The Papers of Charles Hamlin (mss24661)

367_08_001-	Hamlin, Charles S., Scrap Book – Volume 242, FRBoard Members

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 11, 1941

To The Files

Subject:

From Mr. Coe

MPC.

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 242 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 242

Page 11 - Confidential Telegram to Governor Black at Atlanta, transmitting President Roosevelt's letter to Secretary of Treasury apropos of Federal Reserve's enlarged powers to adapt their facilities to National emergency.

Page 23 - Telegram to all F.R. Banks from Mr. Morrill re S. 320.

Page 55 - Letter from Gov. Harrison to Gov. Black re necessity for appropriate action to keep open any member bank licensed by the Secretary of Treasury to open after the bank holiday.

Page 61 - Confidential - Some A B C's of Currency Inflation.

Page 79 - Confidential - First draft of Joint Resolution to provide for the issuance of currency by clearing house and other associations of banks in the U.S. and for other purposes (Marked Confidential)

Page 95 - (X-7356) Conditions of membership which will be prescribed for State banks hereafter admitted to membership in the Federal Reserve System.

Page 101 - Confidential - Tentative draft of Order Requiring Return of Gold as revised by Treasury Department, March 17, 1933.

Page 102 - Intercepted cablegram from Mr. Beller to Mr. Musher.

Page 109 - Data re vacancies on Federal Reserve Board.

Page 110 - Data re restrictions of gold.

Page 111 - Confidential - Tentative draft of Executive Order forbidding the hoarding of gold coin, etc.

Page 112 - Proposed amendment to F.R. Act, Section 10.

Page 113 - Outline and data concerning Banking Holiday.

Page 115 - Data re performance of contracts payable in gold.

Pages 117 & 121 - Confidential - Tentative draft of March 22, 1933 re return of gold to F.R. Banks.

Page 124 - Text of Proposed New Condition of Membership Requiring Maintenance of Proper Ratio of Capital and Surplus to Deposits. (Draft)

Page 127 - Revised draft of executive order.

Page 128 - Instructions of Secretary of Treasury during Banking Holiday.

Page 129 - Memo to Board from Div. of Examinations re Report on Investigation D.A. Jones et al., Fiscal Agency Dept., F.R.Bk. of Chicago.

Page 131 - Confidential - Tentative Draft of March 25, 1933, re direct loans by F.R. Banks.

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Pages 133 & 137 - Confidential - Revised draft of Executive Order forbidding the hoarding of gold, etc., March 25, 1933.
Pages 134 & 136 - Suggestions by C.S. Hamlin re above proposed order.
Page 135 - Suggested changes in S. 245 based upon recommendations made by the F.R. Board in its report of March 29, 1932, to Comm. on Banking and Currency.
Page 138 - Data re modification of Section 2 of proposed executive order forbidding the hoarding of gold coin, etc.
Page 139 - Confidential statement re amount of gold and gold certificates returned to F.R. Banks.
Pages 140 & 141 - Gold order changes.
Page 142 - Memo to Mr. Wyatt from Mr. Hamlin re value of gold bullion turned in.
Page 143 - Executive Order - Forbidding the Hoarding of Gold Coin, Gold Bullion and Gold Certificates.
Page 145 - Resolution by F.R. Board requesting the F.R.Bk. of N.Y. to furnish them with all information re return of Great Britain to the gold standard.
Page 149 - Memorandum on Gold Clause.
Page 151 - Letter to Hon. W. K. Kellogg from Board, Treasury, and R.F.C. re forming new bank.

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Mr. Hamlin   Sec. Bk

Incoming Telegram

Received at Washington, DC

Atlanta Georgia May 25 3:45 Pm

Black - Washington

Copy of message requested follows:

"Washington 230 P March 11, 1933

Black - Atlanta, Georgia

(Confidential)

For the confidential information of yourself and your Board of Directors I am quoting below a letter which I have just received from the President of the United States and I beg to express the hope that in addition to other considerations you will have this letter (in mind in transmitting to me applications of member banks in your District for permission to open for business.) I hope also that in wiring such applications, you will please be good enough in each case to advise me specifically, as requested by telegram yesterday, whether in your opinion it would be reasonably safe in the circumstances for me to permit the full opening of the applicant, having in mind the proclamation of the President prohibiting the payments of currency by any bank for hoarding purposes. In the interest of expedition and in order to enable the prompt opening of as many member banks as possible, please forward applications as received, indicating only your opinion on the specific question asked above. Similar request has been made of the Comptroller's Office with respect to National Banks. The President's letter follows:

'March 11, 1933.

My Dear Secretary:

I am informed that the Directors of the 12 Regional Federal Reserve Banks are concerned over the question of the

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immediate valuation to be given to the assets of member banks, National and State. I recognize that a drastic or strict estimate of values on a liquidating basis would prevent many banks from opening which could and should be 100 percent opened if their assets were reasonably valued on a fair going basis.

'I am convinced that the Directors of the Regional Federal Reserve Banks should take a fair and equitable basis for loan valuations rather than a forced liquidation basis. It is my desire that Federal Reserve Banks will proceed on the same fair and equitable basis in respect to loans to member banks, the purpose of which is to procure currency for State banks which are not members of the Federal Reserve System. Cooperation on the part of member banks in this regard is essential.

'No citizens expects the directors to be infallible. All we can ask is that they use honest, and, under the circumstances, fairly liberal judgment. It is inevitable that some mistakes will be made. It is inevitable that some losses may be made by the Federal Reserve Banks in loans to their member banks.

'The Country appreciates, however, that the twelve Regional Reserve Banks are operating entirely under Federal law and the recent emergency bank act greatly enlarges their powers to adapt their facilities to a National emergency. Therefore there is a very definite obligation on the Federal Government to reimburse the twelve Regional Federal Reserve Banks for losses which they may make on loans made under these emergency powers.

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'I do not hesitate to assure you that I shall ask the Congress to indemnify any of the twelve Federal Reserve Banks for such losses. I am confident that the Congress will recognize its obligations to these Federal Banks should the occasion arise, and grant such request.

Yours very sincerely

Franklin D. Roosevelt'

W. H. Woodin"

Johns 5:15 PM

P.

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

March 17, 1933.

Curtiss - Young - Boston
Case - Harrison - New York
Austin - Norris - Philadelphia
Williams - Fancher - Cleveland
Hoxton - Seay - Richmond
Newton - Black - Atlanta
Stevens - McDougal - Chicago
Wood - Martin - St. Louis
Bailey - Geery - Minneapolis
McClure - Hamilton - Kansas City
Walsh - McKinney - Dallas
Newton - Calkins - San Francisco

TRANS_______ Referring Trans 1667 and Trans 1672 the Secretary of the Treasury has submitted to Federal Reserve Board following proposed revision of S. 320:

QUOTE A BILL To provide for direct loans by Federal reserve banks to State Banks and trust companies in certain cases. 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:

'Section 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 non-member State bank or trust company upon eligible security. All

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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 29 of the Federal Reserve Act during the existence of such indebtedness.

NOTE: Attention has been called to the fact that where section 29 of the Federal Reserve Act is referred to in the bill, reference was probably intended to section 19 of the Federal Reserve Act UNQUOTE

In the light of circumstances explained to the Board by the Secretary of the Treasury in connection with the present status of the proposed legislation the Board voted that it is prepared to accept and approve the bill as presented by the Secretary.

Morrill

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Mr. Hamlin.

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FEDERAL RESERVE BANK

OF NEW YORK

May 26, 1933.

Dear Governor Black:

I am writing to you merely to confirm the report which I made to you on the telephone following our directors meeting on Thursday, May 18, 1933, and again in person when I saw you in Washington on Tuesday, May 23, 1933, regarding the views expressed by our directors concerning the necessity for appropriate action to keep open any member bank licensed by the Secretary of the Treasury to open after the bank holiday.

As I advised you our directors are of the opinion that confidence in the banking situation, which has been restored largely as a result of steps taken by the Administration and the President's messages to the people, would be seriously impaired in the event that member banks licensed to open for business should now be permitted to fail. In that event the Administration's program which already has resulted in noticeable improvement in business would probably be risked to the great prejudice of the country. The question is how best to insure licensed member banks remaining open in the event of pressure from depositors.

Our directors at their meeting on May 18 expressed the views which they asked me to convey to you that this might effectively be accomplished in either one of two ways: (1) through the Federal reserve banks; or (2) through the Reconstruction

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Finance Corporation. They suggest however that if the full responsibility for keeping licensed member banks open is to be placed upon the reserve banks through the exercise of their power to make so-called 10(b) loans, the views expressed by the President in his letter of March 11, 1933 to the Secretary of the Treasury, which was transmitted to all Federal reserve banks, should be translated into law. This they believe to be essential in order to protect the Federal reserve banks with their relatively small capital structure, as compared with total deposits of their member banks, against the risk of undue loss. Nothing in their judgment would be worse than any question in the public mind as to the integrity of the position of the Federal Reserve System. Consequently, if Federal reserve banks acting through their directors are to be prompt and liberal in making 10(b) loans in order to keep open any member bank which is placed under pressure by withdrawals of deposits, they should have the assurance of law that they would be protected against losses on account of any such loans.

If, however, this procedure is deemed impracticable or for any reason unwise, then they believe that it is essential that the Reconstruction Finance Corporation must take the responsibility, on behalf of the government, of freely advancing all the funds necessary to keep open any licensed member bank. This would probably necessitate an amendment to the Reconstruction Finance Corporation Act so as to liberalize the lending powers of the corporation. We understand that an amendment which would accomplish this has already been prepared. If it should be enacted into law, it would probably

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be preferable even to the first suggestion that the full responsibility be placed upon the reserve banks under protection of Congressional enactment. It is believed, however, that even under such an amendment to the Reconstruction Finance Corporation Act a procedure might be developed whereby 10(b) loans ~~xxxx~~ will be made in the first instance by the Federal reserve banks, and then taken over dollar for dollar by the Reconstruction Finance Corporation upon whatever collateral the Federal reserve banks were able to obtain. Such procedure might even contemplate the possibility of the reserve banks' providing the necessary funds to the Reconstruction Finance Corporation by the purchase of the corporation's debentures as permitted under the terms of the Thomas amendment to the Agricultural Relief Act. That, however, is a matter which could be left for future determination.

The important thing in the opinion of our directors is that something must be done promptly by the government to assure the keeping open of every licensed member bank, and in their judgment this can more effectively be accomplished by either one of the two procedures suggested above, and with less real risk to the banking situation of the country, than by any of the plans now pending for the insurance or guaranty of bank deposits. The record of bank deposit guaranty plans in the past has been a disastrous one, and it is feared that the proposal for the insurance of bank deposits now before Congress will be wholly inadequate of itself to keep open all licensed member banks. In fact, it is the opinion of our directors that the proposed legislation will close any bank which cannot qualify under the insurance plan, and will run the risk of forcing many sound member banks to withdraw from the Federal Reserve System, rather than to suffer the subscriptions that would probably be necessary to protect the weaker banks.

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The problem of protecting sound nonmember banks which have been licensed to open for business is rendered exceedingly difficult because of the fact that State banking authorities in many States adopted a much more liberal standard for licensing banks than was applied by the Treasury Department. However, there are many sound nonmember banks which are now licensed which should be protected. This it is believed could best be accomplished by promptly admitting to membership in the Federal Reserve System, subject to all the rights and privileges of other licensed member banks, all those nonmember banks which are sound or which can comply with the same standard as other member banks open for business in the same area. It is felt, however, that the present rules governing the admission of new banks, adopted by the Federal Reserve Board, are so strict as to make this method of protecting nonmember banks inadequate for there would be too few nonmember State banks that could comply with present requirements. While, of course, it is desirable to have all banks admitted to membership in as sound a condition as may be practicable in all the circumstances, nevertheless, it is believed that the regulations of the Federal Reserve Board might be liberalized without seriously prejudicing the System and at the same time greatly facilitating a proper solution of the nonmember bank problem.

Faithfully yours,

(S) George L. Harrison,

George L. Harrison,
Governor.

Hon. Eugene R. Black,
Governor, Federal Reserve Board,
Washington, D. C.

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Seattle

Confidential

SOME A. B. C'S OF CURRENCY INFLATION

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SOME A. B. C'S OF CURRENCY INFLATION

April 25, 1933

A. Definition:-

For the purposes of this summary "Inflation" is understood to mean an artificial increase in the amount of currency, either paper money or bank deposits or both, with a view to forcing an advance in commodity prices through monetary manipulation, with the hope that thereby business activity will be increased, with subsequent return to prosperity. "Controlled" inflation really means that those who sponsor such measures believe that once the price level is restored to some more or less indefinitely predetermined point, it will be possible to stop the processes already set in motion without any bad economic after effects.

On the other hand, "normal" business recovery after a depression is almost always marked first by an increasing demand for goods based upon a gradual using up of existing inventories, combined with confidence in the future of prices. An increase in the volume of industrial production is usually closely accompanied by an advance in the price of basic raw commodities and by some improvement in industrial stock prices, although some small lag in raw material prices is sometimes observed. However, the prices of finished goods usually continue steady or downward for several months after the volume of industrial output has increased, because of fixed contracts, traditional prices, and sales resistance, due to the fact that the buying power of the ultimate consumer is not immediately increased by the upturn of business activity. Barring war or changes in the monetary system or base, a "normal" wholesale (average of all commodities, raw and finished) price recovery after a depression might be perhaps 10% or 15%, and it might require from one to two years to witness even this much of a recovery.

B. Aim of Proposed Legislation:-

The avowed aim of the legislation now being pushed through Congress is not merely to "stabilize" prices, but to bring about quickly a substantial increase, the immediate goal discussed being at least 50% above present levels. Many believe that an even higher figure should be aimed at.

C. Suggested Methods for Raising Prices:-

The proposed legislation would for an indefinite period suspend all constitutional and present legal processes, and would give to the President of the United States sole power in conjunction with the Secretary of the Treasury to manipulate our currency and credit within very broad limits, which presumably could readily be changed by further amendments ad libitum. The proposals embody the principles of most schemes commonly discussed, the gold standard having already been abandoned both externally and internally:-

1. Federal Reserve Banks are apparently to be forced to buy new government bonds up to $3,000,000,000.
2. An issue of $3,000,000,000 of new paper money without gold backing is authorized.
3. The present gold content of the dollar can be debased up to 50% at the President's discretion after "advising" with foreign governments on the matter.
4. Attempt is also made to inject a substantial amount of new silver into our currency.

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But whether or not internal prices are at once raised proportionately, reducing the gold content of the dollar means not only an immediate *pro rata* scaling down of all debts and interest payments owed to us by foreigners, but ultimately a repudiation of all public and private debts to the extent of the debasement, quite irrespective of the time when the debts were incurred or subsequent changes in ownership of securities, and without regard to the merits or necessities of each particular case. This means that the savings of the thrifty will be confiscated to the extent of the depreciation.

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The following brief comments are in order on the Administration proposals for inflating the currency:-

1. With respect to the purchase of government bonds by Federal Reserve Banks, more than $1,000,000,000 was purchased in 1932 with no appreciable effect whatever on the price situation, because of the fact that the time was not ripe for such action. Although this measure may be the least unsound of the various proposals, it is dangerous, and creates a wholly artificial market for government obligations -- short-time securities having sold recently virtually without interest at a time when the government fiscal situation was growing increasingly worse. Once the Federal Reserve Banks are loaded with government securities, they become almost inevitably "frozen", since substantial sales would too seriously depress the entire bond and security market, and the banks consequently become quite unresponsive to the real demands of industry and trade.

2. It has been stated that our Civil War was financed by greenbacks. As a matter of fact, however, the maximum issue was limited to $450,000,000, as compared with a $3,000,000,000 initial issue proposed in the present Administration bill. Further, even during the Civil War the government paid maturing obligations in gold. Also, every dollar of debt incurred by the United States government during the Civil War period, even at a time when prices ranged from 100% to almost 200% above "normal", was ultimately paid off in sound gold dollars over a period when the general price level was slowly declining until it was only one-third or one-fourth the level prevailing during parts of the Civil War period -- and this notwithstanding the fact that most of the "wealth" of half of the United States (the Southern States) had been destroyed for a generation by the war. Even now we have had more than a 100% increase in paper money issues as compared with times of full business activity; and through the normal flexibility of our Federal Reserve System, as well as through emergency legislation passed during the past year, we already have available facilities for putting out almost untold billions of additional paper currency -- tied, however, to the gold standard.

3. As to debasing the standard of value up to 50%, no one can say what the result would be on prices. If no more currency were issued it might have little effect on internal prices. At a given time there is no definite quantitative relationship between the amount of the monetary medium and the general price level. When, however, confidence is lost through fear of further debasement, prices might increase out of all proportion.

4. With respect to increasing the amount of silver in circulation, bimetallism has never worked in any country in modern times. Silver for the past generation or more has had no more significance as a monetary medium in civilized countries than any other commodity. The present drive for the rehabilitation of silver results from an aggressive attempt by silver producers and politicians from the silver states to get a bounty for their product. The public has been much misled on this point. China and the Orient would be harmed rather than helped by an increase in the price of silver.

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D. Common Assertions in Favor of Currency Inflation Made by Those Who Favor Such a Policy:-

Such arguments as the following are usual, and an attempt is here made to give brief factual answers thereto, as stated in question form:-

1. Will employment be increased and the lot of the working man made better?

Answer:

Some immediate stimulation of industrial activity would no doubt result from artificial price increases, because people would begin to buy raw materials ahead as well as some finished products. This means, however, that at a somewhat later period there will probably be relatively less buying, accompanied by some relapse in prices and industrial activity. Further, the purchase of commodities, if this type of inflation becomes pronounced, is due to a "flight from money" rather than to any substantial amount of new consumption. Finally, when prices and the cost of living are raised first, while wages, salaries, and all types of fixed incomes lag behind, it has been the universal experience that the real purchasing power of the ultimate consumer, as distinguished from the "money" which he receives, is decreased rather than increased, particularly if the price advance is rapid or pronounced.

In Germany, for example, in the year 1921 less than 3% of all workers were wholly unemployed, but by the end of 1923 28% were unemployed; also, little more than 5% were partially employed at the earlier period, while 42% were only partially employed at the later date. The "real" income of the German industrial population (1913 - 1914 = 100%) increased from 1920 to 1921 up to an average index of 90, and then gradually dropped to an average of 41 by November, 1923. The wages of skilled workers in 1922 and the first half of 1923 had advanced relatively scarcely a third as high as the general price level, and the wages of unskilled workers, also, had advanced scarcely half as far as prices. Further, industrial production per capita of total population, after increasing for a year or two, dropped pretty sharply to little more than half of pre-war in the late stages of inflation. Finally, during the last year of the inflation we find that the per capita consumption of such basic commodities as wheat, potatoes, meat, etc., had dropped to around 60% of the pre-war per capita average, while the consumption of all things but the bare necessities had fallen off much further.

It should be noted in this connection that because of the cessation of many normal business activities during the long war and in the period immediately following, as well as because of the loss of rolling stock and equipment following the Versailles Treaty, a greal deal of industrial activity was absolutely essential in Germany during the inflationary period, just to enable the people to keep alive and carry on. There were, in other words, many great long deferred and unfilled demands for basic necessities. Such a condition of underbuilding and rundown plant, etc., does not now exist in any commensurate degree in the United States.

Our own experience during the Civil War and the World War indicates that in periods of rapidly rising prices the salaried man, the average wage earner, and the receiver of fixed income, suffers appreciably because of the decrease in his real purchasing power. In periods of great business activity, overtime and supplementary work

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of different sorts may help to alleviate the natural lag in money income; but such relief is scarcely to be expected during a period of artificially stimulated price advances.

2. Will corporate profits be increased, and at any rate will stock prices go up?

Answer:

There is no question that for a time the profits of some corporations will advance, probably due more to inventory appreciation than to increase in volume of sales. Ultimately, however, unless the income of the great consuming public increases more rapidly than prices increase against them, and under the circumstances this would seem to be a physical impossibility, fewer goods can in the long run be sold. This would indicate that even though the "dollar" profits of corporations might for a time increase, there would be great likelihood of a shrinkage in the real net earnings as depreciation of the currency proceeds. Obviously, therefore, appreciation in stocks would be due more to a flight from the dollar than to enhancement of the real earning power of corporations. Further, even temporary increased gains either to the corporation or to the stockholder are likely to be largely confiscated through special or higher government taxes.

It is rather significant to find that during the inflationary period in Germany from 1920 to 1923 shares on the stock exchange did not by any means appreciate to the extent indicated by the general wholesale price level. On the contrary, using in each case 1913 as a base, we find that the stock price index at the beginning of 1920 was only 13% of the general wholesale price index; during 1921 this index worked up gradually to a maximum of 27% of general prices, and then declined almost steadily for a year or more until a low point was reached under 5% of the wholesale price index. This indicates a relative drop as inflation proceeded, amounting to more than 80%. British stock prices, by the way, had a downward tendency for about a year after Britain suspended gold payments in 1931.

3. Is our debt so heavy that it is necessary to debase our currency in order to meet our debts?

Answer:-

To my knowledge no country in the world has abandoned the gold standard and debased its currency except under conditions of war, overwhelmingly heavy foreign payments, or an impossibly heavy burden of national debt. When Britain abandoned the gold standard in September, 1931, every dollar of gold in the country was pledged to foreigners, and the per capita national debt was four or five times as high as in the United States at the present time. Except for a brief period in the summer of 1931, also, the United States now has in the control of the government and the Federal Reserve System, more gold than at any other time in history, around 35% of the total central monetary stocks of the world.

Short-time industrial and private debt is normally self-liquidating, and its average time outstanding is not more than a very few months. The total amount of such short-time commitments, duplications omitted, is probably not more than $35 - $40,000,000,000 at the present time, and changes in the price level do not normally have a major effect on the capacity to liquidate such obligations.

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The total long-time indebtedness of the United States is carefully estimated at approximately $105,000,000,000, of which $36,000,000,000 is public debt ($21,000,000,000 national, and more than $15,000,000,000 state and local); about $40,000,000,000 represents real estate mortgages, of which $8,500,000,000 is rural and around $31,000,000,000 urban. Other corporate long-time debt of all kinds amounts to approximately $30,000,000,000, of which some $10,000,000,000 or $12,000,000,000 is on the railroads, most of which was issued before the period of high prices. From $5,000,000,000 to $10,000,000,000 more is on public utilities of all sorts, while the balance is on miscellaneous industrial and financial corporations.

The security market, through depreciation in listed quotations, has already for a long time recognized the enormous shrinkage in the principal of this debt, and of course many, perhaps most, of the original individual holders have already taken their market losses. There is no reason whatever why any of the national debt needs to be repudiated on the present price level.

With respect to the balance of the long-time debt, after a careful study of the subject I do not believe that more than 15% - 20% would have to be written off at the present price level. Quite possibly the amount would be somewhat less. This would mean a maximum of perhaps $15,000,000,000 - $20,000,000,000 for writedown, all of which has been much more than recognized in the market. This can be compared with an estimated national wealth at the present time of more than $250,000,000,000 -- certainly not an insuperable figure; and the total annual interest on all long-time debts now outstanding on American property probably does not exceed $5,000,000,000 per annum.

Further, our insurance companies, savings banks, and institutions are in the main holders of only gilt-edged investments. Hence the writedown of their securities after readjustment would be very much less than the general writedown, possibly not as much as 10% on the average. Again, any serious depreciation of the currency inevitably decreases the market price of gilt-edged securities, whether corporate or government, because of the fact that the interest is payable in a fixed sum of dollars which have continuingly less purchasing power in terms of goods as prices rise. It would not, therefore, take very much price appreciation through currency debasement to put our financial institutions in an even worse condition than they are at present; in fact, any artificial manipulation of this sort would probably begin immediately to work against their soundness.

It has further been claimed that our banks would be strengthened by currency inflation. As a matter of fact, however, since all good banks are in general holders of only first grade securities, and since their stock exchange loans are now negligible in amount, all the better institutions would be hurt rather than helped; while only the mismanaged organizations which invested in low grade securities and common stocks could conceivably be helped.

It is rashly asserted that the unfortunate debtor class must be helped, while the "plutocratic" creditor class should turn over its property to the debtors. As a matter of fact, however, on long-time account most people in the United States are creditors and comparatively few are debtors. Every life insurance policy-holder is a creditor, as well as every savings bank depositor and every individual investor in public or corporate bonds. Every institution of learning with an endowment is a creditor. Only 40% of our farms are mortgaged (about

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2,500,000), and probably only a minor proportion of our urban owned residences (perhaps not more than 5,000,000). Further, only a minority of these mortgages are even now of unmanageable proportions as compared with present property values. Already foreclosures on rural real estate and on small urban homes have virtually stopped, and the Administration has proposed sweeping measures to take care of the necessitous mortgages of both farmers and home owners by making credit easier and scaling down interest and principal. It is estimated by competent authorities that only a very small percentage of our first mortgages on real estate will fail to come through, provided our price levels do not go much lower.

In the main, the bulk of our debts have been incurred either by public bodies or by large corporations, for which there are already many legal facilities and safeguards afforded. Those in real difficulties have usually taken long chances. Debt is not wealth, and our overheavy indebtedness had a good deal to do with promoting the excessive speculation of a few years ago, culminating in our present depression. The few strong rather than the many weak do most of the long-time borrowing. The small borrower, typified by the small home owner, whose income depends primarily on wages or salaries, under any substantial degree of inflation would probably find it even more difficult to save the money to pay his interest and debts, because the rising cost of living would tend to consume his "lagging" income and leave him an even smaller balance than at present for fixed charges. Rightly understood, it would seem preposterous to jeopardize the well-being of the average citizen in order to make it easy for municipalities to be extravagant and to put a premium on careless corporation finance.

4. Has Britain benefited by abandoning the gold standard?

Answer:-

It is commonly asserted that Britain saved herself by abandoning the gold standard, and that we are therefore justified in doing likewise. The facts of this matter seem to be about as follows:

Britain was forced off the gold standard because foreigners were in a position to withdraw all of her gold. She did not, however, take any steps to declare a new standard of value or to debase her currency. Nor did she increase the amount of bank notes outstanding, which now stand at almost exactly the same point as at the end of September, 1931. Prices rose within two months about 7% after Britain abandoned gold, and have since slowly fallen, recently standing a little lower than at the time the gold standard was abandoned. Industrial production in the third quarter of 1932 was a little lower than in the third quarter of 1931, with a somewhat greater drop in the fourth quarter of the past year as compared with the corresponding period in 1931. Exports for the year 1932 were in value 37% under the year 1929, as compared with a drop of only 40% in France and 41% in Germany. Unemployment within a year increased 300,000, or about 14%, and in February of the present year was still close to the peak. Industrial stock prices were in March, 1933, little higher than in November, 1931, and the trend was downward from the fourth quarter of 1931 until past the middle of 1932. Also, since the low point in 1932 London stock prices have recovered scarcely 30% as compared with a recovery during the same period of around 50% in our own indices.

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British industry and trade have never fluctuated as violently as in the United States, and there was some measure of stability, broadly interpreted, during 1932. This was probably due in substantial measure to the new tariffs which led to manufacturing at home a number of commodities formerly imported.

More important in the British situation, however, is the fact that a strong coalition government of both parties was formed, public expenditures were drastically reduced, the budget was kept in close balance, and a large proportion of the public debt was refunded on a lower interest basis -- made possible by confidence in the balanced budget and by the retention of British gold at home.

5. Will depreciation of our currency give us a foreign trade advantage?

Answer:-

Obviously England, and Japan in particular, gained some advantage in foreign trade through depreciation of their exchanges, which acted as a temporary stimulus to exports and a temporary barrier to imports. However, most countries have been progressively increasing tariffs and restrictions against important exporting countries which have abandoned the gold standard. Quite obviously none of our important export markets would permit us to gain an artificial advantage through the depreciation of our own currency. On the contrary, as has always been the case, they would put up further tariffs and trade barriers. With all countries of the world off the gold standard, a progressive race for trade advantage through depreciating currencies is merely a progressive race for fiscal suicide.

Incidentally and contrary to popular misapprehension, although our exports to the United Kingdom (Great Britain) decreased in value 57% between 1930 and 1932, yet our imports from Great Britain decreased in value 64% during the same period. This indicates that depreciation of her currency did not help England so far as the United States is concerned, but that on the contrary she found it desirable to continue to take our products because of their lower prices.

6. Is a rising price level necessary to prosperity?

Answer:-

It is asserted that we must have rising prices in order to "make prosperity". The fact is, however, that in what we assumed was our most prosperous period, 1920 - 1930, the general trend of prices was almost continuously although slowly downward. It is not commonly realized that our wholesale price average in 1929 was about 7% lower than for the year 1925. Further, it is not commonly realized that over the long period 1815 to 1933 the general trend of prices was downward during 75 out of 118 years. The only long period of generally rising prices in the United States not occasioned by war was between 1897 and 1913, during which period everyone was complaining about the depreciation in purchasing power of bondholders and those on fixed incomes, labor was continuously striking for higher wages to take care of the higher cost of living, and various states were appointing commissions to investigate the causes for the high cost of living. Yet the advance in this 15 year period was only around 50%, or a simple average of 3% per annum. There is no question that all classes of the community gain most from a stable rather than from an advancing price level, and since the middle of last summer prices in general in the United States have been approaching stability.

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7. Has our economic condition progressively become so acute that nothing but "inflation" could stop the so-called "descending spiral"?

Answer:-

It has been popularly asserted and grossly exaggerated by politicians and lobbyists, that conditions in the United States have continued to grow increasingly and threateningly worse over the past months. Many business men whose stamina has weakened under continued adversity, have joined the popular procession in this manner of thinking. The known or readily ascertainable facts, however, point to a much different conclusion:

As of the middle of April industrial production and factory employment for a period of nine months had averaged higher than at the low point last summer. Prices of many important raw materials have also averaged for the past nine or ten months as high, and in some cases higher than last summer's lows. Some commodities have even been reasonably stabilized since the autumn of 1931.

Wholesale prices in general have declined only mildly since the middle of 1932, and during the first quarter of the present year have held reasonably steady. The prices of industrial stocks and of virtually all bonds for nine or ten months have averaged very substantially above last summer's lows. Notwithstanding the closing of many banks, the banking situation in general, particularly in our great financial centers, has unquestionably been much improved as compared with a year ago. Our unemployment situation, while severe, has not been growing worse at the rate popularly asserted. Many of those reported as unemployed have long since found their way back to the land with relatives or on their own initiative; while the organization for unemployment relief has functioned infinitely better during the past year than in earlier periods. With the summer months ahead, the fundamental outlook had become much more favorable.

Further, adjustments between debtors and creditors have been going on rapidly, and realities have been faced by business men with a view to reducing their costs to the minimum and going ahead from present levels. The farmers, also, have reduced their costs of production, and were it not for the misrepresentations of propagandists, the suggestion of an "uprising" of the farmers would seem almost ludicrous to those who really know farming sentiment. Finally, drastic governmental economies, both national and local, are in process of being worked out, with consequent restoration of confidence in our public finances being revived.

Economically speaking, for the first time in several years the country was very obviously getting ready to go ahead under its own steam, provided there could have been freedom from interfering legislation.

The assertion that the entire country would have to go through "bankruptcy" unless the currency is debased, is not only contrary to fact, but preposterous. The national government itself goes through bankruptcy when it repudiates all of its own contracts and promises, and forces repudiation of all private contracts. Such policies as are now being recommended would, unless we are to prove the one historical exception, plunge us into ultimate chaos the like of which we have never yet experienced.

8. Will the President use the proposed powers for inflating our currency if granted?

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Answer:-

It has been commonly asserted that the President will not use the powers granted under his proposed legislation, but that he wishes to have such authority conferred upon him for "bargaining" purposes either with politicians at home or with foreign countries. Such assertions would seem to be contrary to the known facts. Although the Democratic platform called for the maintenance of a sound money and our then standard of value, there has been in the last few months an enormous propaganda for currency debasement and "managed currency". The ideas in the beginning originated largely abroad, particularly in England, and sweeping claims for a "managed currency" have been made by vociferous academic theorists. Finally, farmers and the public in general have been made to believe that prosperity could be achieved by changing our standard of value at will. There has been virtually no public education or propaganda on the other side of the question. The President's close advisers are in the main of the theoretical - experimental school, without historical or practical background in these matters; and he has apparently been overwhelmed by the continuing propaganda and misstatement regarding these matters, on which he is not in a position to be personally well informed.

From the point of view of our immediate relations with France and England, it must have been particularly embarrassing all around to have the gold standard definitely abandoned and inflationary measures proposed at the very time the spokesmen for these two foreign governments were entering the United States. There can be little question that Roosevelt would have preferred to carry on his negotiations without this new international "difficulty" having been raised. All things considered, however, it would seem almost childish to suppose that the President would acquiesce in the proposed revolutionary legislation, did he not intend to make use thereof; and it would seem equally "cheerful" to believe that even though he might be "cold" to the proposition, he would be able to resist the political pressure which would fall upon him once the legislation is enacted.

In this connection it is well to remember that it has already been made a crime even to have gold in one's possession. The government has already broken all of its contracts with respect to gold payments, and has forced all citizens to do likewise. Yet our gold reserves are near the highest on record, and we are on balance receivers of gold in the international market, rather than exporters. Our currency in circulation is already almost 50% higher than under normal conditions when business is very active; and our Federal Reserve note issues are more than twice as high as in most prosperous periods. By various emergency laws, also, it has already been made possible to issue vast amounts of additional paper money, either through the use of government bonds or through the rediscounting of ordinarily ineligible and frozen assets of member banks. The powers for almost unlimited expansion of our currency and credit already exist, <u>provided trade and industry demand such facilities.</u>

(Incidentally, the current assertion that our present gold reserves are excessively high as compared with outstanding paper money, is quite misleading. At least 90% of our business is carried on by means of checks drawn against bank deposits, whereas in practically all foreign countries checks and deposit currency have never played as

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important a part as in the United States. Here our gold reserves do double duty in supporting our relatively small amount of paper money and our relatively large amount of bank deposits subject to check. When both types of credit are considered for the United States and other countries, we find that our percentage gold reserves against outstanding paper money plus bank deposits was at a recent date virtually the lowest of any industrial country in the world.)

None of these facts, however, seem to have any weight with those who propose the new legislation. What they demand is virtually the repudiation of the present gold standard and the issue of sufficient paper money to boost prices so high that a virtual redistribution of property and confiscation of present private ownership will result. No mistake should be made on this matter. Once the flood gates are opened, the flood is almost certain to flow through. At any rate, with such legislation enacted all certainty would cease regarding the value of our money and the significance of all contracts, Everything would depend upon the whim of one man, and all citizens would become merely pawns in the great political game.

E. Who Gains -- Who Loses?

To sum up some of the more general statements already made, in every case of monetary inflation those least able to bear the losses suffer most: old people with small fixed incomes, annuitants, pensioners, salaried people, wage earners, small bondholders, all insurance policyholders, and depositors in savings banks. Benevolent foundations and institutions of learning (this means that college professors now advocating inflation will be hard hit) are bound to suffer because of the shrinkage in their real income from invested funds.

In past periods of inflation owners of real estate have always suffered because their rentals could not be advanced as rapidly as the price level has advanced, those paying rent having their real income cut down through the "lag" in their own money incomes; and in such periods laws have usually been imposed to prevent any rapid increase in rents, as recently in the case of both France and Germany.

As already indicated, the holders of highest grade bonds inevitably lose, while the holders of unsound bonds may gain. Ultimately corporate stockholders lose, provided inflation is carried far, because the more numerous dividend dollars which they receive do not command as large a quantity of goods as before. In general, productive capital expenditures are discouraged because of the increasing uncertainties involved, whereas a premium is always put on what may be termed "wasteful" consumption. This, of course, means another national loss which it is difficult to evaluate.

On the other hand, virtually the only people who would ultimately gain are speculators in stocks and commodities, dishonest debtors who try to grow rich by contracting debts which they can pay off in rapidly depreciating money, and foreigners who owe us money. Also, there would be a large increase in the class of "money changers", parasitic middlemen, stock and commodity brokers -- all of those who make their living by catering to the gambling instinct, or by preying upon the necessities of the unfortunate, and by capitalizing the economic uncertainties which inevitably accompany a non-gold and manipulated money medium. It seems scarcely warranted to jeopardize the financial standing and future well-being of the entire United States for these classes!

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F. In Conclusion:-

No such thing as "controlled" inflation has yet been discovered by any country. As indicated above, many countries have been forced off a sound money standard due to war, foreign debts, etc.; but in all cases they have recovered from their depression only after restoring a sound monetary and banking system, starting from a much lower gold price level than when the inflation began. Many of the central European countries in addition to Germany let their currency go to zero, while, due to a combination of fortunate circumstances, France, Italy, and Belgium managed to stop somewhat short of this point, with, however, an enormous amount of grief which our people have understood little about.

Where the United States would stop on its proposed course of "managed currency" no one can say, because no important country in the modern world has ever before deliberately abandoned its gold standard or deliberately set out on a policy of debasing its currency. However, since those who are sponsoring these measures have aggressively declared themselves in favor of redistributing property through this means, and of confiscating much of our present property values, it is not to be supposed that if this power is granted to the President he will resist the political pressure to make full use thereof. On the contrary, every earlier attempt at "making prosperity" through manipulated currency has led to a constant and overwhelming demand for increasing amounts of unsound money. In view of present psychology it is not reasonable to suppose that human nature has changed since March 4th, or that the theorists who have advised the proposed course have discovered a method of making water run uphill by waving a wand. The multiplication table will probably still hold, notwithstanding the change in political administrations.

Further, artifically increasing prices necessarily and inevitably lead to increasing public expenditures and extravagance, accompanied by higher taxes. In almost every case of currency inflation attempts have been made to "fix" prices in order to "protect" the consumer. This was true during the American Revolution, the French Revolution, during the World War, and again following the war in France and particularly in Germany. In the latter country rents were "fixed" by law so effectively that during a substantial part of the inflation the rise in house rentals was less than 5% as great as the rise in wholesale prices! Those in government circles who are advocating present inflationary measures are also in favor of minimum wage legislation, regulation of production, regulation of prices, and regulation of profits. There is no likelihood, therefore, that any corporation or individual can for long reap even a temporary gain through price appreciation. Even such profits are almost certain to be confiscated by the public powers as they have ordinarily been in the past.

Again, it should be obvious that as a general proposition no one gains in the long run if his income is twice as high and his cost of living goes up proportionately -- and he inevitably loses if, as always has happened under inflation, prices travel up more rapidly than income. It is not the price mark which counts, but the command over goods. It is easy to overlook the fact that the present low prices of farm produce are extremely helpful in reducing the cost of living to our much greater urban population whose dollar income has now been drastically cut. In these difficult times it is easy for the industrialist to forget that only through low prices and expanding markets can he attain the volume which will mean bigger profits

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and greater prosperity in the future. We are further prone to forget that a general inflationary advance in the price level does not correct existing inequalities and disparities as between prices, due to over-production, excess stocks, or other causes.

Another important point is frequently overlooked. After the initial advance in prices under depreciated currency, there usually ensues a good deal of uncertainty and lack of confidence. It becomes necessary to put out an increasing amount of the monetary medium in order to achieve the desired price result. For almost a year after the end of the war the German price level increased less than 50%, although the monetary circulation increased fully 100%. Within another six months, however, the increase in prices had caught up with the increase in monetary circulation, and as the inflation became more pronounced prices rose much more rapidly than would be indicated by the increase in money. The phenomenon is much like the storing up of water behind a huge dam. The higher the water rises, the greater the pressure. If a fault is found in the masonry and a little trickle of water seeps through, the aperture enlarges very slowly for a time -- and then the whole dam gives way.

In conclusion, the attempt to manufacture prosperity by managing the currency is an attempt to put the economic cart before the economic horse. Prices are in general a resultant of the interaction of certain economic forces of demand and supply, measured in terms of a standard monetary unit. The experiments now being proposed remind one of the small boy who tried to make the weather warmer by plunging the thermometer into a bucket of boiling water. Perhaps even more appropriate is Charles Lamb's story of China's roast pig, in which he describes how they used to burn down the house in order to roast the pig!

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1st draft

CONFIDENTIAL - March 4, 1933. * * *

JOINT RESOLUTION

To provide for the issuance of currency by clearing house and other associations of banks in the United States and for other purposes.

RESOLVED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the short title of this resolution shall be "Currency Act of 1933."

The word "bank", as used herein, shall mean any national banking association and any bank, savings bank or trust company organized under the laws of any State or located in the District of Columbia, but shall not include a building and loan association, credit union or similar organization.

Sec. 2. Any association of banks in any city, town or community of the United States known as a clearing house association, or any similar organization, may avail itself of and become subject to the provisions of this resolution upon unanimous consent of its member banks, through the execution of an organization certificate in form prescribed by the Federal Reserve Board and the filing of such certificate and such other documents as the Federal Reserve Board may by regulation require with the Federal Reserve Agent of the district in which such clearing house association or similar organization may be located, and shall thereupon become a national currency association as provided for herein and be subject to all of the provisions of law applicable to such national currency associations.

Sec. 3. A group of banks desiring to form a national currency association shall, by their presidents or vice presidents, acting under authority of their boards of directors, file with the Federal Reserve Agent of the district in which such group is located, such documents as the Federal Reserve Board may by regulation require including an organization certificate in form prescribed

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by the Federal Reserve Board setting forth the names of the banks composing the association, its principal place of business, and its name, which shall be subject to the approval of the Federal Reserve Agent. Upon the filing of such certificate and upon its approval by the Federal Reserve Agent, the associated banks therein named shall become a body corporate with a corporate existence to be determined in accordance with regulations of the Federal Reserve Board, and by the name so designated and approved may sue and be sued and exercise the powers of the body corporate for the purposes hereinafter mentioned. Not more than one such national currency association shall be formed in any city. All of the members of such an association shall be located in the same Federal reserve district and shall be located in so far as may be practicable within a territory, located wholly within one Federal Reserve District, composed of a State, or part of a State, or contiguous parts of one or more States. Any bank in a city or territory in which such an association has been organized may, with the approval of the Federal Reserve Agent, be admitted to membership in such association upon filing with such association and with the Federal Reserve Agent a certified copy of a resolution of the board of directors of such bank authorizing such action; and shall thereupon be deemed and held to be a part of the body corporate and entitled to all rights and privileges and subject to all the liabilities of an original member. No bank shall be a member of more than one national currency association.

Each bank joining in the organization of a national currency association as above provided shall file with the Federal Reserve Agent a report of its condition, in such form as may be prescribed by the Federal Reserve Board, as of the date upon which the organization certificate above required is approved by the Federal Reserve Agent; and each bank admitted to

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membership in such association after its organization shall file such a report of condition with the Federal Reserve Agent as of the date upon which it becomes a member of such association.

The affairs of each national currency association shall be managed by a board consisting of such representatives as the members of the association may designate, but no bank shall have more than one representative on such board; and the powers of such board, except in the election of officers and the making of by-laws, may be exercised through an appropriate committee designated by the board for the purpose.

Sec. 4. Any bank which is a member of such a national currency association may at any time withdraw from membership in such association through the adoption of an appropriate resolution by its board of directors and by filing notice of withdrawal with the board of such association. When such bank shall have certified to the Federal Reserve Agent of the district in which such association is located the fact that it has so notified such association pursuant to such a resolution of its board of directors, it shall not be liable for any circulating notes issued to such association after the date on which such certification is received by such Federal Reserve Agent or for any other obligation incurred by such association after such date; but such withdrawal shall not affect in any manner the liability of such bank for circulating notes theretofore issued to such association or for any other obligations theretofore incurred by such association.

The dissolution, voluntary or otherwise, of any member bank of such a national currency association, or the withdrawal of any member bank therefrom, shall not affect the corporate existence of the corporation nor the assertion of any rights in favor of or against such association.

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Sec. 5. A member bank of such an association desiring to obtain circulating notes, to be issued through such association, may apply to the association for an amount of such notes not exceeding 75 per centum of the value of the sound assets which it has available as security for such notes. A committee appointed by the board of such association shall examine such assets, place a valuation thereon, certify such valuation to the Federal Reserve Agent of the district in which such association is located and deliver such assets to the Federal Reserve Agent or to such trustee or trustees as he may designate. Upon application by the committee for circulating notes to be issued against the security of such assets, the Federal Reserve Agent, in his discretion, may issue to such association circulating notes in an amount not exceeding 75 per cent of the valuation placed upon such assets by the committee or of such lesser valuation as the Federal Reserve Agent may approve.

Sec. 6. Such circulating notes shall be unconditionally guaranteed by the United States, shall be received 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 at the Treasury of the United States or at the bank on whose behalf they are issued at any time after the expiration of the effective period of this resolution as provided in Section 16. The banks belonging to an association to which such circulating notes shall have been issued shall be jointly liable to the United States for the redemption of such circulating notes; but as among the several banks composing such association, the bank on whose behalf such notes are issued shall be liable for the full amount of such notes and, if the bank on whose behalf such notes are issued fails to meet its liability thereon in full, each remaining bank in such association shall be liable for the payment of the deficiency only in the

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proportion that its deposit liabilities, as shown by the report of condition required of such bank under the provisions of section 3 hereof, bears to the aggregate deposit liabilities of all such remaining banks in such association as shown by their reports of condition required by said section 3.

Sec. 7. The Federal Reserve Agent may at any time require of such association and the association may at any time require of its constituent banks a deposit of additional assets or an exchange of assets already on deposit to secure such circulating notes; and if such association or any bank, on behalf of which such notes have been issued, fail to make such deposit or exchange when required to do so, or if any such bank fail to pay its circulating notes on demand when due as hereinafter provided, or if any such bank be placed in receivership or in liquidation or be otherwise closed, the Federal Reserve Agent may at any time, in his discretion, sell the assets, or any part thereof, which he holds as security for circulating notes issued to such association in such manner as he may determine and deposit the proceeds with the Treasurer of the United States as a fund for the redemption of such circulating notes issued to such association. For any deficiency in the proceeds of the sale of such assets to provide a fund sufficient for the redemption of such circulating notes, the United States shall have a first and paramount lien upon all of the assets of all member banks of such association; and such deficiency shall be made good out of the assets of such banks in preference to any and all other claims whatever except claims for the expenses of carrying out the provisions of this resolution as provided in Section 12, and except that the claim of the United States on account of such deficiency shall share equally in such assets with all other claims of the United States for which a first lien is provided by law.

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Sec. 8. Any such national currency association or any bank which is a member thereof may deposit with the Treasurer of the United States lawful money and/or circulating notes issued under the provisions of this resolution; and if the amount of lawful money and/or such circulating notes so deposited is equal to the amount of such association's liability on notes issued to it and outstanding, such association shall be relieved of liability for such notes and shall thereupon be entitled to the return by the Federal Reserve Agent of all assets deposited as security for such notes, less such amount of such assets as the Federal Reserve Agent in his discretion may retain in order adequately to secure the payment of any liability of the association under this resolution.

If the amount of lawful money and/or such circulating notes deposited by such association or by such bank with the Treasurer of the United States shall be less than the full amount of the liability for circulating notes issued to such association, such association shall be relieved of such liability in the amount of lawful money and/or such circulating notes so deposited; and assets to be selected by the Federal Reserve Agent, in an amount to be determined by him, may in his discretion be returned by him to such association, but in no event shall the value of the assets remaining on deposit with the Federal Reserve Agent, as determined by him, be less than 133-1/3 per centum of the amount of circulating notes which have been issued to such association, which are still outstanding, and for which lawful money and/or such circulating notes have not been deposited with the Treasurer of the United States.

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Sec. 9. Every bank on whose behalf such circulating notes shall be issued, shall be taxed thereon at the same rate and in the same manner as are national banking associations upon circulating notes issued by them against the security of 2 per cent bonds of the United States pursuant to the provisions of the National Bank Act; Provided, however, that after the expiration of six months after the termination of the effective period of this resolution as hereinafter provided, every bank on behalf of which circulating notes shall have been issued under the provisions of this resolution shall be taxed at the rate of 3 per cent per annum on such notes which are outstanding and for which lawful money and/or such circulating notes have not been deposited with the Treasurer of the United States, and such tax shall increase each month by 1 per cent per annum until a maximum tax of 8 per cent per annum is reached, and, thereafter, the tax on such outstanding notes for which lawful money and/or such circulating notes have not been deposited with the Treasurer of the United States shall be 8 per cent per annum.

Sec. 10. Such circulating notes shall declare upon their faces that they are secured notes issued in accordance with the provisions of this resolution and that their payment in accordance with the provisions hereof is guaranteed unconditionally by the United States and shall otherwise be in such form as may be determined by the Secretary of the Treasury.

Sec. 11. In order to furnish suitable notes for circulation, for the purposes of this resolution, the Comptroller of the Currency under the direction of the Secretary of the Treasury shall cause such plates and dies as may be necessary to be prepared for the printing of such notes in such denominations as shall be approved by the Secretary of the Treasury, and when such notes have been prepared, they shall be supplied to the several Federal Reserve Agents in adequate amounts in the same manner as Federal reserve notes are supplied to such

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Federal Reserve Agents pursuant to the provisions of the Federal Reserve Act.

Sec. 12. All expenses of carrying out the provisions of this resolution shall be paid by the Federal reserve banks in accordance with regulations prescribed by the Federal Reserve Board; but the Federal reserve banks shall be reimbursed for such expenditures by the national currency associations to which circulating notes are issued pursuant to assessments by the Federal Reserve Agents of the respective Federal reserve districts upon such associations for this purpose. Such associations and their members shall be liable for the payment of such assessments under the same terms and conditions as they are liable for the payment of circulating notes issued to such associations. Federal reserve banks shall have a first and paramount lien upon the assets of such associations and their members for reimbursement for the payment of any such expenses.

Sec. 13. The provisions of law now in effect applicable to national bank notes with regard to the printing thereof, distinctive paper for printing such notes, control and examination of plates and dies for the printing thereof, destruction of such notes, replacement of mutilated or worn out notes, issuance of such notes to unauthorized associations or persons, mutilation of such notes, determination of the amount and the enforcement of the tax on such notes, disposition of such notes redeemed at the Treasury of the United States, imitation, counterfeiting or forging of such notes, and passing, uttering, or publishing counterfeits, forgeries, or imitations of such notes shall, in so far as not inconsistent with the provisions of this resolution, be applicable to circulating notes authorized by the provisions hereof.

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Sec. 14. The Federal Reserve Board shall have power to make and enforce all such rules, regulations, requirements and orders as in its discretion shall be necessary effectually to carry out the provisions of this resolution.

Sec. 15. Any assistant appointed by a Federal Reserve Agent in accordance with the provisions of Section 4 of the Federal Reserve Act may exercise all of the powers of such Federal Reserve Agent, given by this or any other law, during the absence or disability of such Federal Reserve Agent or during a vacancy in the office of the Federal Reserve Agent due to death, resignation or otherwise.

Sec. 16. Circulating notes may be issued pursuant to the provisions of this resolution for a period of not more than six months after its approval by the President of the United States; but the President may extend such effective period by proclamation for an additional six months.

Sec. 17. If any provision of this act, or the application thereof to any person or circumstances, is held invalid, the remainder of this Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7356

March 11, 1933.

SUBJECT: Conditions of membership which will be prescribed for State banks hereafter admitted to membership in the Federal Reserve System.

Dear Sir:

It has been the Federal Reserve Board's practice, as you know, to prescribe for State banks applying for membership in the Federal Reserve System the seven conditions of membership contained in the Board's Regulation H and such special conditions as the facts in each individual case indicated were desirable to correct unsatisfactory conditions in the bank and to prevent the exercise of powers which the bank might have under its charter or the State law that were not consistent with the purposes of the Federal Reserve Act and considered undesirable in a commercial banking institution. Some of these special conditions have been of a general nature and the Board feels that it would be advisable hereafter to prescribe for each State bank applying for membership all special conditions of this character which have been approved by the Board and which tend to prevent unsound developments in banks regardless of whether the bank appears to be engaged in practices at the time of admission to membership which may lead to such developments. It is believed that this procedure will be helpful in developing a more effective supervision of banking in the Federal Reserve System and will tend to develop better banking

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practices, and it is contemplated that if the Board's experience indicates that any further conditions of a general nature are desirable they also will be prescribed for State banks subsequently admitted to membership.

Some of the conditions contained in the Board's Regulation H are very broad in their terms and it is possible that there is some overlapping of these conditions and certain of the conditions regarding specific practices or powers; but this is not believed to be objectionable. Accordingly, in the case of each State bank hereafter applying for membership, the Board will prescribe the following conditions of membership which include the seven conditions contained in the Board's Regulation H, with one revision, and other conditions of a general nature that have been approved in substance by the Board as special conditions in individual cases:

1. Except with the permission of the Federal Reserve Board, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. Such bank shall at all times conduct its business and exercise its powers with due regard to the safety of its depositors.

3. Such bank shall maintain its loans within the limits prescribed by the laws of the State in which it is located.

4. The board of directors shall not permit loans to directors, officers, employees, principal stockholders and/or their interests, including loans to, or upon the security of stocks of, corporations in which any of them have substantial interests, to assume unduly large proportions or to endanger the bank's solvency or the liquidity of its assets, and the Board of directors shall give special attention to all such loans.

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5. Such bank shall maintain adequate credit data in connection with all unsecured loans.

6. Such bank shall keep past due paper and overdrafts at a minimum, and shall not hold any checks in cash items to avoid overdrafts.

7. Except with the permission of the Federal Reserve Board, such bank shall not purchase or acquire through any device whatever any stock of any other bank, trust company, or other corporation of any kind or character except in satisfaction or protection of debts previously contracted in good faith; and all stock acquired in satisfaction or protection of debts shall be disposed of within six months from the date on which it was acquired unless the time is extended by the Federal Reserve Board on the application of such bank for good cause shown.

8. Such bank shall not permit any investment in a bank building or in a site for a bank building to assume such proportions as, in the judgment of the Federal Reserve Board, would endanger the bank's solvency or liquidity or would otherwise be unduly large or improper, and before any investment is made in a bank building or a site for a bank building the bank shall refer the matter to the Federal Reserve Board for consideration.

9. Such bank shall not reduce its capital stock except with the permission of the Federal Reserve Board.

10. Such bank shall not pay any dividends which will reduce its surplus below an amount equal to at least 20 per cent of its capital stock, and if at any time its surplus should be less than 20 per cent of its capital stock it shall carry to its surplus account annually, or for any shorter period covered by each closing of its books, not less than 50 per cent of its net earnings for any such period after deducting all losses and providing reserves for depreciation.

11. Such bank shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limits.

12. Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, engage in the business of issuing or selling, either directly or indirectly (through affiliated corporations or otherwise), notes, bonds, mortgages, certificates, or other evidences of indebtedness representing

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real estate loans or participations therein, either with or without a guarantee, indorsement or other obligation of such bank or an affiliated corporation.

13. Such bank may accept drafts and bills of exchange drawn upon it of any character permitted by the laws of the State of its incorporation; but the aggregate amount of all acceptances outstanding at any one time shall not exceed the limitations imposed by section 13 of the Federal Reserve Act, that is, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed 50 per cent of its capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed 50 per cent of its capital and surplus, except that the Federal Reserve Board, upon the application of such bank, may increase this limit from 50 per cent to 100 per cent of its capital and surplus; provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50 per cent of the capital and surplus of such bank.

14. The board of directors of such bank shall adopt a resolution authorizing the interchange of reports and information between the Federal reserve bank of the district in which such bank is located and the banking authorities of the State in which such bank is located.

The Board will also prescribe for each trust company or bank exercising trust powers at the time of its admission to membership the following conditions of membership which are appropriate for institutions exercising trust powers:

15. Such bank shall not, after the date of its admission to membership, invest trust funds held by it in obligations of the bank's directors, officers, employees or their affiliations or corporations affiliated with the bank.

16. Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, invest the funds of various trusts held by the bank in participations in pools of mortgage bonds or other

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securities, and the funds of all such trusts shall be invested separately from each other: Provided, however, that the Federal Reserve Board will not object to the collective investment of small amounts of trust funds where the cash balances to the credit of certain trust estates are too small to be invested separately to advantage, if the bank owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary.

17. If trust funds held by such bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

Attention is called to the fact that the condition numbered seven above is a revision of the condition numbered three contained in the Board's Regulation H and prohibits the acquisition of stock in any other corporation except with the Board's permission. As you know, this condition as contained in the Board's Regulation H refers only to the acquisition of stock of other banks and trust companies; but the Board believes that it is desirable in future cases to prescribe a condition which will prohibit the member bank from purchasing stock in any corporation except with the Board's permission.

In connection with the condition numbered 10 it may be noted that if in any case the application of a bank with a surplus of less than 20% of its capital is approved the Board will prescribe an additional requirement that the surplus shall be increased to at least 20% of the bank's capital out of earnings.

One of the conditions contained in the Board's Regulation H and set out above provides that, except with the permission of the Federal Reserve Board, a member bank shall not cause or permit any change to be

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made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership. In some cases State member banks have overlooked this requirement and have made changes in the general character of their assets or in the scope of the corporate powers exercised at the time of their admission to membership without obtaining the Board's permission. Accordingly, in the letter prescribing conditions of membership which is addressed to each State bank whose application is approved hereafter, special attention will be called to the necessity for obtaining the Board's permission under this general condition covering any such change made by the bank after its admission to membership in the System.

You will understand that in particular cases it may be desirable to prescribe special conditions not of a general nature to correct unsatisfactory conditions in the particular bank, and, as a matter of emphasis, to prescribe conditions prohibiting, except with the Board's permission, the exercise of specific powers which a particular bank may be authorized to exercise under its charter or the State law, even though such powers are not exercised at the time of admission to membership and accordingly, under the general condition referred to above, might not be exercised except with the Board's permission. In connection with the submission of applications for membership, the Board would, of course, like to have your recommendation as to any special conditions which should be prescribed in the particular case and as to any conditions of a general

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nature which experience indicates would be desirable as conditions to be prescribed for each State bank thereafter admitted to membership.

Very truly yours,

Chester Morrill,
Secretary.

P. S. This letter is a confirmation of the telegram sent you today.

TO ALL FEDERAL RESERVE AGENTS.

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Federal Reserve Bank of St. Louis

Secret

Mr. Hamlin

URGENT

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C O P Y

(Confidential - Tentative draft as revised by Treasury Department, March 17, 1933

Treasury Department
Washington, D. C.

ORDER REQUIRING RETURN OF GOLD

Pursuant to the power conferred upon me by subsection (n) of Section 11 of the Federal Reserve Act, as amended by Section 3 of the Act "To provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933, and finding this action necessary to protect the currency sustem of the United States, I, W. H. Woodin, Secretary of the Treasury, do hereby require all individuals, partnerships, associations and corporations owning any gold coin, gold bullion or gold certificates, held within the United States of America, including its territories and insular possessions, forthwith to pay and deliver to the Treasurer of the United States, or to a Federal reserve bank as fiscal agent of the United States, all such gold coin, gold bullion and gold certificates. Upon receipt of such gold boin, gold bullion or gold certificates, the Secretary of the Treasury, or such Federal reservd bank, will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States.

The payment and delivery of such gold coin, gold bullion and gold certificates may be effected (other than by member banks of the Federal Reserve System) by delivery thereof to a bank which is a member of the Federal Reserve System. Such bank shall pay therefor an equivalent amount of any other form of coin or currency coined or

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issued under the laws of the United States, and shall thereupon deliver such gold coin, gold bullion and gold certificates to the Treasurer of the United States or to the Federal reserve bank in its district and receive credit or payment therefor.

In any case where the location of such gold coin, gold bullion or gold certificates is such that delivery thereof to the Treasurer of the United States or to a Federal reserve bank or to a bank which is a member of the Federal Reserve System cannot reasonably be made within the time specified below, delivery may be made to a United States Custom Office or Post Office. Such Custom Office or Post Office will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States, and shall thereupon deliver such gold coin, gold bullion and gold certificates to the Treasurer of the United States or to a Federal reserve bank and receive payment therefor.

Member banks shall deliver all gold coin, gold bullion and gold certificates owned by them to the Treasurer of the United States or to the Federal reserve bank in their respective districts and receive credit or payment therefor.

The Secretary of the Treasury will pay all reasonable costs of transportation of such gold coin, gold bullion or gold certificates, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary, upon production of satisfactory evidence of such costs. Forms of voucher for this purpose may be procured from Federal reserve banks.

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Any individual, partnership, association or corporation owning such gold coin, gold bullion or gold certificates prior to March 28, 1933, and failing to comply with the above requirements before 3 P. M., Eastern Standard Time, March 31, 1933, shall be subject to a penalty equal to twice the value of the gold coin, gold bullion and gold certificates in respect of which such failure occurred.

Any individual, partnership, association or corporation becoming the owner of any such gold coin, gold bullion or gold certificates on or after March 28, 1933, shall be subject to a like penalty if delivery thereof is not made as above provided not later than three days after such individual, partnership, association or corporation became the owner thereof.

In cases where the delivery of gold coin, gold bullion or gold certificates by the owners thereof within the time set forth above will involve extraordinary hardship, the Secretary of the Treasury may, in his discretion, extend the time within which such delivery must be made. Applications for such extensions must be made in writing under oath, addressed to the Secretary of the Treasury and filed with a Federal Reserve Bank within the time set forth above. Such applications must state the date to which the extension is desired, the amount and location of the gold coin, gold bullion and gold certificates in respect of which such application is made and the facts showing extension to be necessary to avoid extraordinary hardship. The penalties above provided shall not apply to any owner of gold coin, gold bullion or gold certificates between the time

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of filing such an application and three days after such owner is notified of the denial thereof, unless the Secretary of the Treasury shall find that such application was not filed in good faith.

The provisions of this order shall not apply to (1) gold prior to refining and stocks of gold in reasonable amounts for the usual trade requirements of owners mining and refining such gold; (2) gold coins having a recognized special value to collectors of rare and unusual coins; (3) such amount of gold as may be reasonably required for legitimate and customary use in trade, profession or art; (4) gold coins and gold certificates in an amount not exceeding in the aggregate $100.00 belonging to any one person; (5) gold authorized by the Secretary of the Treasury to be exported from the United States; (6) gold between such time as application for export thereof from the United States is filed with the Secretary of the Treasury and three days after the applicant is notified of the denial of such application; (7) gold imported into the United States for the purpose of being refined, provided such gold is exported or used in trade, profession or art within a reasonable time after the refining thereof; or (8) gold coin, gold bullion or gold certificates which were owned by a recognized foreign government or foreign central bank prior to March 6, 1933.

This order shall continue in effect until further order by the Secretary of the Treasury.

Secretary of the Treasury.

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Intercepted cablegram from Beller (Secretary to Senator Owen) to Nathan Musher. Probably dated early in January, 1919, and probably sent from Paris:

2SQ 11198 PASLN PARIS 13.

Nathan Musher,
Washington.

Am directed advise strongly close out Italian deal immediately.

Beller.

(On June 22, 1927, Senator Glass called and asked for the intercepted cable in the Board's possession, from Senator Owen's secretary to Nathan Musher, advising him to sell Italian exchange.)
See 13 Diary at page 191.

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-I-

There are now two vacancies on the Federal Reserve Board:

1. Term of Governor Young who resigned August 31, 1930. His ten year term would have expired on August 9, 1932, and the new term begun August 10, 1932. This vacancy has existed in fact since August 31, 1930, when Governor Young resigned.

2. Term of W. W. Magee, Dirt farmer. Appointed May 18, 1931. Term expired January 24, 1933. Renominated by Hoover but not confirmed.

-II-

Since the beginning of the Federal Reserve System, the following appointments (including appointments to fill vacancies) have been made by the respective Presidents:

President Wilson:
5 Democrats. 4 Republicans.

President Harding:
1 Democrat. 4 Republicans.

President Coolidge:
2 Democrats. 2 Republicans.

President Hoover:
1 Democrat. 1 Republican.
1 Republican not confirmed.

-III-

Of the present Democrats on Federal Reserve Board - Miller, Hamlin and James - each one was reappointed by a Republican President, and confirmed by a Republican Senate.

-IV-

Wayland W. Magee:
Appointed by Federal Reserve Board:
Director of Omaha Branch. Sept. 17, 1927.

Class C Director of Federal Reserve Bank of Kansas City, May 14, 1930.

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Wayland W. Magee (Cont'd.)

Appointed by President Hoover:
Member of Federal Reserve Board, May 18, 1931.

Reappointed by President Hoover.
Not confirmed.
Term expired January 24, 1933.

-V-

The Federal Reserve Board terms were originally staggered into terms of 2, 4, 6, 8 and 10 years.

The reason was that Congress intended that no President should appoint more than two members of the Board during his term of office.

Resignations, deaths, and the creation of an additional member - the dirt farmer - have interfered with this plan, but during the term of President Hoover, he had two appointments to make (the dirt farmer made 3.)

President Roosevelt has now two vacancies to fill, and during his term two more will fall in, making four in all.

Adding the ex-officio members, he will have during his present term six appointments to make.

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March 21, 1933. Sec Bo

Submitted for amendment

1. Issue the order at once.

2. Provide in the new order:

(a) That gold will be licensed for legitimate export transactions not involving hoarding or speculation.

(b) Licenses will be issued to obtain gold from Federal reserve banks for meeting any gold obligation maturing within three months, when gold is demanded, whether the obligee is at home or abroad.

(c) Point out that any citizen or foreigner residing in the United States demanding and receiving gold, is subject to the proclamation requiring its immediate return.

(d) Announce that this order is temporary only, and that the Treasury hopes shortly to remove all restrictions on gold.

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See Bo

(CONFIDENTIAL -- Tentative draft of March 22, 1933.)

EXECUTIVE ORDER

Forbidding the Hoarding of Gold Coin, Gold Bullion and Gold Certificates.

By virtue of the authority vested in me by subsection (b) of Section 5 of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933, I, Franklin D. Roosevelt, President of the United States of America, do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates by individuals, partnerships, associations and corporations within the continental United States, and I hereby prescribe the following regulations for carrying out the purposes of this order:

Section 1. For the purposes of this regulation, the term "hoarding" means the withdrawal and withholding of gold coin, gold bullion or gold certificates from the recognized and customary channels of trade; but this order (and these regulations shall not apply to gold coin or gold bullion shown by the owner thereof to have been actually held by him on or before June 30, 1931.) The term "person" means any individual, partnership, association or corporation (within the continental United States.)

Section 2. All persons are hereby required to deliver on or before April 15, 1933, to a Federal reserve bank or a branch or agency

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thereof or to any member bank of the Federal Reserve System all gold coin, gold bullion and gold certificates except the following:

(a) Such amount of gold as may be required for legitimate and customary use in trade, profession or art within a reasonable time, including gold prior to refining and stocks of gold in reasonable amounts for the usual trade requirements of owners mining and refining such gold.

(b) Gold coins and gold certificates in an amount not exceeding in the aggregate $100.00 belonging to any one person; and gold coins having a recognized special value to collectors of rare and unusual coins.

(c) Gold coin and bullion licensed for legitimate export transactions not involving hoarding or speculation, including gold coin and bullion imported for reexport or held pending action on applications for export licenses.

(d) Gold coin, gold bullion and gold certificates which were owned by a recognized foreign government or foreign central bank or the Bank for International Settlements on March 6, 1933.

(e) Gold coin or bullion actually needed to meet maturing obligations payable in gold coin or bullion, when payment in gold coin or bullion has actually been demanded, regardless of whether the obligee is at home or abroad.

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Section 3. Until otherwise ordered, any person becoming the owner of any gold coin, gold bullion or gold certificates on or after April 12, 1933, (except as exempted by the provisions of Sections 1 and 2 hereof) shall, within three days after receipt thereof, deliver the same in the manner prescribed in Section 2.

Section 4. Upon receipt of such gold coin, gold bullion or gold certificates, the Federal reserve bank or member bank will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States.

Section 5. Member banks shall deliver all gold coin, gold bullion and gold certificates owned or received by them (other than that exempted under the provisions of Sections 1 and 2) to the Federal reserve banks of their respective districts and receive credit or payment therefor.

Section 6. The Secretary of the Treasury, out of the sum made available to the President by Section 501 of the Act of March 9, 1933, will pay all reasonable costs of transportation of such gold coin, gold bullion or gold certificates, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary, upon production of satisfactory evidence of such costs. Forms of voucher for this purpose may be procured from Federal reserve banks.

Section 7. In cases where the delivery of gold coin, gold bullion or gold certificates by the owners thereof within the time set forth above will involve extraordinary hardship or difficulty, the Secretary of

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the Treasury may, in his discretion, extend the time within which such delivery must be made. Applications for such extensions must be made in writing under oath, addressed to the Secretary of the Treasury and filed with a Federal reserve bank (within the time set forth above.) Such applications must state the date to which the extension is desired, the amount and location of the gold coin, gold bullion and gold certificates in respect of which such application is made and the facts showing extension to be necessary to avoid extraordinary hardship or difficulty.

Section 8. The Secretary of the Treasury is hereby authorized and empowered to issue such regulations not inconsistent with these regulations as he may deem necessary to carry out the purposes of this order and to issue licenses thereunder permitting the Federal reserve banks and member banks of the Federal Reserve System to deliver gold coin and bullion to persons showing the need for the same for any of the purposes specified in paragraphs (a) to (e), inclusive, of Section 2 of these regulations.

Section 9. Whoever violates any provision of this Executive Order or of these regulations or of any rule or regulation issued thereunder may 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 any such violation may be punished by a like fine, imprisonment or both.

This order and these regulations may be revoked at any time.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE
March _____, 1933.

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March 21, 1933.

Proposed amendment to Federal Reserve Act, Section 10: -

The Federal Reserve Board created in this Act shall hereafter be known as "The Board of Governors of the Federal Reserve System", the short title to be "The Federal Reserve Board."

Said Board shall appoint one of its members as Active Executive Officer, who shall preside at meetings of the Board, and in his absence any member may be designated to act as presiding officer.

The said Board shall appoint, from other than its members, an officer to be known as the Executive Secretary of the Federal Reserve Board, who, in the name of the Board, shall sign all rules, regulations, circulars, decisions, etc. of the Board, and shall perform such other duties as may be assigned to him by the Board. In his absence, the Board may designate some other member of its staff to act in his stead.

The Board may appoint such assistants, secretaries, clerks, attorneys, experts, and other employes, as may be deemed necessary to conduct the business of said Board.

Nothing in this amendment shall be held to affect the holding or the term of any present member of said Board at the date of passage of this amendment.

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March 5, 1933.

SKELETON OUTLINE

(Details and explanations omitted)

1. Issuance of executive order by President declaring bank holiday for three days, during which all payments by banking institutions, Federal reserve banks and Postal Savings System are suspended, but providing for resumption of payments at end of holiday subject to limitations and restrictions to be prescribed by regulation.

2. Enactment by Congress of joint resolution ratifying executive order and authorizing the President to extend the effective period thereof, to amend the executive order and to issue similar executive orders from time to time.

3. Resumption of limited payments by commercial banks, Federal reserve banks and Postal Savings System subject to limitations and restrictions prescribed pursuant to executive order.

4. Permit Federal reserve banks and commercial banks holding new deposits received as trust funds to invest same in Government obligations and make the necessary payments to the Government. (Consider permitting all depositors to utilize as much of deposits as may be necessary to meet obligations due to the Government of the United States, including income taxes.)

5. Enactment by Congress of joint resolution authorizing issuance of emergency currency by clearing house associations and similar organizations against 75 per cent of sound bank assets under supervision of Federal Reserve Agents -- such emergency currency to be guaranteed by the Government

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of the United States.

6. Enactment by Congress of National Bank Conservation Act authorizing Comptroller of the Currency to appoint conservators for all banks, State and national; to permit withdrawals of deposits on restricted basis and receipt of new deposits to be segregated as trust funds and repayable in full; to liquidate insolvent banks, to permit solvent banks to reopen, and to permit recapitalization or reorganization of banks whose solvency is questionable.

7. Permit banks to continue making limited payments under restrictions prescribed pursuant to executive order until conservators can be appointed, then permit them to allow withdrawal of deposits on restricted basis and receive and segregate new deposits repayable in full,until it can be determined whether they should be permitted to reopen or should be required to liquidate, recapitalize or reorganize. (In some cases the conservators could be reliable bank officers and in some cases bank examiners. A single bank examiner could be appointed conservator of all banks in a given community and could select his own deputies to supervise and control limited operations of each bank in his hands.)

9. With banks in the hands of conservators, proceed to work out the situation gradually along the following lines:

(a) Banks of unquestioned solvency to be permitted to reopen on unrestricted basis when public hysteria has subsided sufficiently and to be aided by issuance of emergency currency and by loans from the Federal reserve banks and Reconstruction Finance Corporation, with the understanding that they will pay out emer-

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gency currency as far as possible and return other forms of currency and gold to Federal reserve banks.

(b) Appoint receivers as soon as possible to liquidate all hopelessly insolvent banks.

(c) As to banks whose solvency is questionable, proceed with assistance of depositors' committees to determine whether they can be recapitalized or reorganized on an unquestionably solvent basis. If so, permit them to reopen. If not, appoint receivers to liquidate them. (Recapitalization could be assisted by provisions for issuance of preferred stock exempted from double liability and assessments.)

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1. The omission of (e) Section 2 from the proposed Order would seem to prevent, during its continuance, specific performance of contracts payable in gold in the U.S. when the obligee is a citizen of U.S. or a resident foreigner.

2. The spirit of such a construction would seem to demand a similar attitude of the Government as to its obligations payable in gold in the hands of a citizen or of a resident foreigner.

3. As to specific gold contracts held abroad, the Secretary of Treasury could rule that licenses could and would be issued, during the continuance of the Order, to export gold directly or to cover fees given in payment of such contracts, under (e) Section 2.

4. The Secretary of Treasury could announce that Government obligations, payable in gold, held by foreigners will be paid in gold at maturity.

5. If 3 and 4 be carried out, it would seem safe to omit (e) Section 2 from the Order.

6. Omission of (e) Section 3 would be tantamount to a temporary suspension of the gold standard in the U.S.

7. The provisions of 3 and 4 supra would keep the gold standard inviolate as to contracts and obligations in the hands of foreigners, and would maintain inviolable the credit of the U.S. in international transactions.

8. These provisions would take out of the mouths of foreign Governments the claim that they were excused from meeting these obligations to U.S. in gold on the ground that the U.S. had defaulted in its obligation to pay on maturing obligations payable in gold.

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1. The omission of c) Section 2 from the proposed Order would seem to prevent, during its continuance, whatever performance of contracts payable in gold in the U.S. when the obligee is a citizen of U.S. or a resident foreigner.

2. The spirit of such a conclusion would seem to demand a similar attitude of the Govt as to its obligations payable in gold in the hands of a citizen or of a resident foreigner.

3. As to whatever gold contracts (and ~~any Govt obligations~~) held abroad the Sec of Treasury could rule that licenses would and would be issued, during the continuance of the Order, to export gold directly or to cover bills drawn in payment of such contracts, under

c) Section 2.

4. The Sec of Treasury could announce that Govt obligations, payable in gold, held by foreigners would be paid in gold at maturity.

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5. If 3 & 4 be carried out, it would seem safe to omit e/ Sec 2 from the Order.

6. Omission of e/ Sec 3 would be tantamount to a temporary suspension of the gold standard in the U.S.

7. The provisions of 3 and 4 above would keep the gold standard inviolate as to contracts and obligations in the hands of foreigners and would maintain inviolate the credit of the U.S. in international transactions,

8. These provisions would take out of the mouths of foreign Govts the claim that they were excused from meeting their obligation to U.S. in gold on the ground that the U.S. had defaulted in its obligation to pay gold on maturity obligations payable in gold.

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Sec Bu

(CONFIDENTIAL - Tentative draft of March 22, 1933)

The country has responded patriotically to the President's proclamation of March 6 and to his radio speech of March 12. Between March 4 and March 18, $230,000,000 of gold coin and $235,000,000 of gold certificates were returned to the Federal reserve banks, in addition to more than $100,000,000 of other kinds of currency. As a result, the ratio of the reserves held by the Federal reserve banks to their liabilities on deposits and on Federal reserve notes combined rose from a low point of 45 per cent on March 4 to 53 per cent on March 18.

Many persons throughout the United States have hastened to turn in the gold in their possession as an expression of their faith in the Government, and as a result of their desire to be helpful in an emergency. There are others, however, who have waited for the Government to issue a formal order for the return of gold in their possession. Such an order is being issued by the President today.

This order requires all persons who have in their possession gold coin, gold certificates, or gold bullion (acquired subsequently to June 30, 1931,) to exchange this gold for other currency at the Treasury of the United States, at one of the Federal reserve banks or branches, or at a member bank. The amount of gold in circulation had not increased for a number of years prior to the summer of 1931, and though there may have been individual cases of hoarding, in general the volume of gold in circulation was in conformity with the usual habits and requirements of the American people. Gold that is now hoarded has been withdrawn for the most part since that time as the result of lack of confidence. The President now requires that this gold, which serves no public purpose in the hands of individuals, be

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returned to the Government or the Federal reserve banks to become once more a part of the country's gold reserve.

The order provides adequate opportunity for obtaining gold for all legitimate needs. It makes available gold for the purpose of meeting gold obligations and permits the exportation of gold for trade purposes.

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(CONFIDENTIAL - Tentative draft of March 23, 1933)

The country has responded patriotically to the President's proclamation of March 6 and to his radio speech of March 12. Between March 4 and March 22, $250,000,000 of gold coin and $310,000,000 of gold certificates were returned to the Federal reserve banks, in addition to more than $320,000,000 of other kinds of currency. As a result, the ratio of the reserves held by the Federal reserve banks to their liabilities on deposits and on Federal reserve notes combined rose from 45 per cent on March 4 to 55.5 per cent on March 22.

Many persons throughout the United States have hastened to turn in the gold in their possession as an expression of their faith in the Government, and as a result of their desire to be helpful in an emergency. There are others, however, who have waited for the Government to issue a formal order for the return of gold in their possession. Such an order is being issued by the President today.

This order requires all persons who have in their possession gold coin, gold certificates, or gold bullion to exchange this gold for other currency at one of the Federal reserve banks, branches or agencies, or at a member bank.

The order provides adequate opportunity for obtaining gold for all legitimate needs. It makes available gold for the purpose of meeting gold obligations and permits the exportation of gold for trade purposes.

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(CONFIDENTIAL -- Tentative draft of March 23, 1933)

The country has responded patriotically to the President's proclamation of March 6 and to his radio speech of March 12. Between March 4 and March 22, $250,000,000 of gold coin and $310,000,000 of gold certificates were returned to the Federal reserve banks, in addition to more than $320,000,000 of other kinds of currency. As a result, the deposits of the banks have been increased and the reserve position of the Federal reserve banks has been greatly strengthened.

Many persons throughout the United States have hastened to turn in gold in their possession as an expression of their faith in the Government, and as a result of their desire to be helpful in an emergency. There are others, however, who have waited for the Government to issue a formal order for the return of gold in their possession. Such an order is being issued by the President today.

The order provides adequate opportunity for obtaining gold for all legitimate needs. It makes available gold for the purpose of meeting gold obligations and permits the exportation of gold for trade purposes.

With these exceptions this order requires all persons who have in their possession gold coin, gold certificates, or gold bullion, in excess of $100 and not having a recognized special value to collectors of rare and unusual coins, to exchange this gold for other currency at one of the Federal reserve banks, branches or agencies, or at a member bank. Persons who after the order is issued come into possession of gold not exempted by the exceptions in the order, will also be required to exchange it for other currency.

The chief purpose of this order is to restore to the country's reserves gold which has been withdrawn for hoarding and the holding of which by individuals under existing conditions does not promote the public interest. The order is definitely limited to the period of this emergency and may be revoked at any time.

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definitely limited to the period of this emergency, ~~and may be revoked at any time~~.

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TEXT OF PROPOSED NEW CONDITION OF MEMBERSHIP REQUIRING MAINTENANCE OF PROPER RATIO OF CAPITAL AND SURPLUS TO DEPOSITS.

Such bank shall maintain an adequate ratio of paid-up and unimpaired capital stock and unimpaired surplus to its aggregate deposit liabilities, and if in any one year ending on the thirty-first day of December the average amount of deposit liabilities of the bank during such year, as determined on the basis of reports made by the bank to the Federal reserve bank for the purpose of computing its required reserve, exceeds ten times the aggregate amount of the bank's paid-up and unimpaired capital stock and unimpaired surplus, such bank shall prior to the end of the first six months in the next succeeding year increase the aggregate amount of its paid-up and unimpaired capital stock and unimpaired surplus to an amount at least equal to ten per cent of the average amount of deposit liabilities of the bank as hereinbefore determined.

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Second draft

(CONFIDENTIAL -- Revised draft of March 24, 1933)

EXECUTIVE ORDER

Forbidding the Hoarding of Gold Coin, Gold Bullion and Gold Certificates.

By virtue of the authority vested in me by subsection (b) of Section 5 of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", I, Franklin D. Roosevelt, President of the United States of America, do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations and corporations and hereby prescribe the following regulations for carrying out the purposes of this order:

Section 1. For the purposes of this regulation, the term "hoarding" means the withdrawal and withholding of gold coin, gold bullion or gold certificates from the recognized and customary channels of trade. The term "person" means any individual, partnership, association or corporation.

Section 2. All persons are hereby required to deliver on or before April 15, 1933, to a Federal reserve bank or a branch or agency thereof or to any member bank of the Federal Reserve System all gold coin, gold bullion and gold certificates except the following:

(a) Such amount of gold as may be required for legitimate and customary use in trade, profession or art within a reasonable time, including gold prior to refining and stocks of gold in reasonable amounts for the usual trade requirements of owners mining and refining such gold.

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(b) Gold coin and gold certificates in an amount not exceeding in the aggregate $100.00 belonging to any one person; and gold coins having a recognized special value to collectors of rare and unusual coins.

(c) Gold coin and bullion licensed for legitimate export transactions (not involving hoarding or speculation,) including gold coin and bullion imported for reexport or held pending action on applications for export licenses.

(d) Gold coin and bullion which were held in trust or under earmark for a recognized foreign government or foreign central bank or the Bank for International Settlements on March 6, 1933.

(e) Gold coin and bullion actually needed to meet maturing obligations payable in gold coin or bullion in any case where payment in gold coin or bullion actually has been demanded by the obligee; provided that, in order to facilitate the enforcement of Section 3 hereof, the obligor shall furnish to the Federal reserve bank of the district in which such payment is made a written statement showing the name and address of each person to whom such a payment is made and the amount paid to each such person.

Section 3. Until otherwise ordered, any person becoming the owner of any gold coin, gold bullion or gold certificates after April 12, 1933, (except as exempted by the provisions of Section 2) shall, within three days after receipt thereof, deliver the same in the manner prescribed in Section 2.

Section 4. Upon receipt of gold coin, gold bullion or gold certificates delivered to it in accordance with Sections 2 or 3, the Federal reserve bank or member bank will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States.

Section 5. Member banks shall deliver all gold coin, gold bullion and gold certificates owned or received by them (other than as exempted under the provisions of Section 2) to the Federal reserve

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banks of their respective districts and receive credit or payment therefor.

Section 6. The Secretary of the Treasury, out of the sum made available to the President by Section 501 of the Act of March 9, 1933, will in all proper cases pay the reasonable costs of transportation of gold coin, gold bullion or gold certificates delivered to a member bank or Federal reserve bank in accordance with Sections 2, 3, or 5 hereof, including the cost of insurance, protection, and such other incidental costs as may be necessary, upon production of satisfactory evidence of such costs. Voucher forms for this purpose may be procured from Federal reserve banks.

Section 7. In cases where the delivery of gold coin, gold bullion or gold certificates by the owners thereof within the time set forth above will involve extraordinary hardship or difficulty, the Secretary of the Treasury may, in his discretion, extend the time within which such delivery must be made. Applications for such extensions must be made in writing under oath, addressed to the Secretary of the Treasury and filed with a Federal reserve bank. Each application must state the date to which the extension is desired, the amount and location of the gold coin, gold bullion and gold certificates in respect of which such application is made and the facts showing extension to be necessary to avoid extraordinary hardship or difficulty.

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Section 8. The Secretary of the Treasury is hereby authorized and empowered to issue such regulations not inconsistent with these regulations as he may deem necessary to carry out the purposes of this order and to issue thereunder, through such officers or agencies as he may designate, licenses permitting the Federal reserve banks and member banks of the Federal Reserve System to deliver gold coin and bullion to persons showing the need for the same for any of the purposes specified in paragraphs (a) to (e), inclusive, of Section 2 of these regulations.

Section 9. Whoever willfully violates any provision of this Executive Order or of these regulations or of any rule, regulation or license issued thereunder may 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 any such violation may be punished by a like fine, imprisonment, or both.

This order and these regulations may be revoked at any time.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE
March ____, 1933.

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CONFIDENTIAL

TREASURY DEPARTMENT

Under the authority conferred upon him by the President's Proclamation of March 6, 1933, declaring a bank holiday, the Secretary of the Treasury has directed the Treasurer of the United States during the continuance of such bank holiday, unless otherwise directed, to observe the following instructions:

"(1) Payments in gold in any form will be made only under license issued by the Secretary of the Treasury. This does not prohibit the deposit of gold and the usual payment therefor.

(2) Pay, as usual, all checks drawn on the Treasurer of the United States, but not in gold. When requested you are authorized to ship paper currency, other than gold certificates, in payment of checks.

(3) Continue the usual currency transactions between the Treasury and the Federal Reserve Banks and branches."

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See Bd

March 25, 1933.

Federal Reserve Board

Division of Examinations

Report on investigation,
D. A. Jones et al., Fiscal Agency Dept.,
Federal Reserve Bank of Chicago.

CONFIDENTIAL

Under date of January 25, 1933, Mr. Stevens, Federal Reserve Agent at Chicago, advised the Board of the resignation of D. A. Jones, Assistant Deputy Governor in charge of the Fiscal Agency Department of the Federal Reserve Bank of Chicago, effective January 19, 1933. According to a memorandum from Mr. McKay, Deputy Governor, attached to Mr. Stevens' letter, Mr. Jones' resignation was requested for the reason that he admitted that he had participated in profits arising out of certain transactions involving the manipulation of subscriptions to U. S. Treasury issues.

In view of the information transmitted in Mr. Stevens' letter and through subsequent telephone conversations and after a personal visit to the Board by the General Counsel of the Federal Reserve Bank, it was felt that a thorough check-up of the Fiscal Agency's activities in Treasury issues should be made, and Mr. Cagle, Federal Reserve Examiner, was sent to Chicago on February 3, 1933, to conduct an investigation in which Mr. Beaton, a national bank examiner from New York representing the Secretary of the Treasury, officials of the reserve bank, representatives of the Chief National Bank Examiner of the Seventh District, and the Secret Service participated, and his report, dated February 28, 1933, is submitted herewith. If, in the reading of this memorandum, more detailed information is desired, the subject matter may be located through reference to the index of Mr. Cagle's report. Submission of a memorandum covering Mr. Cagle's report has been delayed due to the unusual demands of an urgent nature made upon the Examination Division during the recent banking crisis.

Mr. Cagle's investigation led to a trip by him to South Haven, Michigan, and to the sending of a representative of the Chief National Bank Examiner to La Salle, Illinois, and Kenosha, Wisconsin, to obtain information on transactions involving banks at those places.

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A review of the information contained in the memoranda submitted by the reserve bank officials and that developed through Mr. Cagle's investigation reveals transactions which, for the purposes of this memorandum, are classified as follows:

(A) Transactions forming a part of a rather wide spread scheme for profiting indirectly through manipulated subscriptions to U. S. Treasury issues, which scheme had been in operation over a considerable period of time, in which D. A. Jones of the Fiscal Agency Department of the Federal Reserve Bank of Chicago was involved and in which the following individuals participated to a greater or less extent:

1. J. H. Rumbaugh, now a Vice President of C. F. Childs and Company of Chicago, said to be handling certain Government securities transactions. From sometime in 1925 until August, 1932, Mr. Rumbaugh was an officer of the Illinois Merchants Bank, its successor the Continental Illinois Bank and Trust Company and/or its affiliate, the Continental Illinois Company. Prior to his connection with the Illinois Merchants Bank in 1925, Mr. Rumbaugh was employed by the reserve bank as manager of its Government Bond Department.

2. Joseph Funck, Vice President, First National Bank, Kenosha, Wisconsin. (Resigned)

3. Wayne Hummer, former President, La Salle National Bank, La Salle, Ill., and its affiliated La Salle National Company, and connected with Wayne Hummer and Company, Chicago, Illinois.

4. W. A. Ratcliffe, President, Citizens State Bank, South Haven, Michigan, and First National Bank, Paw Paw, Michigan.

(B) Transactions involving one or more of the participants named above, and certain transactions involving C. R. Schoeneman of the Office of the Secretary of the Treasury, with Continental Illinois Bank and

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Trust Company and Continental Illinois Company but in which the Fiscal Agency of the Federal Reserve Bank of Chicago was apparently not involved. These operations appear to have been conducted through J. H. Rumbaugh of the Continental Illinois Company.

(C) Transactions in which appear the names of officers, employees and a director of the Federal Reserve Bank of Chicago concerning which some clerical or other irregularity was found and which may be further divided as to the nature of the transactions as follows:

(1) Wash sales through Continental Illinois Company to permit a profit to be taken.

D. A. Jones, Assistant Deputy Governor
A. W. Dasey, Manager, Investment Department
Mrs. L. C. Lederer, Secretary to D. A. Jones

(2) Personal subscriptions to Treasury issues through Fiscal Agency Department while under supervision of Mr. Jones, in which over-allotments were made.

James Simpson, Director
James B. McDougal, Governor (self and wife)
J. H. Blair, Deputy Governor
C. R. McKay, do (self and family)
J. H. Dillard, do
D. A. Jones, Assistant Deputy Governor

(3) Personal subscriptions to Treasury issues through Fiscal Agency Department, while under supervision of Mr. Jones, in which proper allotments were made and to which no criticism is attached.

W. A. Heath, former Federal Reserve Agent
W. A. Hopkins, Assistant Auditor
R. J. Hargreaves, Manager, Personnel Department
Mark A. Lies, Chief, Employment Division
A. L. Olson, Manager, Loan and Discount Department

In view of the enormous volume of Fiscal Agency transactions handled by the Federal Reserve Bank of Chicago the investigations so far conducted cover only a part of such transactions and were confined principally to the

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years 1931 and 1932, but it is felt that the scope has been sufficient to develop conclusive proof of certain unethical if not unlawful transactions, and that while further investigation might develop additional criticisable transactions it would probably not reveal, as Mr. Cagle says, any new participants or new schemes or methods.

The question of possible irregularities in the Fiscal Agency Department of the reserve bank was first raised in April, 1932, when auditors of the Continental Illinois Bank and Trust Company were apparently investigating the accounts of one of their junior officers with respect to the subscriptions of that bank to various Treasury issues and called the attention of reserve bank officials to certain changes made in such subscriptions after they had been received by the Fiscal Agency Department, such changes having been made, in a number of instances, by Mr. Jones. These changes were explained by Mr. Jones as having been made on verbal instructions received from an officer of the subscribing bank. Mr. Jones denied having profited by any of these transactions and an investigation by the reserve bank auditors did not reveal that he had received any benefit from such transactions. However, later information developed through outside sources, and which would not be reflected on the records of the reserve bank, disclosed that Mr. Jones did profit through these transactions. It was not until January 18, 1933, when officials of the Continental Illinois Bank and Trust Company again called upon officials of the Federal reserve bank and submitted additional information developed by them, that Mr. Jones, when confronted with such information, admitted that he had received a participation in the profits made by the manipulation of securities by the official of the Continental Illinois Bank and Trust Company whose accounts were under investiga-

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tion - apparently Mr. Rumbaugh. While Mr. Jones admitted receiving some $25,000 as his share, the exact amount by which he profited is indeterminable, as Mr. Jones, after making certain admissions to the officials of the reserve bank, refused to give any information to Mr. Cagle, basing such refusal on "advice of counsel".

Mr. Cagle's report gives details of 18 transactions, most, if not all, of which appear to have originated with Mr. Rumbaugh and were carried out with the knowledge and assistance of Mr. Jones and, in certain instances, with the participation of Messrs. Funck, Hummer or Ratcliffe as officials of the banks as listed in this memorandum. These transactions cover a series of "wash" purchases and sales of Government securities, usually arranged in advance of the date of their issuance, and in which the Continental Illinois Bank and Trust Company and/or its affiliate, the Continental Illinois Company, appear to have been the main if not the only financial losers, and in which Mr. Rumbaugh and Mr. Jones appear to have been the principal recipients of profits, although Ratcliffe and Hummer, and possibly Funck, apparently participated in profits derived from one or more of such transactions. In most of these transactions no securities actually changed hands, although the records of the Continental Illinois Bank and Trust Company or its affiliate, the Continental Illinois Company, reflect these transactions.

The part played by Mr. Jones in the various transactions included the placing of dummy subscriptions in the name of certain banks until formal ones could be obtained from the banks concerned, in order to insure their participation in the "hot" issues - (ones in which the chance for a quick profit seemed most likely), raising of the subscriptions of certain banks in order to obtain

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a larger allotment for them; causing over-allotments to be made in the case of certain banks or individuals, by changing the classes as shown by the subscriptions; handling substitutions; arranging deliveries, and sharing in profits resulting from the various manipulations. All securities and accounts except the collateral held for the Reconstruction Finance Corporation and which had been under the control or supervision of Mr. Jones were verified by the Auditing Department of the bank immediately following his resignation and no discrepancies were found. It is stated in Mr. McKay's memorandum that the reserve bank suffered no loss of money whatever by Mr. Jones' participation in these transactions, and Mr. Cagle's investigation does not indicate anything to the contrary. The responsible position occupied by Mr. Jones, as head of the Fiscal Agency Department gave him access to its files and records, and to advance information in regard to forthcoming Government issues, which made him a valuable and necessary aid to the types of transactions engaged in, even though he may not have been the originator thereof.

The activities of J. H. Rumbaugh, formerly an official of the Continental Illinois Bank and Trust Company, are reflected in a large number of operations in the purchase and sale of Government securities, many apparently "wash" transactions, entries covering which were made on the books of the Continental Illinois Bank and Trust Company and/or its affiliated Continental-Illinois Company, and, in certain instances, such transactions involved subscriptions by or sales to, and purchases from, the First National Bank, Kenosha, Wis., La Salle National Bank, La Salle, Ill., Citizens State Bank, South Haven, Mich., and First National Bank of Paw Paw, Mich. Many of these transactions appear to have resulted in the purchase by the Continental Illinois Bank and Trust

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Co., or its affiliate, at a premium, of Government securities originally subscribed for by it or by other banks involved, and, in some instances, sold in advance of issuance, at par, with consequent loss to that institution of the amount of premium paid, and Mr. Rumbaugh appears to have been the recipient of a large portion of the profits. This is generally borne out by such statements as the other participants would make.

Mr. Joseph Funck, Vice President of the First National Bank of Kenosha, Wis., appears to be involved in several of the criticized transactions. A part of the large investment of the Nash Motors Co. in short term Government securities was handled through his bank, and a part through the Continental Illinois Bank and Trust Company. Incidentally, a large amount of these investments were held in safekeeping by the Federal Reserve Bank of Chicago. Subscriptions to Government security issues by the First National Bank of Kenosha were in part for their own account and in part for the Nash Motors Co., which afforded the parties concerned in these questionable transactions an unusual opportunity to manipulate subscriptions involving large amounts. Mr. Funck is said to have directed the making of the entries on the books of the First National Bank of Kenosha growing out of these questionable transactions, but stated that he received none of the profits, all of which went to Mr. Jones and Mr. Rumbaugh, as far as he knew. He also stated that he participated in the transactions for the purpose of keeping on good terms with Jones and Rumbaugh in order to obtain favors in connection with his own subscriptions for Government bond issues and those for the Nash Motors Co. He stated further that Mr. Rumbaugh told him that Mr. Jones had been getting

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some "hard breaks" and that he would like to do something for him. When the national bank examiner called to the attention of the board of directors of the First National Bank of Kenosha the irregularities appearing on its books in connection with these transactions, Mr. Funck's resignation was requested, received and accepted immediately.

Mr. Wayne Hummer, who is engaged in an investment business in Chicago known as Wayne Hummer and Co., was formerly president of the La Salle National Bank, La Salle, Illinois. A number of the questionable transactions under investigation involve purchases and sales with the La Salle National Bank or its affiliated La Salle National Company and it appears that Mr. Hummer was a participant in the schemes and shared in the profits, as indicated in the detailed explanations of the various transactions covered in Mr. Cagle's report.

Mr. W. A. Ratcliffe, President of the Citizens State Bank, South Haven, Mich., and the First National Bank of Paw Paw, Mich., is involved in a number of the transactions under investigation through purchases and sales between the banks controlled by him and the Continental Illinois Bank and Trust Co. and the Continental Illinois Company. Mr. Cagle states that although Mr. Ratcliffe has refused to admit any part in the transactions, it was apparent that Ratcliffe was an active participant, and from information developed by Mr. Cagle on his trip to South Haven it is evident that at least a portion of the profits on certain transactions were received by him in cash and either retained by him or distributed to other participants in the scheme.

C. R. Schoeneman, formerly attached to the Office of the Secretary of the Treasury, appears in three transactions involving sales to him by the

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Continental Illinois Bank and Trust Co. or the Continental Illinois Co. of Government securities and repurchase of the same amounts at a premium. These transactions in each instance were completed on or before the issue date of the respective securities, and evidently represent "wash" transactions. Apparently no delivery of securities was made and no orders executed by Mr. Schoeneman, although, as Mr. Cagle says, this could have been done by telephone or in person. These transactions were apparently handled by Mr. Rumbaugh for Mr. Schoeneman's benefit and total profits on the transactions reported, amounting to $1,781.25, were paid to the latter. Mr. Cagle's report does not reflect any participation by Mr. Rumbaugh in these profits, although an interchange of messages between the two, as shown in Mr. Cagle's report, would seem to indicate the possibility of some reciprocal favor.

A. W. Dazey, Manager Investment Department, Federal Reserve Bank of Chicago, appears in one transaction with the Continental Illinois Company, described hereafter, which resulted in a profit of $335.94 to him, details of which are as follows: Under date of June 9, 1931, the Continental Illinois Company purported to sell at par to Mr. Dazey $25,000 U. S. Treasury bonds, 3-1/8%, dated June 15, 1931, and due June 15, 1949. The sales ticket was approved by "J.H.R.", marked "personal" and bears a notation "Repurchased same amount". Under date of June 10, 1931, one day later, the Continental Illinois Company purported to buy at 101-11/32 from Mr. Dazey $25,000 U. S. Treasury bonds, 3-1/8%, amounting to $25,335.94. The

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ticket evidencing this transaction was approved by "J.H.R." and bore special instructions to "Mail check for premium". Mr. Cagle states that there were no bonds passed and the whole transaction was supposed to have been completed before the entries went through the Continental's books simultaneously on June 15, 1931, it being the usual practice to clear all bookkeeping entries when the bonds are issued. Mr. Dazey, in a letter dated January 22, 1933, to Mr. McKay, confirming statements made the day before, states that "Mr. Rumbaugh telephoned me asking if I wanted to buy a small amount of these securities (up to $25,000) that they would be glad to handle it for me". Mr. Dazey, when questioned, stated that he talked with Rumbaugh and Jones about this issue; that he was familiar with prices and the market for Government securities; that he knew this was an attractive issue; that he thought it was perfectly all right and decent for him to make this subscription for a manageable amount and that he meant to sell out if and when the bonds reached 101 or above, even if this happened to be before the issue date; that he contracted for the bonds on the basis of when, as and if issued; that he obligated himself for the bonds and would have been forced to take them, or the loss, had the market dropped; that he would probably not have been in shape to pay cash for the $25,000 but that he could have arranged to carry them at the Continental or elsewhere until disposed of. Mr. Dazey also stated that he did not enter subscriptions for any of these particular bonds, either through Continental or the Federal reserve bank; that he did not enter subscriptions to any other issues; that he was involved in no other deals in connection with Government issues, and

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that he did not enter into a repurchase agreement with Mr. Rumbaugh at the time of this transaction. Mr. Dasey's statements also included one to the effect that neither Rumbaugh nor any other officer of the Continental Illinois group had in mind securing any favors from him on account of this or any other transaction; that he did not look upon the Continental Illinois Company as an important dealer in Government securities, but that he usually bought and sold such securities through other larger and better known Government securities specialists. Mr. Dasey, under questioning by Mr. Cagle, apparently became somewhat confused as to dates and market quotations affecting his transaction, and retracted some of his more or less positive statements previously made.

Mrs. L. C. Lederer, secretary to Mr. Jones, appears in one "wash" transaction, representing the purported sale on June 11, 1931, and repurchase on June 12, 1931, of $5,000 U. S. Treasury bonds, 3-1/8%, through the Continental Illinois Company in manner similar to that described in Mr. Dasey's case, and which resulted in a profit of $67.19. Mrs. Lederer's statement in the matter, as made to Mr. Beaton, a National bank examiner working with Mr. Cagle and representing the Secretary of the Treasury, is as follows:

> "Referring to my interview with you this morning re check issued in my name, also indorsed by me, wish to state that this check was given to me merely as a gift. After much questioning as to what it was for, I was told to take and accept it and say nothing further. Still being puzzled at receiving a check and not knowing why I should receive it, I was told that it came through a little bond deal which I knew nothing of. I could not even state what securities were involved in this sale. Concerning your question as to whether or not I have ever entered subscriptions for any one, wish to state I have not."

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The following summary shows the subscriptions by reserve bank officers and employees to 3-1/8% Treasury bonds, 1946-49, issued June 15, 1931, and 3-1/4% Treasury notes, series A-1936, issued July 25, 1932, concerning which some clerical or other irregularity was found:

Name	Date of Subscrip.	Amt. of Subscrip.	Classification Allotted	Classification Correct	Amount allotted	Correct allotment	Over allotment
J. H. Blair	6-1-31	20,000	A	C (2)	6,000	4,000	2,000
J. H. Blair	7-25-32	10,000	A	B (2)	5,000	2,500	2,500
J. H. Dillard	6-2-31	30,000	A	C	9,000	6,000	3,000
J. H. Dillard	7-25-32	10,000	A	B (2)	5,000	2,500	2,500
R. J. Hargreaves	6-1-31	5,500	A	B (2)	1,650	1,650	0
W. A. Heath	6-1-31	5,000	A	B (2)	1,500	1,500	0
Mrs. Katherine A. Heath	6-1-31	5,000	A	B (2)	1,500	1,500	0
W. A. Hopkins	6-1-31	7,500	A	B (3)	2,250	2,250	0
Don A. Jones	6-3-31	10,000	A	B (3)	3,000	2,000)	1,000
Don A. Jones	- - -	5,000	-	B (3)	1,500	1,000)	* 500
Mark A. Lies	6-1-31	5,000	A	B (2)	1,500	1,500	0
J. B. McDougal	6-1-31	25,000	A	C (4)	7,500	5,000	*2,500
J. B. McDougal	6-2-31	5,000	A	B (3)	1,500	1,000	* 500
Laura G. McDougal (W)Per J.B.McD.)	6-1-31	5,000	A	B (3)	1,500	1,500	0
" "	6-2-31	5,000	A	B (3)	1,500	1,500	0
J. B. McDougal	7-25-32	20,000)	C		2,500)		
		5,000)	B	C (1)	1,300)	2,500	*1,300
C. R. McKay	6-1-31	37,000	A	D (3)	11,100	7,400)	3,700
C. R. McKay	6-1-31	30,000	A	D (3)	9,000	6,000)	*3,000
Marjorie B.McKay (By C.R.McKay)	6-1-31	2,500	A	B (3)	750	750	0
Charlotte G.McKay (By C.R.McKay)	6-1-31	500	A	A (3)	150	150	0
Esther Knudsen (By C.R.McKay)	6-1-31	1,000	A	A (3)	300	300	0
Graham S. Conway (By C.R.McKay)	6-2-31	300	A	A (3)	100	100	0
Arthur L. Olson	6-1-31	2,000	A	B (3)	600	600	0
Arthur L. Olson	6-1-31	2,000	A	B (2)	600	600	0
James Simpson	6-2-31	3,000,000	E)	G	300,000	210,000)	90,000
James Simpson	7-25-32	500,000	E)		40,000	)	
		1,000,000	F)	G (1)	80,000	75,000)	*45,000

* Separate subscriptions - should be combined, apparently.

(1) These subscriptions split into two parts - should be only one, apparently.
Written by typewriter.
As it happened, A & B were allotted the same percentage on the 6-15-31 issue, but this was not known on 6-1-31. Therefore it was wrong for D. A. Jones to shift the amounts from Class B to Class A.

(2) Classification changed to A, apparently in handwriting of D. A. Jones.

(3) Originally put in Class A, apparently in handwriting of D. A. Jones.

(4) Not in handwriting of subscriber.

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The following comments relate to the subscriptions by reserve bank officials, listed in section 2, paragraph "C", on page 3 of this memorandum, to whom over-allotments were made:

James Simpson, Director,- two subscriptions, representing two different issues, June 15, 1931, and August 1, 1932, - one signed and filled out for him by Mr. McKay, the other signed by himself, but filled out in an unidentified handwriting. The classification given on the first subscription was changed, according to Mr. McKay, at Mr. Simpson's request, from one at $3,000,000 to six at $500,000, resulting in an increase of $90,000 in the amount allotted. The second subscription of $1,500,000 was entered in two amounts, resulting in an allotment $45,000 greater than if the subscription had been made in one total. Mr. Simpson was not interviewed in connection with these over-allotments, inasmuch as Mr. McKay had handled the first subscription for him, and the second subscription was not filled out or prepared by Mr. Simpson.

J. B. McDougal, Governor,- five subscriptions, three for himself and two for his wife, in amounts ranging from $5,000 to $25,000, on three of which over-allotments were made. Mr. McDougal's signature appears on all of the subscription forms, but the amounts were apparently filled in by others. Some of the figures were evidently made by Mr. Jones, while others were evidently made by Mr. Olson, who usually handled the bookkeeping details in connection with Mr. McDougal's investments and other personal accounts. Mr. McDougal stated to Mr. Cagle that he did not know that the Fiscal Agency Department had permitted padded subscriptions or had made over-allotments, neither had he looked over the work of Mr. Jones or that of the department; that he did not look into the correctness of the allotments made to himself or to others; and that the first information he had about the over-allotments to himself and about the manner in which the forms, which bore his signature, were prepared, was when Mr. Cagle called these matters to his attention.

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J. H. Blair, formerly Deputy Governor - two subscriptions, representing two different issues, totaling $30,000, on both of which over-allotments were made. These subscriptions were originally entered under the proper classifications and the classifications later changed, apparently in the handwriting of Mr. Jones. Mr. Blair was not interviewed relative to these subscriptions.

C. R. McKay, Deputy Governor - six subscriptions, all on the June 15, 1931, issue, for himself and his relatives, in amounts ranging from $300 to $37,000, on two of which over-allotments were made. Mr. McKay was interviewed concerning these subscriptions and stated that he had signed all of them. He thought that Mr. Jones supplied the allotment figures and that he (Jones) probably endeavored to obtain for Mr. McKay as large allotments as possible. Mr. McKay also stated that he did not recall having seen the allotment letter notice showing the different percentages allotted to the respective classes and did not look over the allotments in connection with his own subscription, merely accepting the amounts as being correct, and that he wanted more of these bonds than were allotted to him. No explanation was made as to why two subscriptions were entered by him on the same date for large amounts of the same issue.

J. H. Dillard, Deputy Governor, entered two subscriptions, one for $30,000 and one for $10,000, both of which were signed by him, and on both of which over-allotments were made. In the first subscription the amount applied for and the amount indicated in the classification were in Mr. Dillard's own handwriting, while the other figures appear to be in the handwriting of D. A. Jones. In the second subscription the amount applied for and the classification appear to be in the handwriting of an unidentified party. In the first subscription the amount was inserted under the wrong classification. In the second subscription the amount

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was properly classified, but later changed to a more favorable classification. An over-allotment of $5,000 was made on the first subscription and one of $2,500 was made on the second. On February 16, 1933, Mr. Dillard was interviewed relative to his subscriptions. He stated that he did not recall whether he had looked over the formal allotment letter or noted that he had received an over-allotment. Mr. Dillard also advised that he subscribed for these bonds as an investment and not as a speculation, and while he thinks he still holds them, he may have disposed of some. The records indicate that Mr. Dillard sold $2,000 Fourth Liberty Loan bonds, $5,000 Crane Company bonds, and $4,000 Canadian Pacific bonds on or about June 15, 1931, in order to pay for his allotment of $9,000 on his first subscription.

D. A. Jones entered a subscription for $10,000 on the June 15, 1931 issue and the proper allotment was made. However, the records show that he received an additional allotment of $1,500 for which there appears to be no subscription, but inasmuch as the allotments must balance, there must have been an original subscription of $5,000 in this case.

It is interesting to note that while the Fiscal Agency Department under the direction of Mr. Jones permitted over-allotments in certain cases, Mr. Cagle cites in his report instances of large subscriptions filed by the Northern Trust Company, the First National Bank of Chicago, Montgomery Ward & Co., and others, in which the subscriptions were checked very carefully as to clerical details, classifications, etc., and points out that the careful checking of these latter cases indicates the probability of intentional over-allotments in the cases under criticism.

This memorandum covers only in a general way the matters which are treated at length in Mr. Cagle's report, the details of which are fully set out by him in his text and supported by photostatic copies of subscription letters, sales

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memoranda, correspondence, etc.

It is the view of this division that the information disclosed in Mr. Cagle's report is of such a nature that it should have the attention of the legal department in order to determine the advisability of reporting the facts to the Department of Justice.

Respectfully submitted,

LEO H. PAULGER,
Chief, Division of Examinations.

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CONFIDENTIAL - Tentative Draft of March 25, 1933..

March 25, 1933.

Curtiss - Young - Boston
Case - Harrison - New York
Austin - Norris - Philadelphia
Williams - Fancher - Cleveland
Hoxton - Seay - Richmond
Newton - Black - Atlanta
Stevens - McDougal - Chicago
Wood - Martin - St. Louis
Bailey - Geery - Minneapolis
McClure - Hamilton - Kansas City
Walsh - McKinney - Dallas
Newton - Calkins - San Francisco

H. R. 3757 providing for direct loans by Federal reserve banks to nonmember State banks and trust companies, which was quoted in our Trans. 1722 of March 24 and was signed by President on same date, has been given preliminary study here and following tentative interpretations and procedure are suggested: (1) A nonmember bank may apply for loans only to Federal reserve bank of district in which it is located. (2) Suggest that your Counsel prepare forms of applications, promissory notes, resolutions of directors and other papers along lines of those used in connection with loans to individuals, partnerships and corporations; but application forms should also include provision that any failure to comply with any applicable provision of law or regulations of the Federal Reserve Board or of agreement with Federal reserve bank shall constitute a default upon all loans made by Federal reserve bank to applicant and applicant's entire indebtedness to Federal reserve bank shall thereupon become due and payable. (3) Each application must be accompanied by written approval of State authorities having supervision over applicant bank and statement from such authorities that it is in sound condition. (4) Before making first advance to any nonmember bank, Federal reserve bank should make thorough examination of applying bank, after making necessary arrangement to insure payment of expenses therefor. (5) If examination discloses that applicant bank is

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solvent, that it has capital required of member banks, that it has no branches unlawful for member banks, and that its condition is otherwise satisfactory, Federal reserve bank should inspect collateral and advise applicant bank whether or not loan will be granted. (6) Before being permitted to withdraw proceeds of advance, applicant bank should be required to establish actual realized balance with Federal reserve bank in amount equal to reserve balance which would be required of it under Section 19 and Regulation D if it were a member bank. (7) Advances to nonmember banks may be made on the same terms and conditions, and on the same collateral as fifteen day advances to member banks under eighth paragraph Section 13. (8) After nonmember bank has exhausted all collateral eligible for advances under Section 13, it may obtain advances on ineligible assets on same terms and conditions as member banks obtain advances under provisions section 10(b), Federal Reserve Act, as amended March 9, 1933. (9) Rates on all advances of either class should be same as rates on similar advances to member banks. (10) Notes representing advances to nonmember banks (whether on eligible or ineligible collateral) may be used as security for issuance of Federal reserve bank notes under Section 401 Act March 9, 1933, to same extent as paper acquired under Federal Reserve Act, but may not be used as security for Federal reserve notes. (11) Making of advances to nonmember banks is discretionary with Federal reserve bank and in exercising its discretion Federal reserve bank should consider whether proceeds of advance will be

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used for purpose of paying off existing indebtedness to other banking institutions and should also have due regard to claims and demands of member banks, as required by Section 4 Federal Reserve Act. (12) In making advances, Federal reserve banks should not make any commitment to renew or extend, or to grant further or additional advances. (13) Federal reserve bank should advise each nonmember bank applying for advances that, while it is indebted in any way to Federal reserve bank, it must comply with requirements of Federal Reserve Act and Board's regulations applicable to member State banks, including the following: (a) It must maintain reserve balance required by section 19 Federal Reserve Act and Board's Regulation D and will be subject to penalties for deficiencies in reserves; (b) it must remit at par for checks drawn on it and presented for payment by Federal reserve bank as required of member banks by Federal Reserve Act and Board's regulations; (c) it will be subject to examination at any time by Federal reserve bank or Federal Reserve Board and will be subject to assessments for expenses of such examinations to same extent as member banks; (d) it must make same reports of condition and of payment of dividends as required of member State banks and will be subject to same penalties for failure to do so; (e) before becoming indebted to Federal reserve bank, such bank must relinquish any branch or branches established after February 25, 1927, beyond limits city, town or village in which parent bank is situated and must not establish any such branches while indebted to

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such Federal reserve bank; (f) such bank must comply with capital requirements regarding eligibility of State banks for membership and must conform to provisions of law which prohibit national banks from lending on or purchasing their own stock, which relate to withdrawal or impairment of capital stock and which relate to payment of unearned dividends. (14) Suggest that your counsel and officers who are to handle applications of nonmember banks read carefully debates in Congressional Record on this Act and especially Senate debates of March 22 and 23, which indicate clearly that Federal reserve banks are not expected to make loans to insolvent banks nor to give nonmember banks more favorable treatment than member banks.

Morrill.

(Governors and Agents)

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Public Act No._____, 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

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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 sentences: "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

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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.

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Latest draft - Treasury
Roosevelt suggestions

Su Ra

(CONFIDENTIAL -- Revised draft of March 25, 1933.)

EXECUTIVE ORDER

Forbidding the Hoarding of Gold Coin, Gold Bullion
and Gold Certificates.

By virtue of the authority vested in me by subsection (b) of Section 5 of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", I, Franklin D. Roosevelt, President of the United States of America, do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations and corporations and hereby prescribe the following regulations for carrying out the purposes ofthis order:

Section 1. For the purposes of this regulation, the term "hoarding" means the withdrawal and withholding of gold coin, gold bullion or gold certificates from the recognized and customary channels of trade. The term "person" means any individual, partnership, association or corporation.

Section 2. All persons are hereby required to deliver on or before April 15, 1933, to a Federal reserve bank or a branch or agency thereof or to any member bank of the Federal Reserve System all gold coin, gold bullion and gold certificates except the following:

(a) Such amount of gold as may be required for legitimate and customary use in industry, profession or art within a reasonable time, including gold prior to refining and stocks of gold in reasonable amounts for the usual trade requirements of owners mining and refining such gold.

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(b) Gold coin and gold certificates in an amount not exceeding in the aggregate $100.00 belonging to any one person; and gold coins having a recognized special value to collectors of rare and unusual coins.

(c) Gold coin and bullion licensed for legitimate export transactions (not involving hoarding or speculation) including gold coin and bullion imported for reexport or held pending action on applications for export licenses.

(d) Gold coin and bullion (Wheeled on) earmarked or held in trust for a recognized foreign government or foreign central bank or the Bank for International Settlements. — suggested by Roosevelt

(e) Gold coin and bullion actually needed to meet maturing obligations payable in gold coin or bullion in any case where payment in gold coin or bullion actually has been demanded by the obligee; provided that, in order to facilitate the enforcement of Section 3 hereof, the obligor shall furnish to the Federal reserve bank of the district in which such payment is made a written statement showing the name and address of each person to whom or for whose account such a payment is made and the amount paid to each such person. (Struck out Roosevelt)

Section 3. Until otherwise ordered, any person becoming the owner of any gold coin, gold bullion or gold certificates after April 12, 1933, (except as exempted by the provisions of Section 2) shall, within three days after receipt thereof, deliver the same in the manner prescribed in Section 2.

Section 4. Upon receipt of gold coin, gold bullion or gold certificates delivered to it in accordance with Sections 2 or 3, the Federal reserve bank or member bank will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States.

Section 5. Member banks shall deliver all gold coin, gold bullion and gold certificates owned or received by them (other than as exempted under the provisions of Section 2) to the Federal reserve

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banks of their respective districts and receive credit or payment therefor.

Section 6. The Secretary of the Treasury, out of the sum made available to the President by Section 501 of the Act of March 9, 1933, will in all proper cases pay the reasonable costs of transportation of gold coin, gold bullion or gold certificates delivered to a member bank or Federal reserve bank in accordance with Sections 2, 3, or 5 hereof, including the cost of insurance, protection, and such other incidental costs as may be necessary, upon production of satisfactory evidence of such costs. Voucher forms for this purpose may be procured from Federal reserve banks.

Section 7. In cases where the delivery of gold coin, gold bullion or gold certificates by the owners thereof within the time set forth above will involve extraordinary hardship or difficulty, the Secretary of the Treasury may, in his discretion, extend the time within which such delivery must be made. Applications for such extensions must be made in writing under oath, addressed to the Secretary of the Treasury and filed with a Federal reserve bank. Each application must state the date to which the extension is desired, the amount and location of the gold coin, gold bullion and gold certificates in respect of which such application is made and the facts showing extension to be necessary to avoid extraordinary hardship or difficulty.

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Section 8. The Secretary of the Treasury is hereby authorized and empowered to issue such further regulations as he may deem necessary to carry out the purposes of this order and to issue thereunder, through such officers or agencies as he may designate, licenses permitting the Federal reserve banks and member banks of the Federal Reserve System, in return for an equivalent amount of other coin, currency or credit, to deliver gold coin and bullion to persons showing the need for the same for any of the purposes specified in paragraphs (a), (c), (d), and (e) of Section 2 of these regulations.

Section 9. Whoever willfully violates any provision of this Executive Order or of these regulations or of any rule, regulation or license issued thereunder may 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 any such violation may be punished by a like fine, imprisonment, or both.

This order and these regulations may be revoked at any time.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

March _____, 1933.

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Baltimore involved draft   See R&H

(CONFIDENTIAL -- Revised draft of March 31, 1933.)

EXECUTIVE ORDER

Forbidding the Hoarding of Gold Coin, Gold Bullion and Gold Certificates.

By virtue of the authority vested in me by subsection (b) of Section 5 of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", in which amendatory Act Congress declared that a serious emergency exists, I, Franklin D. Roosevelt, President of the United States of America, do declare that said national emergency still continues to exist and pursuant to said section do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations and corporations and hereby prescribe the following regulations for carrying out the purposes of this order:

Section 1. For the purposes of this regulation, the term "hoarding" means the withdrawal and withholding of gold coin, gold bullion or gold certificates from the recognized and customary channels of trade. The term "person" means any individual, partnership, association or corporation.

Section 2. All persons are hereby required to deliver on or before April 15, 1933, to a Federal reserve bank or a branch or agency thereof or to any member bank of the Federal Reserve System all gold coin, gold bullion and gold certificates except the following:

(a) Such amount of gold as may be required for legitimate and customary use in industry, profession or art within a reasonable time, including gold prior to refining and stocks of gold in reasonable amounts for the usual trade requirements of owners mining and refining such gold.

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(b) Gold coin and gold certificates in an amount not exceeding in the aggregate $100.00 belonging to any one person; and gold coins having a recognized special value to collectors of rare and unusual coins.

(c) Gold coin and bullion licensed for legitimate transactions (not involving hoarding), including gold coin and bullion imported for reexport or held pending action on applications for export licenses or held in trust or earmarked for a recognized foreign government or foreign central bank or the Bank for International Settlements.

Section 3. Until otherwise ordered, any person becoming the owner of any gold coin, gold bullion or gold certificates after April 12, 1933, (except as exempted by the provisions of Section 2) shall, within three days after receipt thereof, deliver the same in the manner prescribed in Section 2.

Section 4. Upon receipt of gold coin, gold bullion or gold certificates delivered to it in accordance with Sections 2 or 3, the Federal reserve bank or member bank will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States.

Section 5. Member banks shall deliver all gold coin, gold bullion and gold certificates owned or received by them (other than as exempted under the provisions of Section 2) to the Federal reserve banks of their respective districts and receive credit or payment therefor.

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Section 6. The Secretary of the Treasury, out of the sum made available to the President by Section 501 of the Act of March 9, 1933, will in all proper cases pay the reasonable costs of transportation of gold coin, gold bullion or gold certificates delivered to a member bank or Federal reserve bank in accordance with Sections 2, 3, or 5 hereof, including the cost of insurance, protection, and such other incidental costs as may be necessary, upon production of satisfactory evidence of such costs. Voucher forms for this purpose may be procured from Federal reserve banks.

Section 7. In cases where the delivery of gold coin, gold bullion or gold certificates by the owners thereof within the time set forth above will involve extraordinary hardship or difficulty, the Secretary of the Treasury may, in his discretion, extend the time within which such delivery must be made. Applications for such extensions must be made in writing under oath, addressed to the Secretary of the Treasury and filed with a Federal reserve bank. Each application must state the date to which the extension is desired, the amount and location of the gold coin, gold bullion and gold certificates in respect of which such application is made and the facts showing extension to be necessary to avoid extraordinary hardship or difficulty.

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Section 8. The Secretary of the Treasury is hereby authorized and empowered to issue such further regulations as he may deem necessary to carry out the purposes of this order and to issue thereunder, through such officers or agencies as he may designate, licenses permitting the Federal reserve banks and member banks of the Federal Reserve System, in return for an equivalent amount of other coin, currency or credit, to deliver gold coin and bullion to persons showing the need for the same for any of the purposes specified in paragraphs (a) and (c) of Section 2 of these regulations.

Section 9. Whoever willfully violates any provision of this Executive Order or of these regulations or of any rule, regulation or license issued thereunder may 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 any such violation may be punished by a like fine, imprisonment, or both.

This order and these regulations may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

March , 1933.

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March 28, 1933.

On the assumption that (e) Section 2 of the proposed order <u>must</u> be eliminated, I would suggest:

(a) That an announcement be made that licenses during the life of the order will be issued under (c) Section 2 to provide gold for specific performance of gold contracts held by foreigners.

(b) That a declaration be made by the Secretary of the Treasury that all Government obligations payable in gold will be so paid at maturity, whether principal or interest, when held abroad by foreigners.

Without such an announcement and ruling the United States would be off the gold standard at home and abroad, and foreign Governments might claim that they were released from any obligation to pay gold on the debts owed by them to the United States because of the repudiation by the United States Government of its gold obligations.

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The Federal Reserve Board has considered the modification of Section 2 of the proposed executive order forbidding the hoarding of gold coin, gold bullion, and gold certificates--submitted to it on March 29 by the Undersecretary of the Treasury. The modification consists of the consolidation of Clauses (c), (d), and (e) of Section 2 into one Clause (c) expressed in more general language and giving wider administrative discretion to the Secretary of the Treasury in determining what constitutes legitimate transactions. In the Board's judgment this modification does not appear to change the purpose of the order or its effectiveness in accomplishing this purpose, which is to prevent the hoarding of gold in the United States. In accepting the modification the Board does so with the understanding that nothing contained in the order could be construed as preventing the withdrawal from this country under license of gold required in the settlement of balances due to foreigners and not caused by speculation or hoarding.

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SUGGESTED CHANGES IN S.245

BASED UPON RECOMMENDATIONS

MADE BY THE FEDERAL RESERVE BOARD

IN ITS REPORT OF MARCH 29, 1932

TO

THE COMMITTEE ON BANKING AND CURRENCY

OF

THE UNITED STATES SENATE

April 8, 1933.

Volume 242
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Section 2(b). Definition of "affiliate".

No changes in this section are recommended; but attention is invited to the fact that the definition of the term "affiliate" is so broad that it would apply to organizations having business interests entirely outside of the field of banking and which do not necessarily have an important effect upon the condition or management of member banks with which they are affiliated. Thus, if the same person or group of persons owns the controlling interest in a cotton compress company, a mercantile company or a manufacturing company and also owns more than 50% of the number of shares voted for the election of directors of a member bank at the preceding election, the cotton compress company, mercantile company or manufacturing company would be an "affiliate" of the member bank within the meaning of this section. It seems impracticable to frame a more restrictive definition which would exclude cases of this kind but include all corporations whose business may affect those of member banks; but it is believed that some of the mandatory provisions of the bill regarding affiliates should be made discretionary, in order to avoid the necessity of making examinations and requiring reports of condition in cases where the business of the affiliate is of such a character that the examinations and reports would serve no useful purpose and involve needless expenses. Changes for this purpose are suggested in connection with other sections of the bill dealing with affiliates.

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Section 5(b). Affiliates of State member banks.

It is recommended that the following changes be made in this section: Page 6, lines 10 and 11, strike out the words "not less than three reports during each year" and substitute the words "such reports as the Federal reserve bank or the Federal Reserve Board shall deem necessary."

Page 6, beginning in line 15, strike out all after the word "reports" down to and including the word "shown" in line 23.

Strike out all of the paragraph commencing on page 9, line 13, and ending on page 10, line 6, and substitute therefor the following:

> "Any examiner selected or approved by the Federal Reserve Board may examine any affiliate of any bank admitted to membership under the provisions of this section when it shall be deemed necessary in order to inform the Federal Reserve Board or the Federal reserve bank of the relations of such affiliate with such member bank or of the effect of such relations upon the management or condition of such member bank. The examiner making the examination of any such affiliate 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 shall make a report of his findings to the Federal Reserve Board or to the Federal reserve bank. The expenses of any examination made under the provisions of this paragraph may, in the discretion of the Federal Reserve Board, be assessed against the affiliate examined and, when so assessed, shall be paid by the affiliate examined. If 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 member bank and, when so assessed, shall be paid by such member bank; Provided, however, That, if the affiliation is with two or more member banks, such expenses may be assessed

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(Section 5(b), continued)

> against, and collected from, any or all of such member banks in such proportions as the Federal Reserve Board may prescribe. If any affiliate of a bank admitted to membership under the provisions of this section shall refuse to permit an examiner to make an examination of such affiliate or refuse to give any information required in the course of any such examination, each member 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 Federal Reserve Board in its discretion, and, when so assessed, may be collected by the Federal reserve bank by suit or otherwise."

For the reasons indicated in the discussion of section 2, the above changes are recommended in order that the Federal Reserve Board may, in its discretion, avoid the necessity of making examinations of, or requiring reports of condition from, business organizations which are included technically within the definition of "affiliates" but which are engaged in a business which does not bring them within the purpose of the provisions of the bill. It is also believed that the proposed revision of the paragraph regarding examinations of affiliates would facilitate practical administration.

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Section 5(b). Dealings in investment securities by State member banks.

The bill provides that State member banks shall be subject to the same limitations and conditions with respect to the purchase, sale, underwriting and holding of investment securities and stock as are applicable in the case of national banks. In order to make it clear that this provision is not intended to require a bank to dispose of any securities which it holds at the time the bill is enacted into law, it is recommended that the period at the end of line 6 on page 8 of the bill be changed to a colon and the following words inserted:

> "Provided, That nothing herein shall be construed as requiring any bank to dispose of any investment securities or stock which it lawfully holds at the date of the enactment of this Act."

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Section 6. Quarters for the Federal Reserve Board.

It is recommended that the following be inserted between lines 5 and 6 on page 13:

"(d) Section 10 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof a new paragraph reading as follows:

'The Federal Reserve Board is authorized and empowered to acquire by purchase, condemnation or otherwise, a building located in the District of Columbia which will provide suitable and adequate offices wherein the functions of the Board and the Comptroller of the Currency may be carried on, or to acquire by purchase, condemnation or otherwise, such site located in the District of Columbia as it may deem necessary and to cause to be constructed thereon a building which will provide suitable and adequate offices for the purposes of the Federal Reserve Board and the Comptroller of the Currency, and to maintain, repair, enlarge or remodel any building so acquired or constructed. The Federal Reserve Board may assign offices in any such building for the use of the Comptroller of the Currency and the Federal Liquidating Corporation, and nothing contained in the Act of June 3, 1864, or in Section 331 of the Revised Statutes (Title 12, Section 13, U.S.C.), or in any other provision of law, shall be construed as preventing the Comptroller of the Currency from making full use of any offices so assigned and from keeping therein the records and all other valuable things belonging to his department. The Federal Reserve Board may levy upon the Federal reserve banks, in proportion to their capital stock and surplus, assessments sufficient to defray all costs and expenses incurred under the provisions of this paragraph.'"

The amendment to the second paragraph of Section 10 of the Federal Reserve Act contained in Section 6 (b) of the bill (pages 11 and 12) would repeal the provision of existing law authorizing the Secretary of the Treasury to assign offices in the Treasury Department for the use of the Federal Reserve Board; and it would

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(Section 6 continued)

seem that the Board should be authorized to purchase or construct a building for its own use and that, in the interests of convenience and efficiency, space should be provided in such building for the Comptroller of the Currency and his staff and for the proposed Federal Liquidating Corporation.

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Section 7. Federal Open Market Committee.

It is recommended that everything beginning with line 6 on page 13 through and including line 16 on page 14 be stricken out and that the following be inserted in lieu thereof:

> "Sec. 7. Section 14 of the Federal Reserve Act, as amended, is further amended by striking out the words 'Every Federal reserve bank shall have power;' and inserting in lieu thereof the following:
>
> 'Subject to such regulations, limitations, restrictions and procedure as the Federal Reserve Board may prescribe, every Federal reserve bank shall have power:'
>
> "Section 14 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof a new paragraph reading as follows:
>
> 'The time, character and volume of all purchases and sales in the open market under this section 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.'"

There is already in existence an open market committee which has come about as the result of natural development and on which each of the Federal reserve banks has representation; and the Board believes that it would be inadvisable to disturb this development by crystalizing into law any particular procedure. It is also believed that nothing further along this line is necessary at this time than amendments such as those suggested above clarifying the power of the Federal Reserve Board to supervise and regulate the open market operations of the Federal reserve banks and writing into law the principle underlying such operations which has long been observed by the Federal Reserve Board.

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(Section 7, continued)

The provision of subsection (b) of the proposed new Section 12A (page 13, lines 20-24), to the effect that no Federal reserve bank shall engage in open market operations except in accordance with resolutions adopted by the committee and approved by the Federal Reserve Board, would deprive an individual Federal reserve bank of all authority to make purchases in the open market except after obtaining the consent of both the Board and the committee. The open market committee would have no authority to act without the approval of the Board and the Board would have no authority to act without the approval of the committee. This would be too rigid and might make the open market operations of the Federal Reserve System less timely and less efficient.

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Section 7. Federal Liquidating Corporation.

If the amendment first made above regarding the proposed Open Market Committee is adopted, it will be necessary to insert the following before line 17 on page 14:

> "The Federal Reserve Act, as amended, is amended by inserting between Sections 12 and 13 thereof the following new section:"

It is recommended that, on pages 15 to 19, inclusive, all of paragraphs (c), (d), (e), (f) and (g) be stricken out and that the following be substituted therefor:

> "(c) The corporation shall have a capital stock of $125,000,000, all of which shall be subscribed by the United States of America and payment for which shall be subject to call in whole or in part by the board of directors of the corporation.
>
> "There is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated the sum of $100,000,000 for the purpose of making payments upon such subscription. 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.
>
> "Any Federal reserve bank may purchase and hold any debentures or other such obligations of the corporation in an amount not exceeding one-fourth of the amount of its surplus fund."

The proposed section 12(B) of the Federal Reserve Act as set out in section 7 of the bill contemplates that the Federal Liquidating Corporation shall have a capital and surplus composed of (a) funds derived from subscriptions by member banks to the extent of one-fourth of one per cent of their net time and demand deposits; (b) one-fourth of the surplus of the Federal reserve banks as of July 1, 1932; and (c) the sum of $125,000,000 to be subscribed by the United States.

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(Section 7, continued)

In addition, the corporation would be empowered to sell and have outstanding at any one time its obligations in an amount equal to twice its capital and surplus. It has been estimated that the amount thus required of member banks would be about $65,000,000 and the amount required of the Federal reserve banks about an equal amount. Thus the entire capital and surplus of the corporation might be approximately $255,000,000 and its borrowing capacity approximately $510,000,000, or a total of $765,000,000.

Under the amendment proposed herein, the corporation would have a capital of $125,000,000 paid in by the Treasury and would be authorized to sell its obligations in an additional amount equal to twice its capital, or, in other words, it might have approximately $375,000,000 of resources available for carrying on its operations. Bearing in mind that this sum would be in the nature of a revolving fund and that the corporation will be constantly receiving repayments from the liquidation of the assets purchased or held by it as collateral which will be available for further purchases or loans, it seems to the Board that a total of $375,000,000 should be sufficient for all practical purposes. If, however, it should later appear to be inadequate there would be ample opportunity for Congress to amend the law so as to provide means for increasing the resources of the corporation. In these circumstances, it seems unnecessary to impose upon member banks the burden of providing part of the capital of the proposed corporation; and much objection has been made to the imposition of such a requirement, particularly at this time.

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Likewise, no necessity seems to exist for requiring the Federal reserve banks to subscribe to the capital stock of the corporation. On the other hand, the provision permitting the Federal reserve banks to purchase debentures of the corporation would be helpful in facilitating the marketing of the corporation's obligations.

In order that it may be clear that the corporation may issue its obligations in an amount equal to twice the amount of its <u>subscribed</u> capital, it is suggested that the word "subscribed" be inserted before the word "capital" in line 1 on page 24 of the bill.

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(Section 7 continued)

It is further recommended that everything on page 21, after the word "require" in line 14, down through and including the word "directors" in line 19 be stricken out; because it is believed that sound business practice, as well as the need for protecting the Government's investment in the capital of this corporation, requires that the valuations upon which purchases of assets of closed banks or loans to receivers upon the security of such assets are based should be determined by representatives of the Liquidating Corporation.

The bill provides for a liquidation fee of 8 per cent of the amount realized from the sale or other disposition of assets purchased by the corporation. The time required for the liquidation of such assets would vary in different cases from a few months to several years and a fee of 8 per cent might be too great in some cases or too little in others. It is recommended, therefore, that the words "liquidation fee of 8 per centum of" in line 3 of page 22 of the bill be changed to read "reasonable liquidation fee from."

If, notwithstanding the recommendations of the Board above set forth with reference to the capital structure of the corporation, the present provisions of the bill for three classes of stock are to be retained, the Board feels that the stock held by the Federal reserve banks should be accorded the same rights as to dividends as are given the stock held by the member banks and by the Government. There is no reason why the stock paid for by the Federal reserve banks should not be given the same treatment in this respect as the other classes of stock of the corporation.

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It is also believed that a provision should be included which would authorize the return to the member banks and to the Federal Reserve Banks of a portion of the amount paid in by them upon the stock of the corporation if and when it is no longer needed for the purposes of the corporation. If it should develop that the amount of the paid-in capital stock of the corporation is in excess of its needs, the returns on the stock would be small and it would seem equitable that the amount of the excess paid in by the member banks and the Federal reserve banks should be returned to them. In order to accomplish these purposes, it is recommended that the following changes be made in the bill. In line 13 on page 16, strike out the word "not"; in line 14 on page 16, after the word "dividends", omit the period and insert the words "to the same extent as Class A stock"; and at the end of line 23, at page 18, add the following:

> "If at any time in the judgment of the board of directors of the Corporation, the amount of the stock of the corporation is greater than is needed in the transaction of its business, the board of directors shall have the power to suspend any of the provisions of this section with respect to the subscription by member banks for Class A stock and to call for the surrender and cancellation on a ratable basis of such an amount of Class A stock held by member banks and of Class B stock held by Federal reserve banks as the board may deem advisable: Provided, however, That such suspension may be terminated by the board of directors of the corporation at any time and in case of such termination all of the provisions of this section with respect to the subscription and payment for Class A and Class B stock shall apply according to their original tenor."

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Section 8. Loans to member banks on their promissory notes

It is recommended that all of Section 8 (i.e. everything commencing with line 8 on page 28 down through and including line 11 on page 29) be stricken out and that the following be substituted therefor:

> "Sec. 8. The eighth paragraph of Section 13 of the Federal Reserve Act, as amended, is amended and reenacted 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, subject to the review and determination of the Federal Reserve Board.'"

This section purports to amend the seventh paragraph of Section 13 of the Federal Reserve Act; but, since the bill was reported out by the Banking and Currency Committee of the Senate, a new paragraph was inserted in an earlier part of Section 13 by the Act of July 21, 1932, so that the paragraph referred to is now the eighth paragraph of Section 13 instead of the seventh paragraph of Section 13.

Since this bill was reported out by the Banking and Currency Committee of the Senate, the paragraph of Section 13 referred to was amended by the Act of May 19, 1932, so as to make debentures or other such obligations of Federal Intermediate Credit Banks, which are eligible

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(Section 8, continued)

for purchase by Federal reserve banks under Section 13(a) of the Federal Reserve Act, eligible as collateral security to the promissory notes of member banks evidencing advances made to them by the Federal reserve banks; and that amendment would be repealed by the bill in its present form.

The main purpose of Section 8 of the Bill is to limit the right of member banks to borrow from Federal reserve banks on their own promissory notes when such member banks are making loans on stock exchange collateral and thus to discourage member banks from making loans on stock exchange collateral when they are indebted to the Federal reserve banks. It is believed, however, that this purpose is fully accomplished by the provisions of Section 3(a) of the bill and that no further limitation along this line is desirable. Moreover, the theory underlying this proposed amendment — i.e., that there is a more direct connection between member bank collateral notes and the use of reserve credit for speculative activity than between rediscounts and this activity is unfounded. Member banks borrow on their own promissory notes because of the greater convenience both to them and to the Federal reserve banks; and, if this form of borrowing were restricted or prohibited, they would merely substitute the procedure of rediscounting eligible paper without any change in the use of the proceeds. For these reasons, it is believed that the additional restrictions proposed to be imposed by this section would make the operation of the Federal reserve banks less efficient and more expensive.

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(Section 8, continued)

The Federal Reserve Board has recommended in its annual reports for several years that the maturity of advances which may be made to member banks on their promissory notes secured by paper which is eligible for discount be increased from 15 to 90 days, because it is believed that such an amendment would be especially helpful to country banks and would increase the efficiency and usefulness of the Federal reserve banks without departing in any way from the fundamental principles of the Federal Reserve Act. The amendment recommended above would accomplish this purpose and is believed to be very desirable.

If, notwithstanding the above recommendations, Section 8 of the bill is retained in substantially its present form, then, in order to conform to the situation resulting from the insertion of a new paragraph in an earlier part of Section 13 of the Federal Reserve Act, the word "seventh" in line 8 on page 28 should be changed to "eighth"; and, in order not to repeal the amendment of May 19, 1932, making debentures or other such obligations of Federal Intermediate Credit Banks which are eligible for purchase by Federal reserve banks eligible also as collateral security for the promissory notes of member banks, Section 8 of the bill should also be amended by changing the period after the words "United States" in line 20 on page 28 to a comma and inserting at that point the words "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."

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Section 10. Member banks acting as mediums or agents in making loans on collatoral.

This section would forbid a member bank to act as the medium or agent of any nonbanking institution or individual in making loans on the security of stocks, bonds and other investment securities to brokers or dealers in such securities. In order that it may be clear that this provision forbids a member bank to act as a medium or agent for this purpose, not only of a nonbanking institution or individual, but also of a nonmember bank which in turn is acting for a nonbanking institution or individual, it is suggested that the words "directly or indirectly" be inserted after the word "act" in line 14 on page 30.

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Section 11. Loans to executive officers of member banks or to their relatives.

One of the provisions of this section requires that an executive officer of a member bank make a report to the chairman of the board of directors of such bank with respect to any borrowing from the bank by relatives of certain specified classes and provides a penalty of fine or imprisonment for failure to do so. In order that this provision may not appear to include a case in which an executive officer is not aware of the borrowing by a relative, it is suggested that the word "knowingly" be inserted in line 5 on page 32 before the word "violating".

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Section 12. Loans to or investment in stock of affiliates.

This section provides limitations upon loans or extensions of credit to affiliates by member banks and upon investments in the stock or obligations of such affiliates by member banks. In order that it may be clear that the limitation upon investments in capital stock of affiliates should not be construed as implied authority for investment in such stock within the limitations of the section, it is suggested that the limiting provision of this section be changed so as not to apply to capital stock of affiliates. Other provisions of the bill forbid member banks to purchase any stock of any corporation (with certain stated exceptions) and, accordingly, the limitation of this section with respect to investments in capital stock of affiliates is unnecessary. It is recommended, therfore, that the words "capital stock" in line 15 of page 32 be stricken out.

Among the limitations provided by this section is a requirement that a loan or extension of credit to an affiliate by a member bank be secured by collateral having a market value of at least 20 per cent more than the amount of the loan or extension of credit or at least 10 per cent more than the amount thereof if it is secured by municipal obligations; but loans or extensions of credit secured by obligations of the United States, Federal intermediate credit banks, Federal land banks, or paper eligible for rediscount by Federal reserve banks are excepted from this requirement. It is believed that the exception in favor of loans secured by paper eligible for rediscount by Federal reserve banks would provide a loophole through which the intention of this provision might be evaded. Paper may be technically eligible for rediscount by Federal reserve banks and yet not of a quality

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(Section 12, continued)

to make it desirable from a credit standpoint. A member bank, therefore, might make loans to its affiliates upon the security of paper which is not of a sound quality, although eligible for rediscount, without complying with the spirit of the requirement of this section as to marginal collateral. It is accordingly recommended that in line 16 on page 33 of the bill, the comma after the words "Federal land banks" be changed to a period and the remainder of the sentence down to and including the word "banks" in line 19 be stricken out; and that in line 13 on page 33 of the bill, after the word "thereof", the colon be changed to a comma and the following be inserted: "or by collateral in the form of notes, drafts, bills of exchange or bankers' acceptances eligible for rediscount or for purchase by Federal reserve banks having a face value of at least 25% more than the amount of the loan or extension of credit."

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Section 14. Jurisdiction of Federal Courts.

In order to accomplish the purpose of certain recommendations heretofore made by the Federal Reserve Board in its annual reports for the years 1927 (page 48), 1928 (page 41) and 1929 (page 37), and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and the House of Representatives under date of February 14, 1930, it is recommended that, on page 35, line 23, of the Bill the quotation mark be stricken out and the following new paragraph inserted:

> "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 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."

Section 14 of the Bill, to which this amendment pertains, would add a new section to the Federal Reserve Act conferring upon the Federal Courts jurisdiction over certain classes of suits to which any corporation organized under the laws of the United States is a party. The principal corporations affected by this section of the bill in the form in which it passed the Senate are national banks and foreign banking corporations organized under Section 25(a) of the Federal Reserve Act; and it is believed that this section of the bill should be amended so as to incorporate certain amendments heretofore recommended by the Federal Reserve Board with regard to suits to which Federal reserve banks are

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parties.

The amendment proposed would, (1) restore to the Federal courts jurisdiction over suits to which Federal reserve banks are parties, and (2) exempt Federal reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding. Each of these points is discussed separately below.

The Federal courts formerly had jurisdiction of suits by and against Federal reserve banks because of the fact that Federal reserve banks are incorporated under an Act of Congress; but Section 12 of the Act of February 13, 1925, provides that no district court of the United States shall have jurisdiction of any action or suit by or against any corporation upon the ground that it was incorporated by or under an Act of Congress, except corporations in which the Government of the United States is the owner of more than one-half of the capital stock.

It is not believed that Congress had the Federal reserve banks in mind when this amendment was enacted; but its terms deprive the United States district courts of jurisdiction of all suits by or against Federal reserve banks, unless a question involving the interpretation of the Constitution of the United States or of some Federal statute is raised by <u>the original pleadings of the plaintiff</u>. The provisions of the Federal Reserve Act or the regulations of the Federal Reserve Board are frequently the grounds upon which Federal reserve banks defend suits brought against them; but the fact that such questions are raised in the defendant's pleadings is not a ground of jurisdiction in the United States district courts. The Federal reserve banks are thus forced to defend in the State courts suits which turn upon essentially Federal questions and which result

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(Section 14, continued)

in nationally important interpretations of the Federal Reserve Act.

Unlike national banks, the Federal reserve banks cannot remove suits brought against them by persons located in other States to the United States district courts on the ground of diversity of citizenship, because the Supreme Court of the United States has held that a Federal corporation is not a citizen of any State, and there is no provision in the Federal Reserve Act similar to that in the National Bank Act providing that they shall be deemed citizens of the States in which they are located.

The Act of February 13, 1925, makes an exception in the case of corporations in which the Government of the United States is the owner of more than one-half of the capital stock; and it would seem that the exception should logically be extended to include Federal reserve banks, since they act as fiscal agents of the United States and perform certain functions of subtreasuries as well as many other important functions for the Government. Moreover, in the event of the liquidation of the Federal reserve banks, all of their surplus, which amounts to nearly twice their paid-in capital stock, would become the property of the United States.

The proposed amendment would also exempt Federal reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding.

In some instances, suits against a Federal reserve bank brought in a State other than that in which the Federal reserve bank is located have been commenced by attaching or garnisheeing the property of such Federal reserve bank located in such other State. Proceedings which thus

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tie up the property of a Federal reserve bank in advance of final judgment may cause serious difficulty and embarrassment in the proper administration of the affairs of the Federal reserve bank, and there would seem to be no sound reason why this should be permitted.

The purpose of attachment and garnishment proceedings is to insure to the complainant that he will be able to obtain satisfaction of any judgment which may be finally rendered in his favor; and the credit and financial standing of each Federal reserve bank is such that no difficulty may be anticipated in obtaining full satisfaction of any judgment which may be rendered by the courts against it.

Under the provisions of Section 5242 of the Revised Statutes, national banks are exempted from attachment and execution before final judgment in any case or proceeding and the Board feels that the law should be amended so as to give Federal reserve banks the same protection in this respect. It is conceivable that, if large amounts of the funds or credits of the Federal reserve banks should be tied up through attachment or garnishment proceedings, the ability of the reserve banks to perform these functions might be seriously hampered.

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Section 15. Powers of national banks.

It is recommended that this section be amended as follows:

1. On page 36, line 12, change the semicolon to a period and strike out everything thereafter through the word "Congress" in line 18.

2. On page 38, line 2, insert the word "general" between the word "or" and the word "obligations".

3. On page 38, strike out all of lines 12, 13 and 14.

The clause on page 36, lines 12 to 18, inclusive which would confer upon national banks all banking powers granted by State law to banking institutions in the States where such national banks are located, except to the extent expressly forbidden by Congress, would have a strong tendency in the direction of lowering the standard of the National Banking System and would be inconsistent with the general theory of the bill. It would constitute a further step in the competition in laxity which has been permitted to grow up between the National Banking System and the banking systems of the forty-eight States.

The suggested amendment in line 2 of page 38 is intended to make ineligible for purchase by national banks special obligations of States and political subdivisions thereof which are payable out of special funds and not out of the general revenues of the State or political subdivision. Under existing law, national banks may invest in general obligations of a State or any political subdivision thereof, and it is not believed desirable that the authority of national banks in this respect should be extended.

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(Section 15, continued)

The effect of the sentence contained in lines 12, 13 and 14 on page 38 is not clear; and the sentence would seem to be entirely unnecessary, in view of the fact that the limitations on the amount of investment securities which may be purchased by national banks have been clarified so that there is no doubt that they apply only to investment securities purchased after this section as amended takes effect. (See page 37, lines 4, 11 and 12.) With the amendments above suggested, there would seem to be no reason why its effective date should be postponed for one year. Its restrictions would pertain only to future purchases of, or dealings in, investment securities and it would not require any national bank to dispose of any investment security which it now holds.

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Section 18. Holding company affiliates of national banks.

It is recommended that this section be amended as follows: Page 40, line 18, strike out the words "or held" and substitute in lieu thereof the words "or by any officer, director, employee, proxy, nominee, representative, or agent thereof, or".

Page 41, line 1, after the word "same" insert the following new sentence:

> "Such application shall be in such form and shall contain such agreements and undertakings as the Federal Reserve Board in its discretion may prescribe."

Page 41, line 11, strike out the comma after the word "receive" and everything thereafter through and including the word "affiliated" in line 12.

Page 41, line 13, after the word "shall" insert the words "be authorized to".

Page 43. Strike out all of lines 16 to 22, inclusive, and insert in lieu thereof the following:

> "(d) Within a period of one year from the date of the issuance of such voting permit, each nonmember State bank owned or controlled by such holding company affiliate which is eligible for membership in the Federal reserve system shall apply for membership therein in the manner prescribed by, and subject to the terms of, Section 9 of the Federal Reserve Act; if such application is approved by the Federal Reserve Board, such bank shall become a member of the Federal reserve system and shall comply with all of the provisions of law applicable to member banks; if such application is not approved by the Federal Reserve Board, or if any such bank shall fail to become, or shall cease to be, a member of the Federal reserve system at any time while such agreement remains in effect, such affiliate shall divest itself of all stock ownership or other interest in, or control of, such bank within such time as the Federal Reserve Board may determine; and"

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(Section 18, continued)

Page 45, line 1, after the word "any" insert the words "condition prescribed by or".

Page 45, line 20, strike out the quotation mark after the word "amended" and insert the following new paragraphs:

> "Unless there is in effect at the time a voting permit issued pursuant to the terms of this section, any person, firm, corporation, association, business trust, or other organization, which shall vote, or cause, direct, authorize, or permit to be voted, the stock of any national bank owned or controlled by any holding company affiliate, or by any officer, director, employee, proxy, nominee or representative or agent thereof, or by any trustee for the benefit of the shareholders or members thereof, 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 for each such offense. Each vote cast shall constitute a separate offense within the meaning of this paragraph.
>
> "Any officer, director, agent or employee of any such holding company affiliate for which there is in effect a voting permit issued under the provisions of this section, who shall make any false entry in any book, report or statement of such affiliate with intent in any case to injure or defraud such affiliate, any member bank or any other company, body politic or corporate, or any individual person, or with intent to deceive the Federal Reserve Board or any officer of such affiliate or of any member bank, or the Comptroller of the Currency, or any agent or examiner appointed to examine the affairs of such affiliate, 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.

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(Section 18, continued)

> "No national bank shall, (1) make any loan on the stock of any holding company affiliate which owns or controls such national bank directly or indirectly, (2) make any loan to any holding company affiliate which owns or controls such national bank, directly or indirectly, on the security of any shares of stock of any corporation owned or controlled by such holding company affiliate, or (3) be the purchaser or holder of the stock of such holding company affiliate; unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and any stock so purchased or acquired shall be sold or disposed of at public or private sale within six months from the date of its acquisition, unless the time is extended by the Comptroller of the Currency."

The amendment suggested on page 40, line 18, is intended to guard more completely against evasions.

The amendment suggested on page 41, line 1, is believed necessary for practical administrative purposes.

For the reasons indicated under the discussion of Section 2, the proposed amendments to lines 11, 12 and 13 are intended to make examinations of holding company affiliates discretionary with the supervisory authorities instead of mandatory, in order to avoid the necessity of making examinations of business organizations which are included technically within the definition of "affiliates" but which are engaged in a business which does not bring them within the purpose of the provisions of the bill.

Subsection (d) on page 43 purports to subject to the provisions of Section 5209 of the Revised Statutes, any officer, director, agent or employee of a holding company affiliate who makes false entries in any book, record or statement of such holding company affiliate; but it is doubtful whether the directors, agents and employees of a holding company affiliate can be subjected to a criminal provision of this kind

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(Section 18, Continued)

merely by an agreement made, or a condition accepted, by the holding company affiliate. It is believed that it would be better to cover this subject directly by a provision of law, instead of incorporating it in the conditions to be accepted by the holding company affiliate; and the recommendations made above contemplate the insertion of a new paragraph for this purpose on page 45, near the end of the section.

It is suggested that there be inserted in lieu of sub-paragraph (d) on page 43 (lines 16 to 22) an entirely different paragraph which would provide that, within a period of one year from the date of the issuance of a voting permit to a holding company affiliate, each non-member State bank owned or controlled by such holding company affiliate shall apply for membership in the Federal Reserve System if eligible therefor, and that, in the event such application is not approved or if the bank fails to become or ceases to be a member of the System, the affiliate shall divest itself of all interest in or control of such bank. This is believed to be of great importance; because, without such a provision, the Board would not have any authority over non-member banks controlled by a holding company affiliate which controls member banks except authority to examine them and require them to submit reports of condition. Moreover, without such a provision one or two banks in a group controlled by a holding company affiliate could be members of the Federal Reserve System and the remaining banks in the group could remain outside of the System but obtain the benefits of the System indirectly through the member banks in the group without contributing their proper shares to the resources of the System through subscriptions to the capital stock of the Federal reserve bank and through the maintenance of reserve deposits with the Federal reserve bank.

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(Section 13, continued)

The proposed change in line 1 on page 45 is recommended in view of the fact that many of the regulatory provisions regarding holding company affiliates are in the form of conditions upon which they shall be granted voting permits.

It is believed that the first of the proposed new paragraphs to be inserted on page 45 will greatly strengthen the entire section and make it more easily enforceable.

The second of these proposed new paragraphs is intended as a substitute for the present paragraph (d) on page 43, lines 16 to 22, and has been discussed above.

National banks are now forbidden by law to purchase, or make loans against, shares of their own stock; and the last of the three new paragraphs proposed to be inserted on page 45 is intended to prevent them from doing the same thing indirectly by making loans to, or purchasing or lending against the stock of, another corporation which owns the stock of the national bank.

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It is also suggested that the following be added at the end of line 19 on page 42 of the bill:

> "Provided, however, That, in computing the amount of readily marketable assets, other than bank stock, which any such affiliate is required to possess at any given time, credit shall be given to such affiliate for all contributions which it has made during the preceding three years to banks owned or controlled by it at the time such computation is made. The term 'contribution', as herein used, shall include all such gifts of money, assets or other things of value to any such bank, all such amounts paid for worthless or doubtful assets purchased from any such bank, and all such other similar amounts as the Federal Reserve Board, in its discretion, may permit to be treated as contributions."

The inclusion of this provision would encourage affiliates to aid their affiliated banks which may be in need of assistance by furnishing them with new money or by purchasing from them worthless or doubtful assets.

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Section 24. Reports of affiliates of national banks.

It is recommended that the following changes be made in this section:

1. On page 49, line 13, strike out everything after the word "Currency" through and including the word "form" in line 14 and substitute in lieu thereof the words "such reports".

2. On page 49, line 18, insert a period after the word "for", and strike out everything thereafter through and including the word "association" in line 21.

3. On page 49, line 23, strike out the entire sentence commencing with the word "each" through and including the word "shown" on page 50, line 3.

For the reasons indicated in connected with the discussion of section 2, the above amendments are recommended in order to avoid the necessity of requiring reports of condition from business organizations which are included technically within the definition of "affiliates" but which are engaged in a business which does not bring them within the purposes of this section, and to avoid the necessity of repeated reports of such concerns when the necessary information has been once obtained.

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Section 25. Examinations of affiliates of national banks.

It is recommended that this section be amended as follows:

1. On page 50, line 25, strike out the word "include" and substitute in lieu thereof the words "have power to make".

2. On page 51 strike out everything after the word "amended" in line 10 through and including the word "affiliate" in line 18.

3. On page 52, line 19, change the word "the" to "each".

The proposed change in line 25 on page 50 is intended to make such examinations discretionary instead of mandatory, and thus to avoid the necessity of making examinations of business organizations which are included technically within the definition of "affiliates" but which are engaged in a business of a character not pertaining to the purposes of this section; and also to avoid an unnecessary repetition of examinations.

The two sentences on page 51, the elimination of which is recommended, would authorize the Comptroller of the Currency to publish reports of examinations of member banks and their affiliates in certain circumstances. This is a drastic power which, if exercised, would have a damaging effect upon the banks involved and upon their borrowers and perhaps upon general banking conditions. Furthermore, it is inconsistent with the confidential nature of reports of examination; and it is unnecessary, in view of the fact that other sections of the bill confer adequate powers upon the Comptroller of the Currency to bring about compliance with his requirements -- especially Section 27 which authorizes the removal of officers and directors of national banks who are guilty of continued unsafe or unsound practices or continued violations of the law.

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It is also suggested that on page 52 of the bill, the sentence beginning in line 3 and running to line 7 be changed to read as follows: "The actual expense of examination of any such affiliate examined may be assessed by the Comptroller of the Currency upon such affiliate and when so assessed shall be paid by such affiliate".

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Section 26. Resumption of business by closed national banks.

It is assumed that this section will be omitted from the bill in view of the enactment of the Bank Conservation Act, Title II of the Act of March 9, 1933.

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Reserves of member banks of the Federal Reserve System.

In addition to the comments and recommendations submitted above with reference to specific provisions of the bill, attention is called to the desirability of a thoroughgoing revision of the provisions of section 19 of the Federal Reserve Act with regard to the reserve requirements of member banks. The Board is of the opinion that the adoption of a system of reserves based on velocity of accounts as well as of their volume, as recommended in the report of the Committee on Bank Reserves of the Federal Reserve System, would be an important step in strengthening the influence that the System could exert in the direction of sound credit conditions. The proposals submitted in the Committee's report, a copy of which is transmitted herewith, embody a method of calculating required reserves which is believed to be sound in principle and which would eliminate many inequitable and unfair features of the present law. It is recommended, therefore, that the following new section be added to the bill which would incorporate the proposals of the System's Committee on Bank Reserves with slight modifications:

"Sec. _____. Section 19 of the Federal Reserve Act (United States Code, Title 12, Sections 461 to 466, inclusive, and Section 374), as amended, is further amended and reenacted to read as follows:

'RESERVES OF MEMBER BANKS.

'Section 19, (a) Each member bank shall establish and maintain reserves equal to five per centum (5%) of the amount of its net deposits, plus fifty per centum (50%) of the amount of its average daily debits to deposit accounts; Provided, That any member bank, at its option,

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for any period not less than 90 days, may omit any specific deposit account or accounts from such computation of its reserve requirements if such account or accounts are reported separately to the Federal reserve bank and if a reserve of 50% is maintained against such account or accounts: Provided, however, That, in no event, shall the aggregate reserves required to be maintained by any member bank exceed fifteen per centum (15%) of its gross deposits.

'(b) Each member bank located in the vicinity of a Federal reserve bank or branch thereof shall maintain not less than four-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank, and every other member bank shall maintain not less than two-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank. The remainder of the total required reserves of each member bank, over and above the amount required to be maintained in the form of a reserve balance on deposit with the Federal reserve bank, may, at the option of such member bank, consist of a reserve balance on deposit with the Federal reserve bank, or of cash owned by such member bank either in its actual possession or in transit between such member bank and the Federal reserve bank: Provided, That the Federal Reserve Board may limit the kinds of cash owned by a member bank which may be counted as part of its required reserves; and Provided further, when, in its judgment the public interest so requires, the Federal Reserve Board may limit to an amount less than that permitted hereunder the amount of cash which any member bank or banks may count as reserve: Provided, however, That in prescribing such limi-

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tations, the Federal Reserve Board shall be guided by the general principle that member banks should be permitted to count as reserve, within the limitations of this section, as much cash as they reasonably need in view of the character of their business and their degree of accessibility to the currency facilities of the Federal reserve banks.

'(c) The term "gross deposits", within the meaning of this section, shall include all deposit liabilities of any member bank whether or not immediately available for withdrawal by the depositor, all liabilities for certified checks, cashiers', treasurers' and other officers' checks, cash letters of credit, travelers' checks, and all other similar liabilities, as further defined and specified by the Federal Reserve Board: Provided, however, That, in computing the amount of "gross deposits", (1) amounts shown on the books of any member bank as liabilities of such bank payable to a branch of such bank located in a foreign country or in a dependency or possession of the United States, and (2) liabilities payable only at such a branch, shall be treated as though said liabilities were due to or payable at a nonmember bank.

'(d) The term "net deposits", as used in this section, shall mean the amount of the gross deposits of any member bank, as above defined and as further defined by the Federal Reserve Board, minus the sum of (1) all balances due to such member bank from other member banks and their branches in the United

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States and (2) checks and other cash items in process of collection which are payable immediately upon presentation in the United States, within the meaning of these terms as further defined by the Federal Reserve Board.

'(e) The term "average daily debits to deposit accounts," as used in this section, shall mean the average daily amount of checks, drafts, and other items debited or charged by any member bank to any and all accounts included in gross deposits as above defined and as further defined by the Federal Reserve Board, except charges resulting from the payment of certified checks and cashiers', treasurers', and other officers' checks.

'(f) The term "cash" within the meaning of this section, shall include all kinds of currency and coin issued or coined under authority of the laws of the United States.

'(g) The term "reserve balances," as used in this section, shall mean a member bank's actual net balance on the books of the Federal reserve bank representing funds available for reserve purposes under regulations prescribed by the Federal Reserve Board.

'(h) The term "vicinity of a Federal reserve bank or branch thereof," as used in this section, shall mean the city in which a Federal reserve bank or branch thereof is located, until such term is otherwise defined by the Federal Reserve Board: <u>Provided</u>, That, with respect to each Federal reserve bank and each branch thereof, the Federal Reserve Board, from time to time, in its discretion, may either (1) define a specific geographic area

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Reserves - Continued

as comprising the vicinity of such Federal reserve bank or branch thereof, within the meaning of this section, or (2) compile a list of member banks which shall be deemed to be located in the vicinity of such Federal reserve bank or branch thereof, within the meaning of this section, and add banks to, or remove banks from, such list, from time to time: Provided, however, That, in defining such areas and compiling such lists, the Federal Reserve Board shall be guided by the general principle indicated in subsection (b) hereof.

'(i) With respect to each member bank, the term "Federal reserve bank", as used in this section, shall mean the Federal reserve bank of the district in which such member bank is located.

'(j) The Federal Reserve Board is authorized and empowered to prescribe regulations defining further the various terms used in this Act, fixing periods over which reserve requirements and actual reserves may be averaged, determining the methods by which reserve requirements and actual reserves shall be computed, and prescribing penalties for deficiencies in reserves. Such regulations and all other regulations of the Federal Reserve Board shall have the force and effect of law and the courts shall take judicial notice of them.

'(k) Subject to such regulations and penalties as may be prescribed by the Federal Reserve Board, any member bank may draw against or otherwise utilize its reserves for the

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purpose of meeting existing liabilities: Provided, however, That, whenever the reserves of any member bank have been continuously deficient for fourteen consecutive calendar days, the Federal Reserve Agent or Assistant Federal Reserve Agent of the district in which such member bank is located shall send to each director of such bank, by registered mail, a letter advising him of such deficiency and calling attention to the provisions of this subsection; and each director of such bank who after receipt of such a letter, assents to or acquiesces in the making of additional loans or investments by such bank before the reserves of such bank shall have been restored to the amount required by this section, shall be held liable in his personal or individual capacity for any and all losses sustained by such bank on any such loans or investments.

'(l) All penalties for deficiencies in reserves incurred under regulations prescribed by the Federal Reserve Board pursuant to the provisions of this Act shall be paid to the Federal reserve bank by the member bank against which they are assessed.

'(m) 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.

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'(n) 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 Federal Reserve Board, become member banks of any one of the Federal reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act.

'(o) All acts or parts of acts in conflict with this section are hereby repealed only in so far as they are in conflict with the provisions of this section.'

"There are hereby repealed the provisions of Section 7 of the First Liberty Bond Act, approved April 24, 1917, Section 8 of the Second Liberty Bond Act, approved September 24, 1917, and Section 8 of the Third Liberty Bond Act, approved April 4, 1918 (U.S.Code, Title 31, Section 771) which read as follows:

> '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.'

"This section shall become effective on the first day of the seventh calendar month following the enactment of this Act."

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March 3[illegible], 1933.

The Federal Reserve Board has considered the modification of Section 2 of the proposed executive order forbidding the hoarding of gold coin, gold bullion, and gold certificates, submitted on March 29th by the Under Secretary of the Treasury. The modification consists of the consolidation of clauses (c) (d) and (e) of Section 2 into one new clause - (c) - and it expresses these former clauses in more general language, and gives wider administrative discretion to the Secretary of the Treasury in determining what constitutes legitimate transactions.

The Board interprets this new paragraph (c) as leaving the Secretary of the Treasury free to license the holding and/or export of gold in any legitimate transaction not involving hoarding, whether domestic or foreign, and on this interpretation it accepts and approves the new form of order.

(and it [illegible] the [illegible] that such power will be so exercised)

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(CONFIDENTIAL - Draft of March 31, 1933.)

STATEMENT

In the past weeks the country has given a remarkable demonstration of confidence. With the reopening of a majority of the banks of the country, currency in excess of $1,000,000,000, of which $600,000,000 was in the form of gold and gold certificates, has been returned to the Federal reserve banks.

Many persons throughout the United States have hastened to turn in gold in their possession as an expression of their faith in the Government and as a result of their desire to be helpful in the emergency. There are others, however, who have waited for the Government to issue a formal order for the return of gold in their possession. Such an order is being issued by the President today.

The order authorizes the Secretary of the Treasury to issue licenses for obtaining gold for (all) legitimate needs not involving hoarding, industrial requirements, and the exportation of gold for trade purposes. With these exceptions, the order requires all persons who have in their possession gold coin, not having special value to collectors, gold certificates, or gold bullion, in excess of $100, to return this gold to one of the Federal reserve banks, or a member bank. While the order is in effect persons who come into possession of gold not exempted by

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the exceptions set forth in the order, will also be required to exchange it for other currency. The order is limited to the period of the emergency.

The chief purpose of the order is to restore to the country's reserves gold held for hoarding and the withholding of which under existing conditions does not promote the public interest.

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The Federal Reserve Board, in approving the modified form of Order submitted to it by the Under Secretary of the Treasury, does so ~~with the~~ on its understanding that nothing contained in the Order will abrogate the essential obligations which the United States has assumed with relation to the international gold market.

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Treasury Department
Washington, D. C.

Confidential draft

ORDER REQUIRING RETURN OF GOLD TO TREASURER

Pursuant to the power conferred upon me by subsection (n) of Section 11 of the Federal Reserve Act, as amended by section 3 of the Act "To provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933, and finding this action necessary to protect the currency system of the United States, I, W. H. Woodin, Secretary of the Treasury, do hereby require all individuals, partnerships, associations and corporations owning any gold coin, gold bullion or gold certificates, now held within the continental limits of the United States, forthwith to pay over and deliver to the Treasurer of the United States, or to a Federal reserve bank as fiscal agent of the United States, all such gold coin, gold bullion and gold certificates.

Partnerships, individuals, associations and corporations, other than member banks of the Federal Reserve System, shall deliver such gold coin, gold bullion and gold certificates to a member bank, which shall pay therefor an equivalent amount of coin or currency of the United States other than gold. The member bank shall thereupon deliver such gold coin, gold bullion and gold certificates to the Treasurer of the United States or to the Federal reserve bank of its district and receive credit or payment for the amount of gold coin, gold bullion and gold certificates so delivered.

Member banks shall deliver all gold coin, gold bullion and gold certificates owned by them to the Treasurer of the United States or to the Federal reserve bank of their respective districts and receive credit or payment therefor as above provided.

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The Secretary of the Treasury shall pay all reasonable costs of transportation of such gold coin, etc. upon production of satisfactory evidence of such costs. Forms of vouchers for this purpose will be supplied to all member banks as soon as possible.

Any individual, partnership, association or corporation failing to comply with these requirements before 3 P.M. Eastern Standard Time, April 1, 1933, shall be subject to a penalty of twice the value of the gold coin, gold bullion or gold certificates involved: Provided, However, That a member bank receiving gold coin, gold bullion or gold certificates for the account of another individual, partnership, association or corporation shall have a reasonable time, not more than three days, after receipt thereof, to deliver such gold coin, gold bullion or gold certificates to its Federal reserve bank or to the Treasurer of the United States.

Any gold coin, gold bullion or gold certificates now in course of shipment to any individual, partnership, association or corporation in the United States, or which may be received by any individual, partnership, association or corporation after the date of this order shall be, as herein provided, delivered as soon as practicable, but in no event later than three days after receipt thereof, to a Federal reserve bank or to the Treasurer of the United States.

The provisions of this ~~regulation~~ order shall not apply to gold coins included in a bona fide numismatic collection, or to such amount of gold bullion as may be reasonably required for legitimate and customary use in trade, profession or art, or to gold coins in an amount not exceeding $100 heretofore owned by any one individual.

W. H. Woodin,
Secretary of the Treasury.

G.W.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 3, 1933.

To Mr. Wyatt

Subject:

From Mr. Hamlin

GPO 2—8495

Dear Mr. Wyatt:

How would this do:

The value of gold bullion thus turned in, shall be ascertained in the manner provided for under United States Revised Statutes, Sections 3521 and 3525, and shall be paid for in current funds (except gold and gold certificates) of equivalent face value of the bullion thus determined.

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Sec Bd

EXECUTIVE ORDER

Forbidding the Hoarding of Gold Coin, Gold Bullion and Gold Certificates.

By virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes," in which amendatory Act Congress declared that a serious emergency exists, I, Franklin D. Roosevelt, President of the United States of America, do declare that said national emergency still continues to exist and pursuant to said section do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations and corporations and hereby prescribe the following regulations for carrying out the purposes of this order:

Section 1. For the purposes of this regulation, the term "hoarding" means the withdrawal and withholding of gold coin, gold bullion or gold certificates from the recognized and customary channels of trade. The term "person" means any individual, partnership, association or corporation.

Section 2. All persons are hereby required to deliver on or before May 1, 1933, to a Federal reserve bank or a branch or agency thereof or to any member bank of the Federal Reserve System all gold coin, gold bullion and gold certificates now owned by them or coming into their ownership on or before April 28, 1933, except the following:

(a) Such amount of gold as may be required for legitimate and customary use in industry, profession or art within a reasonable time, including gold prior to refining and stocks of gold in reasonable amounts for the usual trade requirements of owners mining and refining such gold.

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(b) Gold coin and gold certificates in an amount not exceeding in the aggregate $100.00 belonging to any one person; and gold coins having a recognized special value to collectors of rare and unusual coins.

(c) Gold coin and bullion earmarked or held in trust for a recognized foreign government or foreign central bank or the Bank for International Settlements.

(d) Gold coin and bullion licensed for other proper transactions (not involving hoarding) including gold coin and bullion imported for reexport or held pending action on applications for export licenses.

Section 3. Until otherwise ordered any person becoming the owner of any gold coin, gold bullion, or gold certificates after April 28, 1933, shall, within three days after receipt thereof, deliver the same in the manner prescribed in Section 2; unless such gold coin, gold bullion or gold certificates are held for any of the purposes specified in paragraphs (a), (b) or (c) of Section 2; or unless such gold coin or gold bullion is held for purposes specified in paragraph (d) of Section 2 and the person holding it is, with respect to such gold coin or bullion, a licensee or applicant for license pending action thereon.

Section 4. Upon receipt of gold coin, gold bullion or gold certificates delivered to it in accordance with Sections 2 or 3, the Federal reserve bank or member bank will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States.

Section 5. Member banks shall deliver all gold coin, gold bullion and gold certificates owned or received by them (other than as exempted under the provisions of Section 2) to the Federal reserve banks of their respective districts and receive credit or payment therefor.

Section 6. The Secretary of the Treasury, out of the sum made available to the President by Section 501 of the Act of March 9, 1933, will in all proper cases pay the reasonable costs of transportation of gold coin, gold bullion or gold certificates delivered to a member bank or Federal reserve bank in accordance with Sections 2, 3, or 5 hereof, including the cost

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of insurance, protection, and such other incidental costs as may be necessary, upon production of satisfactory evidence of such costs. Voucher forms for this purpose may be procured from Federal reserve banks.

Section 7. In cases where the delivery of gold coin, gold bullion or gold certificates by the owners thereof within the time set forth above will involve extraordinary hardship or difficulty, the Secretary of the Treasury may, in his discretion, extend the time within which such delivery must be made. Applications for such extensions must be made in writing under oath, addressed to the Secretary of the Treasury and filed with a Federal reserve bank. Each application must state the date to which the extension is desired, the amount and location of the gold coin, gold bullion and gold certificates in respect of which such application is made and the facts showing extension to be necessary to avoid extraordinary hardship or difficulty.

Section 8. The Secretary of the Treasury is hereby authorized and empowered to issue such further regulations as he may deem necessary to carry out the purposes of this order and to issue licenses thereunder, through such officers or agencies as he may designate, including licenses permitting the Federal reserve banks and member banks of the Federal Reserve System, in return for an equivalent amount of other coin, currency or credit, to deliver, earmark or hold in trust gold coin and bullion to or for persons showing the need for the same for any of the purposes specified in paragraphs (a), (c) and (d) of Section 2 of these regulations.

Section 9. Whoever willfully violates any provision of this Executive Order or of these regulations or of any rule, regulation or license issued thereunder may 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,

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or agent of any corporation who knowingly participates in any such violation may be punished by a like fine, imprisonment, or both.

This order and these regulations may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE
April 5, 1933.

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WHEREAS, the Federal Reserve Board caused to be prepared a draft of an executive order requiring all persons having gold in their possession to deliver the same to the Treasurer of the United States or to a Federal reserve bank or member bank of the Federal Reserve System, and said order was given preliminary consideration by the Federal Reserve Board on March 12, 1933, and was considered by the officials of the Treasury Department between that date and March 17, 1933;

WHEREAS, a revised draft of said order was given careful consideration by the Federal Reserve Board on March 17, 1933, and subsequent revisions of said order were considered carefully by the Federal Reserve Board at meetings held on the mornings and afternoons of each day from March 20 to March 25, 1933, both dates inclusive; and also at certain meetings held at night during the same week;

WHEREAS, the Federal Reserve Board approved unanimously a final draft of said order on Friday, March 24, 1933, and approved a revision of said draft on March 25, 1933;

WHEREAS, during the Board's consideration of this proposed order its deliberations were delayed and prolonged by numerous different suggestions, many of a trivial character, submitted to it by representatives of the Federal Reserve Bank of New York;

WHEREAS, even after the Board had approved unanimously the draft of March 24, 1933, the Federal Reserve Bank of New York submitted further suggestions, including some which had been considered and rejected by the Board, and thus delayed for another day the submission of such order to the President;

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WHEREAS, on March 27, 1933, the Board was informed that the President desired certain changes made in the order in accordance with a suggestion which had previously been submitted to the Board by the Federal Reserve Bank of New York and rejected by the Board;

WHEREAS, on March 30, 1933, a compromise draft of the resolution was substantially agreed upon but the preparation of a final revision was further delayed by further suggestions submitted on behalf of the Federal Reserve Bank of New York;

WHEREAS, on March 30, 1933, it came to the attention of the Federal Reserve Board that certain officers of the Federal Reserve Bank of New York had expressed a desire to delay any decision upon the attitude of the American Government toward the use of gold, either domestically or internationally and toward the entire monetary policy of the United States, until the attitude of Great Britain toward a return to the gold standard could be ascertained;

NOW THEREFORE BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, That the Federal Reserve Bank of New York be requested to inform the Board what negotiations or conversations, if any, have taken place during the past sixty days between directors, officers, or other representatives of the Federal Reserve Bank of New York and representatives of the Bank of England or of the Government of Great Britain regarding the return of Great Britain to the gold standard.

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BE IT FURTHER RESOLVED, That the Chairman of the Board of Directors of the Federal Reserve Bank of New York be requested to furnish the Federal Reserve Board with copies of all letters, cablegrams, memoranda of telephone conversations and other documents in the possession of the Federal Reserve Bank of New York having a bearing upon the return of Great Britain to the gold standard.

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MEMORANDUM ON GOLD CLAUSE.

Three situations involving gold clauses call for immediate decision and action. Two involve Government obligations; one, private obligations,

(1) All United States bonds, notes and certificates of indebtedness are by statute and by their terms payable in gold coin "of the present standard of value." (See Note, Page 3)

At the same time the Thomas Amendment authorizes the President to reduce the present weight of the gold dollar by not more than 50%.

(2) There is at present no legislative authority for the Treasury to suspend gold payments of interest and principal on these obligations unless the power to prohibit hoarding can be so construed. No published Executive Order forbids such payments except by banks.

(3) Except where gold has been deposited since April 5, private obligors are not permitted to obtain gold for gold clause payments, even though failure to pay gold may be held to be a default. Furthermore, the status of new private security issues is uncertain.

TREASURY PROBLEMS.

(1) An offering of at least $800,000,000 of Treasury obligations must be announced on June 5th, and issued June 15th.

Existing statutes unless amended constitute a promise that obligations issued now will be payable in gold coin of the present standard of value whether or not the instrument contains this phrase.

This will be construed either as an undertaking that the power to devalue given on May 12, 1933, will not be exercised, or as a promise which the Government does not make in good faith. In the light of the Securities Bill such a promise would be indefensible.

(2) Unless new legislation regularizes the refusal to pay gold on maturing obligations litigation (such as mandamus suits) may and doubtless will produce an embarrassing and uncertain situation.

(3) The situation cannot be met by merely enabling new obligations to be payable in legal tender without creating a difference in value between the old and the new obligations and impairing or destroying the market for new obligations. Investors may even prefer private obligations with a gold clause to Government obligations payable in currency.

(4) Merely temporary suspension of gold payments will ~~not~~ solve the problem of the new obligations as stated in (1) above.

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(5) The only remaining course is to abrogate and forbid all gold clauses. This would solve all the difficulties and, under the circumstances, would run little danger of being declared unconstitutional. It would necessitate speedy legislation and might involve charges, particularly from abroad, of repudiation. The gold clauses repudiated were improvident and probably against sound public policy.

PROBLEM OF PRIVATE OBLIGORS.

The difficulty can only be met by defining clearly the status of the gold clause. They cannot now be performed. Yet if temporary suspension were regularized more problems would be created than solved. The solution, therefore, appears to be permanently to abrogate gold clauses. Such action would, in any event, appear unavoidable in case of devaluation.

RECOMMENDATIONS.

We recommend the enactment of the attached draft of bill which denounces the gold clauses of public and private obligations because

(1) It regularizes the present de facto situation as to both public and private debts.

(2) The burden, if any, in denouncing the gold clause has in large measure been already assumed.

(3) It avoids charges of bad faith in the making of future obligations and should strengthen rather than weaken confidence in the Administration.

(4) It avoids a commitment on the future value of the dollar. If currency redemption is resumed, the denunciation of the gold clauses has injured no one. If the dollar is devalued, as to which no commitment is made, the essential step of eliminating the gold clauses will already have been taken. The manner of presentation is important, however, in order to safeguard against the interpretation of the legislation as foreshadowing devaluation.

(5) It would greatly facilitate administration of the orders against hoarding.

(6) It would eliminate an existing uncertainty in business.

(7) It places old "gold clause" and new "legal tender" obligations on the same footing in respect of payment unless the legislation were not sustained - a contingency considered to be remote.

(8) It would eliminate a practice which is unnecessary when all forms of currency are maintained at a parity with the gold dollar, and which is unavoidable when they are not.

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(9) The disadvantages of the alternatives are as great or greater and the gains not comparable.

NOTE: "That any bonds and certificates of indebtedness of the United States hereafter issued shall be payable, principal and interest, in United States gold coin of the present standard of value; * * *" (The Act of February 4, 1910 (36 Stat. 192) (Sec. 768, Title 31, U.S. Code)

"The principal and interest thereof shall be payable in United States gold coin of the present standard of value." (Secs. 752, 753, Title 31, U.S.C.)

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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 creditor 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, interfere with 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 creditor 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.

(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 at the nominal amount thereof in full satisfaction of all debts, public and private, public charges, taxes, duties and dues except that (1) 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, (2) subsidiary silver coins shall be legal tender only in amounts not exceeding $10 in any one payment, and (3) minor coins shall be legal tender only in amounts not exceeding 25 cents in any one payment."

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AMENDMENT INTENDED TO BE PROPOSED TO THE BILL H.R. 5240.

Page 18, after line 8 insert the following new sections:

"Sec. 10 (a) Every provision contained in or made with respect to any obligation which purports to give the creditor 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.

"(b) As used in this section, 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. 11. 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:

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"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 at the nominal amount thereof in full satisfaction of all debts, public and private, public charges, taxes, duties and dues except that (1) 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, (2) subsidiary silver coins shall be legal tender only in amounts not exceeding $10 in any one payment, and (3) minor coins shall be legal tender only in amounts not exceeding 25 cents in any one payment.' "

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Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Sec Bk

Date June 10, 1933.

To Mr. Hamlin,

Subject:

From Mr. McClelland.

There is attached hereto, for your confidential information, copy of a telegram which was transmitted yesterday to Honorable W. K. Kellogg, Battle Creek, Michigan, regarding the situation which exists there.

Mr. Preston advises over the telephone that they will endeavor to close the negotiations for the organization of the new bank over this week-end.

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T E L E G R A M

RECONSTRUCTION FINANCE CORPORATION

Washington

June 9, 1933

Hon. W. K. Kellogg
Battle Creek, Michigan

We have just been informed by our representatives, Messrs. Stoddard and Preston, that you have again resumed leadership in the banking situation at Battle Creek. We are gratified at your action in again assuming this leadership which is so vital to the interests of the community which you have largely built and which means so much to you.

We urge now that under your leadership, you go forward with the plan heretofore proposed by you, as covered by your telephone conversation with Mr. Jones of last Friday which was to the effect that a new national bank would be formed with $4,000,000 new cash capital, which new bank would assume the deposits in full of the old Merchants National Bank and the City National Bank. The Reconstruction Finance Corporation, under this plan, would subscribe for $2,000,000 of preferred stock to bear dividends for the first five years at 5% and thereafter at 6%, and would lend you for three years, at a low rate of interest, $1,750,000 with which to buy that amount of second preferred stock, the remaining $250,000, representing common stock, to be subscribed by you or others there.

In addition to the above, the Federal Reserve is prepared to give the new bank its usual full credit accommodations and the Reconstruction Finance Corporation is prepared, in addition to such Reserve Bank action, to furnish the new bank such support as it may need in order to properly serve the people of Battle Creek and fully protect the depositors of the new bank.

We now urge that you assume the full leadership necessary and have the people of Battle Creek meet this emergency. You are a great philanthropist, and it is doubtful if you ever will have another opportunity to be as helpful to your friends and neighbors of life time.

The President joins in this request and want you, and the people of Battle Creek and Michigan to know that it is his purpose and the purpose of his Administration and of the agencies which we represent, to stand in the manner stated above, shoulder to shoulder with every community in the United States where similar emergencies may develop.

The banking situation throughout the country is rapidly becoming well stabilized, and another failure in Michigan, especially in a City whose citizens are able to avert it, would be extremely unfortunate.

WM. WOODIN, Secretary of the Treasury
E. R. BLACK, Governor, Federal Reserve Board
JESSE JONES, Chairman, Reconstruction Finance Corporation

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