in any bank, nor a member of Congress. 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. From the five appointed members the President shall designate the Governor, who is to be the active executive officer, and a Vice-Governor.

The Federal Reserve Board has the following powers:

To require one Federal Reserve Bank to re-discount the discounted paper of another at a rate fixed by said Board.

To examine Federal Reserve Banks and Member Banks, and to require statements and reports from them.

To publish each week a detailed statement showing the condition of each Federal Reserve Bank and a consolidated statement for all Federal Reserve Banks. This is mandatory.

To suspend all reserve requirements, but subject to a tax graduated upon deficiency in reserve.

To regulate and supervise the issuance of the Federal Reserve currency notes.

To change in any manner the classification of reserve and central reserve cities.

To suspend or remove any officer or director of any Federal Reserve Bank. The compensation of the officers, directors and employees of the Federal Reserve Banks is also subject to the approval of the Federal Reserve Board.

To write off doubtful or worthless assets of any Reserve Bank, and to suspend, liquidate or re-organize any such bank.

To require bonds of and to make regulations for the Federal Reserve Agents.

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 Board may prescribe.

To exercise the functions of a Clearing House, to require Reserve Banks to do the same for Member Banks and to fix the charges made by Member Banks to their patrons for checks thus cleared.

To employ and appoint all attorneys, clerks and assistants without regard to the Civil Service Act.

To levy a semi-annual assessment on the Federal Reserve Banks in proportion to their capital and surplus to cover the expenses of maintaining the Federal Reserve Board.

There is also created a **Federal Advisory Council** consisting of members appointed one by each Federal Reserve Bank. This Council is to meet in Washington at least four times each year and oftener and elsewhere if deemed advisable.

This Council has power:

To confer with the Federal Reserve Board on general business conditions.

To make oral or written representation to said Board.

To ask for information and to make recommendations upon the general affairs of the system.

MEMBER BANKS

The 5% fund deposited with the U. S. Treasurer as a redemption fund for circulating notes can no longer be counted as part of the reserve of National banks. Provision is made for the gradual assumption by the Federal Reserve Banks of the present National Bank currency secured by U. S. bonds, the process being distributed over twenty years, and beginning December 23, 1915. The bonds and circulation so transferred must not exceed $25,000,000 per annum.

After a transition period extending over thirty-six months, the reserves are to be as follows:

Country Banks—12% against demand deposits. 5% against time deposits.
of which 4/12 are to be in the Bank's own vaults.
5/12 are to be on deposit with the Federal Reserve Bank of its district,
and the balance in either or both of the above places.

Under the National Bank Act the provision is 15% total reserve, of which at least 6/15 must be in vault and the balance of 9/15 may be on deposit in any Reserve City.

Reserve City Banks—15% against demand deposits. 5% against time deposits.
of which 5/15 are to be in the Bank's own vaults.
6/15 are to be on deposit with Federal Reserve Bank in its district,
and the balance in either or both of the above places.

The National Bank Act requires 25% total reserve, of which one-half must be in vault and balance may be on deposit in Central Reserve Cities.

Central Reserve City Banks—18% against demand deposits. 5% against time deposits.
of which 6/18 are to be in the Bank's own vaults.
7/18 are to be on deposit in the Federal Reserve Bank of its district,
and the balance in either or both of the above places.

The National Bank Act requires 25% total reserve, all to be in vault.

If the above reserves required to be on deposit with the Federal Reserve Banks are drawn upon by a Member Bank, said bank can make no new loans nor pay any dividend until the amount is restored.

No Member Bank shall keep on deposit with a non-member bank a sum in excess of 10% of its own capital and surplus.

National Banks with a capital and surplus of $1,000,000 or more may establish foreign branches with the approval of the Federal Reserve Board.

National banks not in Central Reserve Cities may make loans secured by improved and unincumbered farm lands within their district, but such loans shall not be made for longer than five years, nor for an amount exceeding 50% of the actual value of the property. These loans may aggregate 25% of the capital and surplus or one-third of the time deposits of the bank.

Every Director of a Member Bank who participates in or assents to any non-compliance with or violation of the Federal Reserve Act (other than failure to join the system) 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.

The stockholders of every National Bank are now held individually responsible for all contracts, debts and engagements of the Bank, each to the amount of his stock therein at the par value thereof in addition to the amount invested in such stock, without provision that such liability shall be equal or ratable and not one for another.

Other than the usual salaries or reasonable fees paid by the Member Bank for services rendered to said bank by officers, directors and employees, no officer, director, employee or attorney of a Member Bank shall directly or indirectly receive any fee, commission, gift or other consideration for or in connection with any transaction or business of the bank under penalty of $5,000 fine, imprisonment for a year or both.

In addition to examination by National bank examiners and the Federal Reserve Board, Member Banks are subject to visitorial powers by Congress or a committee of either House.

In 1913 there were in the United States 7,488 National Banks with aggregate resources of $10,876,852,343.00.

Outside of the National Banking System as reported to Comptroller of the Currency, were:

14,011 State Banks—Resources	**$4,143,052,802.00**
1,515 Loan and Trust Companies—Resources	**5,123,920,197.00**
1,016 Private Banks—Resources	**182,785,398.00**
1,978 Savings Banks—Resources	**5,225,485,443.00**
18,520 Banks with Resources of	**$14,675,243,840.00**

Bank of England and British Banking System

The Bank of England was organized in 1694 to assist William III in raising funds to prosecute the French War. It has had the practical monopoly of note-issuing power in England and Wales since 1844.

Capital, £14,553,000.

Governed by a Board of twenty-four Directors, and a Governor and Deputy Governor. Bankers in the English sense, namely discounters of short time paper, are not admitted to the Board, but this does not exclude financial leaders in other branches of banking.

The Bank of England is not under Government control, but acts as banker and fiscal agent to the Government. The State has no share in its profits. The Bank pays for its exclusive note issue privilege about £200,000 per annum, but it receives fees of approximately the same amount for managing the National debt, and for managing exchequer bonds and bills, and Treasury notes.

In 1844 the Issue Department and Banking Department were separated. The Banking Department transferred to the Issue Department £14,000,000 of securities including about £11,000,000 Government debt due the Bank; also such gold and bullion not immediately required, and received notes in return therefor. No notes below £5 are issued. Notes are legal tender except at the Bank. Notes have always been paid in gold. The Issue Department has never exercised its legal privilege of maintaining its note reserve partially of silver to the extent of one-quarter of its gold holdings.

The original issue of notes can be increased by putting out notes equivalent to two-thirds of the notes of other banks retiring from business and secured by assets taken over from such banks. This provision has increased the note issue based upon securities to a total of £18,450,000. Otherwise notes can only be issued against gold deposited by the Banking Department. The Issue Department has now outstanding £52,324,535 in notes of which the Banking Department holds £22,716,900.

The Bank Act has been suspended on several occasions of financial emergency (in 1847, 1857 and 1866), when the Government authorized the Issue Department to issue notes to the Banking Department without a deposit of gold in exchange. The Bank can not derive any profit from these increased issues, as this profit must go to the Government.

The Bank of England holds extensive deposits of other banks and carries practically the entire reserve of the British banking system, but pays no interest on these deposits.

The Bank of England has long had complete monopoly of the note issuing power within sixty-five miles of London.

By the Act of 1844 the existing circulation of the country private and joint stock banks in England and Wales, was allowed to continue but not to increase. If a bank ceased to issue notes it could not again resume the issue and if the number of partners in a private bank exceeded six this power of issue was lost. In 1844 the outstanding circulation of this character was £5,153,417 for 207 private banks and £3,478,230 for 72 joint stock banks. In 1908, according to Conant, only 12 private banks had outstanding notes of £482,744, and 14 joint stock banks had an issue of £912,308. These notes have no legal tender quality.

Including the joint stock banks the total banking resources of Great Britain are about £1,100,000,000 Sterling. During recent years there have been many consolidations of provincial with London banks, so that now some of these joint stock banks are very large, Lloyds' Bank, for instance, having assets of approximately £76,000,000. The English joint stock banks carry cash resources of about £170,000,000 which include funds with other banks, especially with the Bank of England, against deposits of £840,000,000 or about 20%, but rely upon the Bank of England to obtain re-discounts.

Scotland and Ireland have banking systems of their own, but also look to the Bank of England for assistance in emergencies.

Canadian Banking System

The Canadian Banking System is based upon the law of 1870, which has since been amended in details. It consists of several large banks each having numerous branches in the various cities and towns. The shareholders have full ownership and control; the Government has no participation in the profits of these banks. Notes can be issued up to the amount of the capital stock and are a first lien upon all assets. Notes can also be issued above this limit against a deposit of gold or Dominion notes in the Central Gold Reserves. Since 1908 additional issues up to 15% of paid up capital and reserve funds are permitted under a special tax, not exceeding 5%, to be fixed by the Governor in Council.

In 1912 twenty-five banks had—

Paid up Capital	$112,588,537
Note Circulation	102,011,848
Loans and Discounts	1,080,760,051

A redemption fund consisting of 5% of the note issue is deposited with the Government as an insurance fund. If a bank fails its notes bear 5% interest until redemption. If the 5% fund is insufficient the remaining solvent banks are assessed for any deficiency towards paying the notes of a failed bank in full. The Banks are not required to maintain a specific reserve against note issues.

Notes have no legal tender quality or Government guarantee.

Redemption is in "specie."

Notes are cleared and redeemed at leading commercial centers: Halifax, St. John, Charlottetown, Montreal, Toronto, Winnipeg, and Victoria and such other places as may from time to time be designated by the Treasury Board. This Currency is very elastic, varying 15% to 20% per year in volume. No bank notes are smaller than $5.00.

Dominion Notes, issued by the Dominion Government; against these twenty-five per cent. reserve is held, of which 15% must be in gold, 75% in Dominion Bonds, and balance in securities guaranteed by British Government. All over $22,500,000 must be covered by an equal amount of gold. This was temporarily exceeded in 1907 to meet the financial crisis but the excess was later retired.

Bank of France and French Banking System

The Bank of France was founded in 1800 by Napoleon.

It has had monopoly of note-issuing power in all France since 1848. Notes are full legal tender.

The entire capital of 182,500,000 francs is in private hands. The Government appoints the Governor and both Deputy Governors, also the Director of each branch. There must be at least one branch to each Department of the country, but this minimum has been largely exceeded.

The bank manages the treasury operations without charge. The Government participates in the revenue of the Bank only through certain taxes and not through any interest in the shares or the surplus profits. Fifteen regents and three auditors compose the General Council, elected by the two hundred largest stockholders.

Issue of notes is regulated by law, but the limit has been repeatedly raised by legislation. The limit was 350,000,000 francs in 1848, and is now 5,800,000,000 francs by the law of February 9, 1906. Present issue outstanding is 5,697,038,000 francs.

Notes are issued against discounted bills, loans made upon gold or silver bullion, or upon public funds, and other securities, or upon loans made to the State.

The Bank has the option to redeem its notes in either gold or silver. A tax is paid on note issues (one-eighth of the rate of discount upon uncovered circulation with minimum annual tax 2,000,000 francs) with an additional tax if the rate of discount is above 5%. This additional tax is three-quarters of the excess over the 5%. The note issue of this bank is its most important function, being now 5,697,038,000 francs, as compared with 671,547,000 francs of general deposits.

The Bank does an extensive savings deposit business and carries individual deposits payable on demand. Small balances as low as 500 francs ($100) are invited. No interest is paid on demand deposits.

The leading joint stock banks of France, of which the largest is the Credit Lyonnais, have deposits and credit accounts of about 3,500,000,000 francs, against which they have cash resources of about 10% reserve. These banks depend upon rediscounts from the Bank of France, which can be made to practically an unlimited extent, to meet any emergency.

Imperial Bank of Germany and German Banking System

The Imperial Bank of Germany was founded in 1875, using Bank of Prussia as a basis. It has now nearly a monopoly of note issue, as it has assumed the circulation of most of the other banks.

The Stock is in private hands.

The Bank is managed wholly by the Government.

General Administration is under the Chancellor of the Empire, with four curators.

The Board of Directors has direct administrative authority and is named by the Imperial Government. A Central Commission of fifteen members and fifteen alternates is chosen by the shareholders. This commission has supervision over some of the business details.

The Bank's employees are construed to be Government employees and are pensioned by the state.

Surplus profits are divided thus: 3½% dividend to stockholders, then 20% of remainder to accumulate a surplus fund up to 60,000,000 marks; the balance is divided: 25% to stockholders and 75% to the Government.

The Bank pays no interest on deposits. Bank Notes are not legal tender. Formerly none were issued below the denomination of one hundred marks. Since 1906, fifty and twenty mark notes have been issued.

The reserve against Bank notes consists of cash or its equivalent. This may be money having currency in Germany, gold and Imperial Treasury bonds.

The authorized circulation must have one-third reserve in the above cash. The limit of issue may be exceeded and be untaxed if 100% cash reserve is maintained upon such excess.

Two-thirds of the circulation not covered by cash must be protected by bills of exchange not exceeding three months, but these are merely general assets. Bank Notes have no prior lien. Redemption is in "coin" at the main office in Berlin. Branches may decline to redeem.

The limit of authorized circulation was first fixed at 250,000,000 marks, plus the circulation of other banks within the Empire assumed by the Imperial Bank. By law this limit has been increased, making a total in 1906 of 472,829,000 marks uncovered.

The above legal limit may be exceeded by paying a tax of 5% per annum upon the excess of uncovered notes. This has been done repeatedly in 1881, 1882, 1889, 1890, 1893, 1895 and 1896.

Total circulation outstanding:	1913....1,929,366,000	marks.
	1912....1,939,120,000	"
	1911....1,701,960,000	"

Government Treasury notes of 120,000,000 marks are in circulation against an equal amount of gold deposited. These correspond to our "gold certificates."

The Imperial Bank does a large re-discount business for other banks.

To make room for the circulation of the Imperial Bank the note issues of the various German States were retired in 1875, by issuing Treasury Bonds of the Imperial Government.

By the law of 1875 the local banks of Germany, over which the authorities of the different German States had exercised more or less control, were brought under the same rules as the Imperial Bank, and they were compelled to comply with the new law or abandon the issue of circulating notes. Through this stringent regulation the local banks have steadily abandoned the issue of their own notes, so that in 1908 only four local banks, namely, the Bank of Baden, Bank of Bavaria, Bank of Saxony and Bank of Wurtemburg, continued to issue notes.

There are now many joint stock banks in Germany that do a commercial business and engage in corporation financing and the flotation of securities. These banks furnish a large amount of paper for rediscount to the Imperial Bank. Some of these banks are of large importance, with resources of between one and two billion marks, the Deutsche Bank of Berlin alone having over one billion eight hundred millions of marks in resources.

INVESTMENTS OF BANKS THROUGHOUT THE UNITED STATES IN PUBLIC UTILITY BONDS

The Annual Reports of the Comptroller of the Currency to Congress show the bond investments of all banks reporting during the last three years as follows: U. S. Government and "other bonds, stocks, etc.," not classified further excepted:

	1911	1912	1913
Public Utility Bonds..........	$550,200,000	$603,500,000	$721,300,000
Railroad Bonds...............	1,602,100,000	1,631,600,000	1,530,200,000
Municipal Bonds, etc.........	1,200,900,000	1,273,500,000	1,240,000,000

	1913 compared with 1912	1913 compared with 1911
Public Utility Bonds..........	Increase 19.5%	Increase 31.1%
Railroad Bonds...............	Decrease 6.2%	Decrease 4.5%
Municipal Bonds, etc.........	Decrease 2.5%	Increase .3%