

MINUTES OF MEETING OF THE
EXECUTIVE COMMITTEE
OF THE
FEDERAL ADVISORY COUNCIL.

1.

April 13, 1917.

A meeting of the Executive Committee of the Federal Advisory Council was held in Mr. J. P. Morgan's library in New York on Friday, April 13, 1917, at 10:30 A.M.

Present: Mr. L. L. Rue, Vice-President, presiding, Mr. J. P. Morgan, Mr. D. G. Wing and Mrs W. S. Rowe. Absent: Mr. J. B. Forgan because of illness.

Mr. Rue stated the purpose of the meeting was to consider the proposed Government bond issue and questions arising therefrom.

The Chair read a letter from Governor W. P. G. Harding, of the Federal Reserve Board, as follows:

FEDERAL RESERVE BOARD

Washington

April 12, 1917.

Mr. L. L. Rue,

New York

Dear Mr. Rue:-

The Board has no information regarding plans for Government financing other than that which has been given to the press. Possibly by the time the Council meets next week more definite information will be available, but it would be premature for the Board to suggest a discussion in detail, in the absence of information as to the amount of bonds to be placed at once, or the part that the Federal Reserve Banks will be expected to play.

It is suggested, therefore, that the Council discuss in general terms the present banking and investment situation in the country, and the effect of large bond flotations upon the banks' position. The Council might well suggest the maximum amount of bonds which could be floated at any one time without undue disturbance to the money market. It might also discuss the process of reabsorption by the market of the proceeds of bonds, and the functions of the Federal Reserve Banks in this connection. It might also discuss reasonable limitations of taxation, and the effect of excessive taxation upon the investment market and upon the industrial and transportation systems of this country.

Should the Council have time to discuss acceptances, it is suggested

that it should consider the advisability of having bankers' acceptances as far as possible discounted at institutions other than those accepting them.

The Board understands that it will meet the Council for a preliminary discussion at 10:30 A. M. next Tuesday, April 17th.

Very truly yours,

(Signed) W P G Harding

Governor.

The Committee after careful consideration prepared a memorandum on the subject of the proposed Government bond issue to be submitted to the Federal Advisory Council at a special meeting which had been called by the Vice-President on behalf of the Committee to be held in Washington on Tuesday, April 17, 1917. Mr. Rue's action in calling the special meeting of the Council was approved.

The memorandum is as follows:

"The success of the loan, and the success of the Administration's financial policy, depends on the question of taxation. It would be very desirable if the Committee's of Congress could announce that their desire is that taxation should be as widely distributed and as equally borne by all the people as may well be under the circumstances; and most particularly the taxation should be so framed as to absorb as little as possible the industrial funds or investable surplus of the country.

"To do this will require a vast amount of time and study. The Committee having provided by bond issues for the immediate necessities of the Government, request should be made for authority to continue its meetings through the summer, to employ such experts as may be found necessary from time to time in carrying on its work, and to report as early as possible in the autumn with a plan for taxation as carefully thoughtout as is possible.

"A taxation on expenditure, luxuries and such things should be the aim rather than a tax on thrift and enterprise.

RATE. The rate of interest to be borne by the loan should be such as to make the loan a desirable investment, and enable it to compete in the markets with other securities, both Governmental and industrial, and in our opinion, based on the best study we have been able to give to the subject, the bonds should be authorized at a rate not exceeding _____%.

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AMOUNT TO BE ISSUED AT ONE TIME. This should not exceed \$ _____ which would enable the Government to have prompt payment for the bonds as fast as issued.

FREQUENCY OF ISSUES. The next instalment should not be issued until called for by the Government requirements.

"In regard to the issue of Treasury Certificates, these certificates should be issued only to meet the temporary necessities of the Government and should be repaid out of the proceeds of the longtime bonds, and for this reason should be only in short maturities.

DISTRIBUTION OF PROCEEDS. It should be so arranged that the proceeds of the Government obligations of all kinds should be handled in such a manner that the funds shall not, even temporarily, be withdrawn from circulation."

The Executive Committee then adjourned.

Secretary.

MINUTES OF JOINT MEETING OF THE
FEDERAL RESERVE BOARD
AND
FEDERAL ADVISORY COUNCIL.

April 17, 1917.

A joint meeting of the Federal Reserve Board and the Federal Advisory Council was held, as arranged, in the Board room in the Treasury Department, Washington, D.C., on Tuesday, April 17, 1917, at 10:30 A.M.

Present: Governor W.P.G. Harding, in the Chair, Messrs. P. M. Warburg, Vice-Governor, C. S. Hamlin, J. S. Williams, A. C. Millar, F. A. Delano and H. Parker Willis, Secretary, of the Federal Reserve Board; and Messrs. L. L. Rue, Vice-President, D. G. Wing, J. P. Morgan, W. S. Rowe, C. A. Lyerly, J. W. Norwood, F. O. Watts, J. R. Mitchell, E. F. Swinney, T. J. Record, H. Fleishhacker, and Merritt H. Grim, Secretary, of the Federal Advisory Council.
Absent: Mr. J. B. Forgan, because of illness.

Governor Harding in calling the meeting to order expressed regret at the absence of Mr. Forgan.

Governor Harding laid before the Federal Advisory Council several matters of importance for discussion, viz:

The proposed Government bond issue and questions arising therefrom;

Advisability of having bankers acceptances discounted at other than the accepting banks.

The Amendments to the Federal Reserve Act proposed by the Federal Reserve Board, which he said are substantially the same as recommended by the Board at the previous session of congress, with an additional amendment relating to the admission of State banks and trust companies into the Federal Reserve system.

Governor Harding informed the Council that the Secretary of the Treasury, Hon. William G. McAdoo, would be pleased to confer unofficially with its members as individuals in reference to the proposed Government bond issue at his office at 12:15.

Mr. Rue then expressed the appreciation of the Council at having this opportunity of conferring with the members of the Board on such important questions, and the meeting was then thrown open to informal discussion in which members of both boards freely participated. In the discussion emphasis was laid by the members of the Council on the fact that taxation by the government would have a marked effect upon the success or failure of the proposed bond issue.

Governor Harding referred to a proposed bill of Senator Owen providing for a form of guaranteeing bank deposits and in that

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connection suggested that in some way a fund might be created, from the tax on circulation, to assist in liquidation of failed member banks. He asked the Council to consider the suggestion.

At 12:15 the joint session adjourned and those present proceeded to the office of the Secretary of the Treasury for an unofficial conference with him in accordance with his invitation.

Secretary.

A special meeting of the Federal Advisory Council called by the Executive Committee was held in the Board room in the Treasury Department, Washington, D.C., at 2:30 P. M. April 17, 1917.

Present:

Messrs. D. G. Wing, Representing District No. 1.
 J. P. Morgan, " " " " No. 2.
 L. L. Rue, " " " " No. 3.
 W. S. Rowe, " " " " No. 4.
 J. W. Norwood, " " " " No. 5.
 C. A. Lyerly, " " " " No. 6.
 F. O. Watts, " " " " No. 8.
 J. R. Mitchell, " " " " No. 9.
 E. F. Swinney, " " " " No. 10.
 T. J. Record, " " " " No. 11.
 H. Fleishhacker, " " " " No. 12.

Herritt H. Grim, Secretary.

Absent: Mr. Forgan because of illness.

The Vice-President, Mr. Rue, called the meeting to order, stating that the President, Mr. Forgan, was prevented by illness from being present; that he had telegraphed him the nature of the business to be considered by the Council and has received a letter from him, which he read to the meeting.

On motion Mr. Forgan's letter was made a part of the minutes of the meeting. It is as follows:

Grove Park Inn, Asheville, N. C.
 April 15th, 1917.

"Mr. L. L. Rue, Esq.,
 The New Willard Hotel,
 Washington, D. C.

Dear Mr. Rue:-

"I have your telegram calling a special meeting of the Federal Advisory Council at Washington on Tuesday next. I very much regret my inability to be present. My recent illness has left me very much reduced in strength and my recovery is very tedious.

"I have been so long out of touch with affairs that I hardly feel competent to express an opinion as to the effect of so large a flotation of Government bonds as is proposed. A few ideas have occurred to me which I will state for what they may be worth.

"I have seen it stated in the press that the Federal reserve banks are to finance the large Government issues. This must be a loose statement of the more reasonable proposition that the Federal reserve banks should act as fiscal agents of the Government in

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connection with such issues. The Federal Reserve Banks have already had placed upon them all the obligations for investing in Government bonds that, in view of the nature of their deposits, they should be called upon or expected to assume.

"These obligations, the purchase of 2% bonds to be refunded into thirty year 3% bonds - will be more onerous than they have been, in view of the War issues at 3 1/2 %. In justice to the Federal Reserve Banks and those who have already purchased the thirty year 3% conversion bonds from them, these bonds should be converted into 3 1/2 % to place them on an equality with the War issues.

"I think it would be inadvisable to offer the whole authorized issue for subscription at once. Not more than can reasonably be expected to be fully subscribed for should be issued and from this standpoint I think to offer them by instalments not exceeding \$1,000,000,000 at a time will be advisable.

"The object should be to get them as soon and as directly as possible into the hands of the permanent investors. The banks and bond houses will doubtless lend their facilities for this purpose. Banks themselves should not tie up their funds in them to too great an extent. The rate offers no inducement for their doing so and the liquidity of their position should not be jeopardized by carrying too heavy a load of them.

"I believe a very large amount of them will promptly find their way into the hands of permanent investors. This will however cause considerable dislocation of bank deposits and the Government should arrange to leave on deposit with the banks until it actually needs the funds, practically the amount of subscriptions received by each. They are likely to receive subscriptions from their own depositors and such an arrangement would ease matters along.

"The situation of the Federal Reserve Banks as to their reserves would be seriously complicated if as fiscal agents of the Government they should retain on deposit the entire amount received on account of these enormous issues and the situation of the member banks would also be seriously affected.

"These are just a few off hand suggestions but as already stated I feel so much out of touch with the situation and have had so little time to think about the proposition, that I hardly feel competent to offer advice. I have no doubt the Council after deliberation will have some practical advice to offer and it is a great disappointment to me not to be able to be present at such an important meeting.

"With kind regards to each member of the Council, I am,
Very truly yours,"

(Signed)

Jas. B. Forgan.

April 17, 1917.

The Vice-President, Mr. Rue, suggested that the Council should send a telegram to Mr. Forgan expressing regret at his illness and consequent absence and also thanking him for his letter. On motion of Mr. Morgan the suggestion was approved. The Chair requested Mr. Morgan to prepare such a telegram, which was also ordered made a part of the minutes and which is as follows:

"April 17, 1917.

"Mr. James B. Forgan,
Grove Park Inn,
Asheville, N. C.

"Federal Advisory Council all wish you assured of their regret at your absence and particularly for the cause of that absence. Also Council wishes to thank you for your letter which is of great use in their deliberations.

"Federal Advisory Council
L. L. Rue, Vice-President."

The Vice-President read a letter from Governor W. P. G. Harding of the Federal Reserve Board. (See minutes of Executive Committee in New York April 13, 1917.)

After discussion it was decided that the Council should ~~formulate~~ in addition to its regular report to the Federal Reserve Board on the proposed Government bond issue also make separate reports to the Secretary of the Treasury giving the individual views of the members on the subject in accordance with the Secretary's request.

It was ordered that the Executive Committee should formulate a report embodying the views of the Council as expressed on the various subjects before the meeting.

By unanimous consent the question suggested in Governor Harding's letter as to the advisability of having bankers acceptances discounted by other than the accepting banks was postponed until the next meeting of the Council.

The so-called Hayes' bill, a copy of which is made a part of these minutes, was read to the meeting by the Chair and referred to the Executive Committee to prepare the Council's opinion in reference thereto.

House Bill, H R 2762, authorizing the government to issue \$5,000,000,000 of bonds bearing $3\frac{1}{2}\%$ and \$2,000,000,000 of certificates of indebtedness bearing not to exceed $3\frac{1}{2}\%$ was read to the meeting. (Copy of said bill is made a part of these minutes.)

The members then freely discussed all the questions

[Report No. 8.]

IN THE SENATE OF THE UNITED STATES.

APRIL 16, 1917.

Read twice and referred to the Committee on Finance.

APRIL 16, 1917.

Reported by Mr. SIMMONS with amendments

AN ACT

To authorize an issue of bonds to meet expenditures for the national security and defense, and to extend credit to foreign governments, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Secretary of the Treasury, with the approval of
4 the President, is hereby authorized to borrow, from time to
5 time, on the credit of the United States for the purposes of
6 this Act, and to meet expenditures authorized for the national
7 security and defense and other public purposes authorized
8 by law not exceeding in the aggregate \$5,000,000,000,
9 exclusive of the sums authorized by section four of this Act,
10 and to issue therefor bonds of the United States.

11 The bonds herein authorized shall be in such form and
12 subject to such terms and conditions of issue, conversion, re-

1 demption, maturities, payment, and rate and time of pay-
2 ment of interest, not exceeding three and one-half per centum
3 per annum, as the Secretary of the Treasury may prescribe.
4 The principal and interest thereof shall be payable in United
5 States gold coin of the present standard of value and shall
6 be exempt, both as to principal and interest, from all taxa-
7 tion imposed by authority of the United States, or its pos-
8 sessions, or by authority of any State, except estate or in-
9 heritance taxes; but such bonds shall not bear the circula-
10 tion privilege.

11 The bonds herein authorized shall first be offered at not
12 less than par as a popular loan, under such regulations pre-
13 scribed by the Secretary of the Treasury as will give all citi-
14 zens of the United States an equal opportunity to participate
15 therein; and any portion of the bonds so offered and not sub-
16 scribed for may be otherwise disposed of at not less than
17 par by the Secretary of the Treasury; but no commissions
18 shall be allowed or paid on any bonds issued under authority
19 of this Act.

20 SEC. 2. That for the purpose of more effectually pro-
21 viding for the national security and defense and prosecuting
22 the war by establishing credits in the United States for for-
23 eign governments, the Secretary of the Treasury, with the
24 approval of the President, is hereby authorized, on behalf of
25 the United States, to purchase, at par, from such foreign

1 governments then engaged in war with the enemies of the
2 United States, their obligations hereafter issued, bearing the
3 same rate of interest and containing in their essentials the
4 same terms and conditions as those of the United States
5 issued under authority of this Act; to enter into such ar-
6 rangements as may be necessary or desirable for establishing
7 such credits and for purchasing such obligations of foreign
8 governments and for the subsequent payment thereof before
9 maturity, but such arrangements shall provide that if any
10 of the bonds of the United States issued and used for the
11 purchase of such foreign obligations shall thereafter be con-
12 verted into other bonds of the United States bearing a
13 higher rate of interest than three and one-half per centum
14 per annum under the provisions of section five of this Act,
15 then and in that event the obligations of such foreign gov-
16 ernments held by the United States shall be, by such foreign
17 governments, converted in like manner and extent into obli-
18 gations bearing the same rate of interest as the bonds of the
19 United States issued under the provisions of section five of
20 this Act. For the purposes of this section there is appro-
21 priated, out of any money in the Treasury not otherwise
22 appropriated, the sum of \$3,000,000,000, or so much thereof
23 as may be necessary: *Provided*, That the authority granted
24 by this section to the Secretary of the Treasury to purchase
25 bonds from foreign governments, as aforesaid, shall cease

1 upon the termination of the war between the United States
2 and the Imperial German Government.

3 SEC. 3. That the Secretary of the Treasury, under
4 such terms and conditions as he may prescribe, is hereby
5 authorized to receive on or before maturity payment for
6 any obligations of such foreign governments purchased on
7 behalf of the United States, and to sell at not less than the
8 purchase price any of such obligations and to apply the pro-
9 ceeds thereof, and any payments made by foreign govern-
10 ments on account of their said obligations to the redemption or
11 purchase at not more than par and accrued interest of any
12 bonds of the United States issued under authority of this
13 Act; and if such bonds are not available for this purpose the
14 Secretary of the Treasury shall redeem or purchase any
15 other outstanding interest-bearing obligations of the United
16 States which may at such time be subject to call or which
17 may be purchased at not more than par and accrued interest.

18 SEC. 4. That the Secretary of the Treasury, in his
19 discretion, is hereby authorized to issue the bonds not already
20 issued heretofore authorized by section thirty-nine of the
21 Act approved August fifth, nineteen hundred and nine,
22 entitled "An Act to provide revenue, equalize duties, and
23 encourage the industries of the United States, and for other
24 purposes"; section one hundred and twenty-four of the
25 Act approved June third, nineteen hundred and sixteen,

1 entitled "An Act for making further and more effectual
2 provision for the national defense, and for other purposes";
3 section thirteen of the Act of September seventh, nineteen
4 hundred and sixteen, entitled "An Act to establish a United
5 States shipping board for the purpose of encouraging,
6 developing, and creating a naval auxiliary and a naval
7 reserve and a merchant marine to meet the requirements
8 of the commerce of the United States with its Territories
9 and possessions and with foreign countries, to regulate car-
10 riers by water engaged in the foreign and interstate com-
11 merce of the United States, and for other purposes"; sec-
12 tion four hundred of the Act approved March third, nine-
13 teen hundred and seventeen, entitled "An Act to provide
14 increased revenue to defray the expenses of the increased
15 appropriations for the Army and Navy and the extensions
16 of fortifications, and for other purposes"; and the public
17 resolution approved March fourth, nineteen hundred and
18 seventeen, entitled "Joint resolution to expedite the de-
19 livery of materials, equipment, and munitions and to secure
20 more expeditious construction of ships," in the manner and
21 under the terms and conditions prescribed in section one
22 of this Act.

23 That the Secretary of the Treasury is hereby author-
24 ized to borrow on the credit of the United States from time
25 to time, in addition to the sum authorized in section one of

1 this Act, such additional amount, not exceeding \$63,945,460
2 as may be necessary to redeem the three per cent loan of
3 nineteen hundred and eight to nineteen hundred and eight-
4 een, maturing August first, nineteen hundred and eighteen,
5 and to issue therefor bonds of the United States in the man-
6 ner and under the terms and conditions prescribed in sec-
7 tion one of this Act.

8 SEC. 5. That any series of bonds issued under authority
9 of sections one and four of this Act may, under such terms
10 and conditions as the Secretary of the Treasury may pre-
11 scribe, be convertible into bonds bearing a higher rate of
12 interest than the rate at which the same were issued if any
13 subsequent series of bonds shall be issued at a higher rate of
14 interest on or before December thirty-first, nineteen hundred
15 and eighteen.

16 SEC. 6. That in addition to the bonds authorized by sec-
17 tions one and four of this Act, the Secretary of the Treasury
18 is authorized to borrow from time to time, on the credit of
19 the United States, for the purposes of this Act and to meet
20 public expenditures authorized by law, such sum or sums as,
21 in his judgment, may be necessary, and to issue therefor cer-
22 tificates of indebtedness at not less than par in such form
23 and subject to such terms and conditions and at such rate of
24 interest, not exceeding three and one-half per centum per
25 annum, as he may prescribe; and each certificate so issued
26 shall be payable, with the interest accrued thereon, at such

1 time, not exceeding one year from the date of its issue, as
2 the Secretary of the Treasury may prescribe. Certificates of
3 indebtedness herein authorized shall not bear the circulation
4 privilege, and the sum of such certificates outstanding shall
5 at no time exceed in the aggregate \$2,000,000,000, and
6 such certificates shall be exempt, both as to principal and
7 interest, from all taxation imposed by authority of the United
8 States, or its possessions, or by authority of any State, except
9 estate or inheritance taxes.

10 *SEC. 7. That the Secretary of the Treasury, in his dis-*
11 *cretion, is hereby authorized to deposit in non-member as well*
12 *as in member banks of the Federal Reserve System and in*
13 *trust companies, the proceeds of any part thereof arising from*
14 *the sale of the bonds and certificates of indebtedness authorized*
15 *by this Act, and such deposits may bear such rate of interest*
16 *and be subject to such terms and conditions as the Secretary*
17 *of the Treasury may prescribe.*

18 *SEC. 7 8. That in order to pay all necessary expenses,*
19 *including rent, connected with any operations under this Act,*
20 *a sum not exceeding one-tenth of one per centum of the*
21 *amount of bonds and one-tenth of one per centum of the*
22 *amount of certificates of indebtedness herein authorized is*
23 *hereby appropriated, or as much thereof as may be neces-*
24 *sary, out of any money in the Treasury not otherwise*
25 *appropriated, to be expended as the Secretary of the Treas-*
26 *ury may direct.*

Amend the title so as to read: "An Act to authorize an issue of bonds to meet expenditures for the national security and defense, and for the purpose of assisting in the prosecution of the war, to extend credit to foreign governments, and for other purposes."

Passed the House of Representatives April 14, 1917.

Attest:

SOUTH TRIMBLE,

Clerk.

60TH CONGRESS,
1ST SESSION.

CALENDAR NO. 10.
H. R. 2762.
[Report No. 8.]

AN ACT

To authorize an issue of bonds to meet expenditures for the national security and defense, and to extend credit to foreign governments, and for other purposes.

APRIL 16, 1917.—Read twice and referred to the Committee on Finance.

APRIL 16, 1917.—Reported with amendments.

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arising out of the proposed government bond issue authorized in the above bill, also the question of taxation to be imposed by the government for war purposes and on motion the Executive Committee was requested to formulate in their report the views expressed. The memorandum prepared by the Executive Committee was read to the Council. (See minutes of Executive Committee April 13, 1917.)

The Council adjourned until 10 A. M. April 18, 1917.

Secretary.

MINUTES OF MEETING OF THE
EXECUTIVE COMMITTEE
OF THE FEDERAL ADVISORY COUNCIL. April 17, 1917.

A meeting of the Executive Committee of the Federal Advisory Council was held in the Shoreham Hotel, Washington, at P. M. April 17, 1917.

Present: Messrs. L. L. Rue, in the chair, D. G. Wing, J. P. Morgan, W. S. Rowe, and Merritt H. Grim, Secretary.

After due consideration the Committee prepared tentative recommendations to be submitted to the Federal Advisory Council.

The meeting then adjourned.

Secretary.

Minutes of meeting of

The Federal Advisory Council.

April 18, 1917

The Federal Advisory Council met at 10 A M in the Board room as arranged.

Present:

Messrs. L. L. Rue, Vice-President, in the chair, D G Wing, J. P. Morgan, W S Rowe, C A Lyerly, J. W. Norwood, F O Watts, J R Mitchell, E F Swinney, T J Record, H Flashhacker, and Merritt H Grim, Secretary.

The Vice-President placed before the meeting the recommendations of the Executive Committee which were carefully considered.

On motion the following recommendations were unanimously adopted and ordered submitted to the Federal Reserve Board by the Vice-President:

"TOPIC NO. 1. The Hayes' bill. Suggested by Governor Harding
Recommendation:

The Council is of opinion that the Hayes' bill ought not at the present time be pressed as it seems to it inopportune to introduce any measure of a coercive character, when the cooperation of all the state banks and trust companies is so much needed to assist in carrying out the financial program of the government.

TOPIC NO. 2. The proposed government bond issue. (Governor Hardings letter of April 12, 1917.)

Recommendation:

The Council believes that the first offering of long time bonds should be \$1,000,000,000, if that amount should be adequate to meet the immediate necessities of the government, in order that, first: a successful flotation may be assured, and, second: the amount may not be materially in excess of short certificates which may be issued in anticipation of such issue, thus avoiding the tying up of either money or bank credits for any length of time. If handled in this manner, successive offerings being made as required by the government, the entire bond financing could be done through the Federal reserve banks as fiscal agents for the Treasury and serious disturbance of bank balances avoided. This method coupled with a careful use of short certificates would in our opinion obviate the necessity for a general deposit of government funds in the banks of the country. In our opinion the bonds should be payable in thirty years, callable after five years.

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TOPIC NO. 3. Taxation.

Recommendation:

In the matter of the taxation as suggested by the Secretary of the Treasury the sense of this Council is ---

1st. That the proportion of war cost for the first year to be provided by taxes, viz., 50 %, would impose too great a strain upon industry and the investable surplus of the country; the proportion should not exceed 25 % for the first year.

2nd. That to impose a surplus profits tax and an additional income tax on the incomes of the calendar year 1916 would, besides being unjust, put an excessive burden upon corporations and upon individuals, who having provided for the taxes of that year and having thereby discharged their tax obligation to the government have disposed of the balance of their profits by placing them either in permanent improvements or fixed investments.

3rd. That since the government is about to make huge demands upon the investable surplus of the country it would be most advisable so to frame the tax measures that large incomes from which is derived the greater part of that fund should not be taxed in an undue proportion. In this way industry may continue to finance itself and at the same time the government obtain the needed funds with the least possible disturbance of business.

4th. It is most desirable that the taxes to be levied should be upon luxuries and as little as possible upon thrift, enterprise and savings.

It was decided to take up the further consideration of the amendments to the Federal Reserve Act proposed by the Federal Reserve Board at the afternoon meeting.

The Council then adjourned until 2:30 P M owing to the arrival of the members of the Federal Reserve Board.

Secretary

Minutes of Joint Meeting
of the
Federal Reserve Board
and the
Federal Advisory Council.

April 18, 1917

A joint session with the Federal Reserve Board was held in the Board room at 11:15 A .M. April 18, 1917.

Present: Governor W P G Harding, in the chair, Vice-Governor P M Warburg, Messrs. F. A Delano, A C Miller, J S Williams, and H Parker Willis, Secretary, of the Federal Reserve Board; also Messrs. L. L. Rue, Vice-President, D G Wing, J P Morgan, W S Rowe, Chas A Lyerly, J W Norwood, F O Watts, J R Mitchell, E F Swinney, T J Record, H Fleishhacker, and Merritt H Grim, Secretary, of the Federal Advisory Council.

Governor Harding called on Mr. Rue, Vice-President of the Federal Advisory Council, to read the recommendations of the Council.

Mr. Rue read the recommendations prepared by the Council. (See minutes of Council this date).

Mr. Rue informed the Federal Reserve Board that its proposed amendments to the Federal Reserve Act would be taken up at the afternoon session of the Council and reported on later.

Mr. Rue also informed the Board that the Council had considered the suggestion made verbally by Governor Harding for the providing of a fund by tax on circulation with which to assist the liquidation of failed banks, but as no definite plan was submitted to the Council it could only stated that while it believed a satisfactory plan might be devised to afford relief to the depositors of failed banks the Council was strongly opposed to the guaranteeing of bank deposits in any form.

Governor Harding then asked the Council to consider the Owen bill, S 9., and the Williams' bill, S. 742, and report.

The Governor then asked the Boards to discuss informally the proposed issue of government bonds. The genetlmen of both boards freely expressed their views on the various phases of this important subject. Governor Harding then asked each member of the Council to express his individual views as to the amount of bonds which could be successfully floated in one offering. The consensus of opinion was that one billion dollars of bonds could be without doubt successfully floated, and that an issue of two billion dollars of bonds might be sold in one offering if the public was assured that

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government taxation would not be too heavy and would not be made retroactive. The members of the Council were unanimously of the opinion that a retroactive tax as has been suggested would seriously interfere with the success of the bond issue.

The joint session adjourned.

Secretary

Minutes of meeting of
The Federal Advisory Council. April 18, 1917

The Federal Advisory Council reconvened at 2:30 P M.
The Vice-President in the chair.

The Vice-President requested the Council to decide whether the regular statutory meeting should be held on the third Tuesday in May in view of this special meeting. On motion of Mr. Morgan it was resolved that when the Council adjourns it adjourn subject to the call of the President or Vice-President and failing such call the next meeting of the Council to be at the stated time in September.

The Vice-President laid before the meeting the amendments to the Federal Reserve Act as proposed by the Federal Reserve Board, contained in a bill, a copy of which is made a part of these minutes. All of the amendments were read and carefully considered after which on motion of Mr. Watts the following resolution was unanimously adopted:

"Resolved that the Vice-President of this Council be requested to report to the Federal Reserve Board that the Council has carefully considered the proposed amendments as presented to it by the Federal Reserve Board and that in view of changed conditions it revises its previous recommendations made in January (and formally approved at the Council meeting in February) and approves of the Board's proposed amendments to the Federal Reserve Act with the exception of that to Section 22. The Council would again submit to the Board its recommendation and proposed amendment to Section 22 as follows:

" ' The Council would recommend that the proposed addition to Section 22, commencing with 'Provided, however, That nothing in this Act contained' should be amended as follows:

" " Provided, however, that nothing in this Act contained shall be construed to prohibit a director, officer, or employee from receiving the same rate of interest paid to other depositors for similar deposits made with ~~the~~ such bank; or to prohibit a director who is not an officer or employee from receiving, directly or indirectly, the usual and customary commissions or fees for services rendered in buying and selling securities or other investments for or on account of such bank, but each such transaction must be recorded in the minutes of the meeting of said Board, such minutes to specify the name of the director and the firm or corporation with which he is connected if any, through which such order is executed together with the amount of the fee or commission paid on each transactions; and, provided, further, that notes, drafts, bills of exchange, or other evidences of debt, executed or indorsed by directors of a member bank may be discounted with such member bank on the same terms and conditions as other notes, drafts, bills of exchange or evidences of debt. " "

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ment an affirmative vote or written assent of at least three-fourths of the members of the board is an unnecessary restriction in connection with such services by a director as the buying and selling of securities and inasmuch as notes, drafts, bills of exchange or other evidences of debt executed or indorsed by bank directors are as a rule the very best of their class, the placing of special restrictions on the discounting of such instruments for directors would only unnecessarily and unwarrantably impede legitimate business or force it into other banks.' " "

By unanimous consent the action taken previously at this session of the Council concerning a portion of the bill containing the Federal Reserve Board's amendments to the Federal Reserve Act was ordered stricken from the minutes in view of the adoption of the above resolution.

The Vice-President then laid before the Council Bills S. 9 introduced in congress by Senator Owen, and S. 742 introduced by Senator Williams, upon which Governor Harding had asked the Council's opinion. Both bills were read for the information of the Council and after due consideration motion of Mr. Watts, seconded by Mr. Mitchell, the following recommendation was unanimously adopted:

"The Council has considered Bills S. 9 and S. 742 at the request of the Federal Reserve Board and begs to report that in its opinion any legislation providing for the guaranteeing of deposits or the establishment of a fund for the insurance of deposits is undesirable. A plan might however be devised by the Federal Reserve Board which would provide for prompt relief to be given depositors of failed banks. The Council does not approve of legislation regulating the ratio of deposits to capital as proposed in Section 10 of S. 742. "

The Council having no further business to consider adjourned until September subject to call of the President or Vice-President.

Secretary.

RECOMMENDATIONS BY THE FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD

April 18, 1917

TOPIC NO. 1.—The Hayes' Bill

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF
THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED,

"That every bank, banking association, and trust company authorized by the laws of the United States or of any State to receive money on deposit subject to check shall pay an annual tax of one-tenth of one per cent on the aggregate amount of checks paid by it during each fiscal year which bear the indorsement of or which are collected through any other bank, banking association, trust company, or private banker located outside of the State in which such checks are made payable, and every bank, banking association, and trust company shall make a return at the end of each quarterly period to the Collector of Internal Revenue showing the aggregate amount of such checks paid during that quarter, such return being verified by the oath of at least two of its officers, PROVIDED, however, That this tax shall not apply to any Federal reserve bank or member bank of any Federal reserve bank, or to any non-member bank or trust company which carries and maintains a collection or exchange account with any Federal reserve bank under authority of Section 2 of this Act.

"Section 2. Any Federal reserve bank, solely for the purpose of exchange or of collection, may receive from any non-member bank or trust company deposits of current funds in lawful money, national bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: Provided, such non-member bank or trust company maintains with the Federal reserve bank of its district, under such rules and regulations as the Federal Reserve Board may prescribe, a balance in an amount to be determined by such Board, but in no event to exceed the amount of reserves which it would be required to maintain with its Federal reserve bank if it were a member bank, and, Provided, further, That such non-member bank or trust company agrees to comply with the provisions of law and the regulations of the Federal Reserve Board relating to the collection or clearance of checks, drafts, notes, and bills through Federal reserve banks."

Recommendation:—

The Council is of opinion that the Hayes' bill ought not at the present time to be pressed as it seems to be inopportune to introduce any measure of a coercive character, when the co-operation of all the state banks and trust companies is so much needed to assist in carrying out the financial program of the government.

TOPIC NO. 2.—The proposed government bond issue.

Recommendation:—

The Council believes that the first offering of long time bonds should be \$1,000,000,000, if that amount should be adequate to meet the immediate necessities of the government, in order that, first: a successful flotation may be assured, and, second: the amount may not be materially in excess of short certificates which may be issued in anticipation of such issue, thus avoiding the tying up of either money or bank credits for any length of time. If handled in this manner, successive offerings being made as required by the government, the entire bond financing could be done through the Federal Reserve Banks as fiscal agents for the Treasury and serious disturbance of bank balances avoided. This method coupled with a careful use of short certificates would in our opinion obviate the necessity for a general deposit of government funds in the banks of the country. In our opinion the bonds should be payable in thirty years, callable after five years.

TOPIC NO. 3.—Taxation.

Recommendation:—

In the matter of the taxation as suggested by the Secretary of the Treasury the sense of this Council is—

1st. That the proportion of war cost for the first year to be provided by taxes, viz., 50 per cent, would impose too great a strain upon industry and the investable surplus of the country; the proportion should not exceed 25 per cent for the first year.

2nd. That to impose a surplus profits tax and an additional income tax on the incomes of the calendar year 1916 would, besides being unjust, put an excessive burden upon corporations and upon individuals, who having provided for the taxes of that year and having thereby discharged their tax obligation to the government have disposed of the balance of their profits by placing them either in permanent improvements or fixed investments.

3rd. That since the government is about to make huge demands upon the investable surplus of the country it would be most advisable so to frame the tax measures that large incomes from which is derived the greater part of that fund should not be taxed in an undue proportion. In this way industry may continue to finance itself and at the same time the government obtain the needed funds with the least possible disturbance of business.

4th. It is most desirable that the taxes to be levied should be upon luxuries and as little as possible upon thrift, enterprise and savings.



TOPIC NO. 4.—Amendments to the Federal Reserve Act as proposed by the Federal Reserve Board.

A BILL

To amend the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve Act, as amended by the Acts of August fourth, nineteen hundred and fourteen; August fifteenth, nineteen hundred and fourteen; March third, nineteen hundred and fifteen; and September seventh, nineteen hundred and sixteen.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section four of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve Act, be amended by striking out the sentence reading as follows: "One of the directors of Class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent, to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal," and by adding in place thereof the following:

"Subject to the approval of the Federal Reserve Board each Federal reserve agent shall appoint such assistants, clerks, and other employees as may be deemed necessary to properly conduct the business of his office. Under regulations of the board the Federal reserve agent shall prescribe the duties of such employees, fix their compensation, and for his protection may require bonds of those whose duties make this necessary or advisable. He may, with the approval of the Federal Reserve Board, designate one of his assistants as acting Federal reserve agent in the absence or disability of the Federal reserve agent, and, under rules and regulations of the Federal Reserve Board, may delegate to such acting Federal reserve agent such powers and duties as the circumstances may require; and the assistant so designated shall, while acting as Federal reserve agent, assume full responsibility for all acts performed by him. The Federal Reserve Board may require such bond of the acting Federal reserve agent as it may deem necessary.

"One of the directors of Class C shall be appointed by the Federal Reserve Board as vice chairman to exercise the powers of the chairman of the board in his absence or disability. In the absence of the chairman and vice chairman the third class C director shall preside at the meetings of the board and perform the duties of chairman."

Sec. 2 That section nine of the Federal reserve Act be amended and reenacted to read as follows:

"Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal reserve system, may make application to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, acting under such rules and regulations as it may prescribe, subject to the provisions of this Act, may permit the applying bank to become a stockholder of such Federal reserve bank.

"In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this Act.

"Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Federal Reserve Board and stock issued to it shall be held subject to the provisions of this Act.

"All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this Act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relate to the payment of earned dividends. Such banks and their officers, agents, or employees thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the Revised Statutes, and shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of \$100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal reserve bank by suit, or otherwise.

"As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board.

"Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: Provided, however, That when it deems it necessary the board may order special examinations by examiners of its own selection and shall in all cases approve the form of report submitted. The expenses of all examinations, other than those made by State authorities, shall be assessed against and paid by the banks examined in the same manner and at the same rate that national banks are assessed for such expenses.

"If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

"Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Federal Reserve Board, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: Provided, however That no Federal reserve bank shall, except under express authority of the Federal Reserve Board, cancel within the same calendar year more than ten per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year.

"All applications shall be dealt with in the order in which they are filed with the board.

"Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of this section, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

"No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national bank Act.

"Banks becoming members of the Federal reserve system under authority of this section shall be subject to the provisions of this section and to those of this Act which relate specifically to member banks. Subject to these provisions and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal reserve

system shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all the privileges of member banks: Provided, however, That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company, but the discount of bills of exchange drawn against actually existing value shall not be considered as borrowed money within the meaning of this Act. The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guarantee to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank.

"It shall be unlawful for any officer, clerk, or agent of any bank admitted to membership under authority of this section to certify any check drawn upon the association unless the person or company drawing the check has on deposit with the association at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against the association, but the act of any officer, clerk, or agent of any association in violation of this section shall subject such bank to a forfeiture of its membership in the Federal reserve system upon hearing by the Federal Reserve Board."

Sec. 3. That the first paragraph of section thirteen be amended so as to read as follows:

"Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any non-member bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: Provided, That such non-member bank or trust company maintains with the Federal reserve bank of its district a balance in an amount to be determined by the Federal Reserve Board under such rules and regulations as it may prescribe, but the Federal Reserve Board shall in no case require a non-member bank to maintain a balance in excess of the amount it would be required to carry as reserve with its Federal reserve bank as a member bank."

Sec. 4. That the fifth paragraph of section thirteen be, and is hereby, amended further so as to read as follows:

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: Provided, however That the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: Provided, further, That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus."

Sec. 5. That section sixteen, paragraphs two, three, four, five, six and seven, be amended and reenacted so as to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances rediscounted under the provisions of section thirteen of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section fourteen of this Act, or bankers' acceptances purchased under the provisions of said section fourteen,

or gold or gold certificates. The Federal Reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

“Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation: **Provided, however, That when the Federal reserve agent holds gold or gold certificates as collateral for Federal reserve notes issued to the bank the reserve that such bank is required to maintain against its Federal reserve notes in actual circulation shall be reduced in a corresponding amount, and not offset by gold or lawful money deposited with the Federal reserve agent.** Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued, or, upon direction of such Federal reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money, or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve banks shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasurer, otherwise than for redemption, may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

“The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less the amount of gold or gold certificates held by the Federal reserve agent as collateral security; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required and shall be counted and considered as if collateral security deposited with the Federal reserve agent. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the bank so applying, and such bank shall be charged with the amount of such notes issued to it and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board and the amount of on only that amount of such notes which equals the total amount of its outstanding Federal reserve notes less the amount of gold or gold certificates held by the Federal reserve agent as collateral security. Such Federal reserve notes so issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing with the Federal reserve agent its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury Treasurer of the United States so much of the gold held by him as collateral security for Federal reserve notes as may be required for the exclusive purpose of the redemption of such notes Federal reserve notes.

“Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it issued to it and shall at the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by

the Federal Reserve Board. Any Federal reserve bank may retire any of its Federal reserve notes by depositing them with the Federal reserve agent or with the Treasurer of the United States, and such Federal reserve bank shall thereupon be entitled to receive back the collateral deposited with the Federal reserve agent for the security of such notes. Federal reserve banks shall not be required to maintain the reserve or the redemption fund, heretofore provided for against Federal reserve notes which have been retired; nor shall they be further liable to pay any interest charge which may have been imposed thereon by the Federal Reserve Board. Federal reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue.

"All Federal reserve notes and all gold, gold certificates, and lawful money issued to or deposited with any Federal reserve agent under the provisions of the Federal reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal reserve agent from depositing gold or gold certificates with the Federal Reserve Board to be held by such board subject to his order or with the Treasurer of the United States for the purposes authorized by law."

Sec. 6. That section sixteen be further amended by adding at the end of the section the following:

"That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal reserve bank or Federal reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal reserve bank or Federal reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be subject to the orders of the Federal Reserve Board and shall be payable in gold coin or gold certificates on the order of the Federal reserve Board to any Federal reserve bank or Federal reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal reserve bank or such Federal reserve agent: Provided, however, That any expense incurred in shipping gold to or from the Treasury or Subtreasuries in order to make such payments, or as a result of making such payments, shall be paid by the Federal Reserve Board and assessed against the Federal reserve banks. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

"The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid by the Federal Reserve Board and included in its assessments against the several Federal reserve banks.

"Gold deposits standing to the credit of any Federal reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal reserve notes, or as a part of the reserve it is required to maintain against deposits.

"Nothing in this section shall be construed as amending section six of the Act of March fourteenth, nineteen hundred, as amended by the Acts of March fourth, nineteen hundred and seven, and March second, nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of those Acts be construed to apply to the deposits made or to the receipts or certificates issued under authority of this section."

Sec. 7. That section seventeen be, and is hereby, amended so as to read as follows:

"Sec. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking associations shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking associations now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed."

Sec. 8. That section nineteen be further amended and reenacted so as to read as follows:

"Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing

member bank "Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserves reserve balances with its Federal reserve bank as follows:

"(a) A bank If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said days five-twelfths thereof and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(b) A bank If in a reserve city, as now or hereafter defined, it shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

"In its vaults for a period of thirty-six months after said date, six fifteenths thereof, and permanently thereafter five-fifteenths.

"In the Federal reserve bank of its district for a period of twelve months after the date aforesaid, at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

"For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in central reserve cities, as now defined by law.

"After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank or in both, at the option of the member bank with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(c) A bank If in a central reserve city, as now or hereafter defined it shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

"In its vaults, six-eighteenths thereof.

"In the Federal reserve bank, seven-eighteenths.

"The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

"Any Federal reserve bank may receive from the member banks as reserves not exceeding one-half of each installment, eligible paper as described in section thirteen properly indorsed and acceptable to the said reserve bank.

"If a State bank or trust company is required or permitted by the law of its State to keep its reserve either in its own vaults or with another State bank or trust company or with a national bank, such reserve deposits so kept in such State bank, trust company, or national bank shall be construed within the meaning of this section as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situated. Except as thus provided with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"No member bank shall keep on deposit with any non-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 non-member bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

"The reserve required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve balance required by law is fully restored.

"In estimating the reserves balances required by this Act, the net balance difference of amounts due to and from other banks shall be taken as the basis for ascertaining the bank deposits against which reserves required balances with Federal reserve banks shall

be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

“National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain non-member banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act.”

Sec. 9. That that part of section twenty-two which reads as follows: “Other than the usual salary or director’s fees paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank,” be, and hereby is, amended and reenacted so as to read as follows:

“Other than the usual salary or director’s fee paid to any officer, director or employee, or attorney of a member bank, and other than a reasonable fee paid by said bank to such officer, director, or employee, or attorney for services rendered to such bank, no officer, director employee or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank: **Provided, however, That nothing in this Act contained shall be construed to prohibit a director, officer, employee, or attorney from receiving the same rate of interest paid to other depositors for similar deposits made with such bank: And provided further, That notes, drafts, bills of exchange, or other evidences of debt executed or indorsed by directors or attorneys of a member bank may be discounted with such member bank on the same terms and conditions as other notes, drafts, bills of exchange, or evidences of debt upon the affirmative vote or written assent of at least three-fourths of the members of the board of directors of such member bank.**”

Recommendation:—

Resolved that the vice president of this Council be requested to report to the Federal Reserve Board that the Council has carefully considered the proposed amendments as presented to it by the Federal Reserve Board and that in view of changed conditions it revises its previous recommendations made in January (and formally approved at the Council meeting in February) and approves of the Board’s proposed amendments to the Federal Reserve Act with the exception of that to Section 22. The Council would again submit to the Board its recommendation and proposed amendment to Section 22, as follows:

“The Council would recommend that the proposed addition to Section 22 commencing with ‘Provided, however, that nothing in this Act contained’ should be amended as follows:

“‘Provided, however, that nothing in this Act contained shall be construed to prohibit a director, officer, or employee from receiving the same rate of interest paid to other depositors for similar deposits made with such bank; or to prohibit a director who is not an officer or employe from receiving, directly or indirectly, the usual and customary commissions or fees for services rendered in buying and selling securities or other investments for or on account of such bank, but each such transaction must be recorded in the minutes of the meeting of said board, such minutes to specify the name of the director and the firm or corporation with which he is connected, if any, through which such order is executed, together with the amount of the fee or commission paid on each transaction; and, provided further, that notes, drafts, bills of exchange, or other evidences of debt executed or indorsed by directors of a member bank may be discounted with such member bank on the same terms and conditions as other notes, drafts, bills of exchange or evidence of debt.’”

"The Council makes this recommendation because in its judgment an affirmative vote or written assent of at least three-fourths of the members of the Board is an unnecessary restriction in connection with such services by a director as the buying and selling of securities and inasmuch as notes, drafts, bills of exchange or other evidences of debt executed or indorsed by bank directors are as a rule the very best of their class, the placing of special restrictions on the discounting of such instruments for directors would only unnecessarily and unwarrantably impede legitimate business or force it into other banks."



TOPIC NO. 5.—Bills S. 9 and S. 742.

65th CONGRESS, 1st Session

S. 9.

IN THE SENATE OF THE UNITED STATES.

April 4, 1917.

A BILL

To indemnify depositors in "member banks," as defined by the Federal reserve Act, against loss in the event of the failure or suspension of business of such bank.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That to indemnify depositors in "member banks" as defined by the Federal reserve Act against loss and to make provision for the prompt payment to such depositors of the amounts due them in the event of the failure or suspension of business of such banks, there is hereby created a fund to be known as the depositors' indemnity fund, to be under the control and supervision of the Federal Reserve Board. Such fund shall consist of the proceeds of the tax on national-bank circulation beginning with January first, nineteen hundred and fourteen, until the same accumulates to the extent of one per centum of the deposits of the member banks of the Federal reserve bank system, and thereafter if necessary to replenish the fund so that such fund shall at all times be not less in amount than one per centum of the average annual deposits of all the member banks of the Federal Reserve Bank System in the United States for the preceding calendar year, such average annual deposits to be computed by adding together the total deposits of all member banks as stated in their several reports of condition made during said calendar year and dividing the aggregate sum by the number of reports of condition so made.

For the purposes of this Act the indemnified deposits shall be construed to mean and include all liabilities of a bank excepting capital, surplus, unpaid dividends, circulation, and United States deposits, and depositors shall be construed to mean and include all persons to whom such liabilities are due.

Whenever any member bank shall fail to meet its obligations to depositors and close its business or its business shall be suspended, the Federal Reserve Board shall provide for the immediate payment out of the depositors' indemnity fund of all sums due by such member bank to its depositors, and thereupon such fund shall become and be subrogated to all the rights of said depositors, and in the settlement of the affairs of any such bank all dividends that would have been due to such depositors shall be paid into such fund.

The Federal Reserve Board is fully authorized and empowered to promulgate and enforce any and all needful rules and regulations for carrying out the purposes of this Act and administering and conserving the fund hereby created.

65th CONGRESS, 1st Session

S. 742.

IN THE SENATE OF THE UNITED STATES.

April 6, 1917.

A BILL

To found and maintain a mutual insurance fund for depositors in national banks, to be kept available in the United States Treasury and to be administered by a bureau in the Treasury Department organized and regulated for that purpose.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby created in connection with the national banking system a department in the office of the Comptroller of the Currency to be known as the Depositors' Insurance Department, over which the Comptroller of

the Currency shall have full supervision and management, as provided in this Act.

He shall receive and disburse all moneys paid in and belonging to the several funds herein provided for and shall keep suitable books, in which shall be kept an account known as the reserve fund and an account to be known as the premium fund.

He shall also keep a separate account with each national bank in which he shall credit said bank with all moneys paid by it to the account of said Depositors' Insurance Department and shall debit it with its proportionate share of losses paid from said insurance funds.

He shall also keep such other accounts as may by him be deemed necessary and shall have power and authority to appoint such deputies, assistants, and clerks as may be necessary to carry into effect the purposes of this Act. All the expenses of this department shall be paid by and charged to the premium fund.

Sec. 2. That the Comptroller of the Currency shall invest the money received through the reserve fund in interest bearing bonds of the United States or may there-with purchase or at maturity pay such bonds, replacing their value in the reserve fund with United States Treasury notes: **Provided,** That any national bank may, in lieu of cash payment of its one per centum reserve fund dues, deliver to the Comptroller of the Currency bonds of the character above described, at par value, to be approved by him. The interest on all bonds in the reserve fund shall be collected by the Comptroller of the Currency when due and remitted to the national banks proportionately to the amounts paid by them; or, in case of national banks that have deposited their own bonds, the interest on such bonds as they may have to their credit shall be collected and forwarded to them. The remitting of interest to national banks shall be made at the end of each fiscal year.

Sec. 3. That the Comptroller of the Currency may deposit with the Secretary of the Treasury any surplus money in the premium fund; or, in case such surplus should accumulate beyond the requirement of the department, he may invest the same in interest-bearing bonds of the United States, as provided by the investment of the reserve fund, the interest derived therefrom to be credited to the premium fund.

Sec. 4. That the comptroller shall make an annual report to the Congress of the United States at the commencement of each regular session thereof setting forth therein a full statement of the affairs of the Depositors' Insurance Department for the previous fiscal year and shall make such recommendation as he may believe would tend more fully to carry into effect the intent and purposes of this Act.

Sec. 5. That every national bank shall, within thirty days after this Act takes effect or when it shall be organized any time thereafter, file with the Comptroller of the Currency a report showing its capital and total deposits; and at the beginning of each fiscal year thereafter it shall file with the Comptroller of the Currency a report showing its capital and average deposits for the preceding year.

Sec. 6. That all national banks having deposits in an amount greater than their capital when this Act takes effect shall pay to the Comptroller of the Currency, within thirty days after this Act becomes operative, one-half of one per centum on its total deposits, which shall be credited to the reserve fund, and one mill on its total deposits, which shall be credited to the premium fund.

At the beginning of each fiscal year thereafter every national bank shall pay to or receive from the Comptroller of the Currency one-fourth of one per centum on its average deposits of the preceding year, which amount shall be credited or charged to the reserve fund, and shall also pay 1 mill on its average deposits of the preceding year, which amount shall also be credited to the premium fund.

Sec. 7. That all national banks having less deposits than capital when this Act takes effect shall pay to the Comptroller of the Currency, when this Act becomes operative, one per centum on their capital, which shall be credited to the reserve fund, and 1 mill on their capital, which shall be credited to the premium fund. If at the beginning of the following year the deposits should still be less than the capital, then so much of the one mill premium dues paid in the previous year shall be refunded as may be found overpaid or that bank's proportionate share of its average deposits for the previous year, and shall pay for the current year one mill into the premium fund on its average deposits of the preceding year and every year thereafter until such deposits shall exceed the capital, the reserve fund dues paid in the previous year to remain the same so long as the deposits do not exceed the capital. If, however, the average deposits during the previous year shall have exceeded the capital, then it shall pay on its average deposits one per centum into the reserve fund and one mill into the premium fund, and shall further pay for the current year on its average deposits of the preceding year one mill into the premium fund; thereafter it shall be subject to the same provision as applied to banks in paragraph six.

Sec. 8. That all national banks organized at any time after this Act takes effect which have been organized or converted from or consolidated with any other banking association and have deposits in an amount greater than the capital so organized shall be subject to the same provisions as apply to national banks in paragraph six, excepting that only such a proportion of the one mill premium fund dues shall be paid as the unexpired time from the date of organization to the end of a fiscal year shall bear to a whole year, and that payment of dues shall be made at the time when the bank is authorized to do business.

Sec. 9. That any national bank organized at any time after this Act takes effect and having less deposits than its capital when so organized shall be subject to the same provisions as apply to national banks in paragraph seven, excepting that payment of dues shall be made when the bank is authorized to do business.

Sec. 10. That whenever a national bank's total deposits at the beginning of a fiscal year exceeds ten times its capital, and if its average deposits for a whole preceding year has exceeded ten times its capital, then it shall on the beginning of said fiscal year increase its capital to such an amount that the average deposits of the preceding year shall not exceed ten times its capital or else reduce its deposits so that they will not exceed ten times its capital.

Sec. 11. That after a receiver has been appointed for a failed bank and has been in the discharge of his duties for thirty days, such receiver shall make and transmit to the Comptroller of the Currency a statement showing the deposit liabilities of such failed bank, the assets thereof as he may be able to determine, and the assets then available for the payment of the first dividend to depositors; and if the amount so available shall not be sufficient to pay a dividend equal to or greater than one hundred per centum of the total deposits of such failed bank, then the Comptroller of the Currency shall transmit to said receiver such amounts from the premium fund as shall enable said receiver to pay forthwith each depositor on proved claims a dividend of one hundred per centum of his claim.

In case the premium fund shall be insufficient, then the reserve fund shall be drawn upon for the amount required to pay all depositors ninety per centum of their claims, and said reserve fund shall be reimbursed therefor as soon as the premium fund shall have accumulated a surplus beyond its needs. All the amounts so advanced by the Comptroller of the Currency to the receiver shall remain a first lien on the remaining assets of said failed national bank in favor of said Depositors' Insurance Department. The receiver shall from time to time transmit to the Comptroller of the Currency all the proceeds which may be derived from the remaining assets up to the amount so advanced, and all such sums so transmitted shall be credited to the funds taken from. The remaining assets of such failed national banks after such lien shall have been satisfied, if any there may be, shall be administered by the receiver for the benefit of the creditors thereof.

Sec. 12. That any national bank which shall go out of business and which shall have paid its depositors in full shall receive from the Comptroller of the Currency such an amount as shall stand to its credit after having charged against it all its proportionate share of losses sustained in the Depositors' Insurance Department up to the time of its retirement.

A bank's proportionate share of loss shall be such part of the losses sustained as its average deposits may have borne to the aggregate deposits in all banks for the same period and as reported to the Comptroller of the Currency.

Sec. 13. That deposits, within the meaning of this Act, shall be construed to mean all liabilities of a bank excepting capital, surplus, undivided profits, unpaid dividends, circulation of said bank, and United States deposits.

Sec. 14. That the average deposits of a bank shall be ascertained by adding together the total deposits as stated in the several reports of the bank submitted to the Comptroller of the Currency and dividing the sum total by the number of reports so made. or, if for shorter periods, then by the number of days.

Sec. 15. That a fiscal year, within the meaning of this Act, shall be construed to mean an entire year from and after this Act takes effect and each entire year thereafter.

Sec. 16. That all Acts or parts of Acts inconsistent with this Act are hereby repealed, and nothing herein contained shall affect existing rights of banks which have failed prior to the time this Act shall take effect.

Recommendation:—

The Council has considered Bills S. 9 and S. 742 at the request of the Federal Reserve Board and begs to report that in its opinion any legislation providing for the guaranteeing of deposits or the establishment of a fund for the insurance of deposits is undesirable. A plan might, however, be devised by the Federal Reserve Board which would provide for prompt relief to be given depositors of failed banks. The Council does not approve of legislation regulating the ratio of deposits to capital as proposed in Section 10 of S. 742.

