

Suggested Plan
FOR
Monetary Legislation

SUBMITTED TO THE
NATIONAL MONETARY COMMISSION

BY
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SUGGESTED PLAN FOR MONETARY LEGISLATION.

WASHINGTON, *January 16, 1911.*

In conformity with the suggestion made at the last meeting of the National Monetary Commission, I have prepared an outline for a tentative plan for the revision of our national-banking legislation, which I beg herewith to submit to the Commission. In doing this it has been my aim to suggest changes in the national-banking act which will make it responsive to the demands of modern business. The study which the Commission has given to this subject has, I believe, led irresistibly to the conclusion that our present banking system, which was adopted nearly half a century ago and has remained practically unchanged, not only fails completely under stress and in the presence of unusual demands upon its resources, but has been found inadequate and unresponsive even under the ordinary conditions of business.

The suggestions submitted herewith are the result of years of study which I have given this subject, and are formulated in the light of the great mass of information which the Commission has gathered respecting both our own banking system and needs and the experience and practices of foreign countries.

If I am right in believing that the present law has become obsolete—and of this there can be no doubt—there is, then, no room for argument in regard to the necessity for modernizing the law. Assuming such to be the case, it must be our aim to accomplish this result with as little disarrangement as possible. It should be our aim to liberalize the present national-banking act and to add to it such features as are deemed essential, rather than to

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formulate any plan which will fundamentally change our present system.

In the light of our experience it is obvious that one of the principal needs is to find some method for the unification of our present banking institutions into one comprehensive system. In other countries we have found that reserves are concentrated and used freely in any direction where needed. Under our faulty system reserves are so scattered as to be unavailable in time of trouble either for purposes of assistance or defense.

The result of our law has been to create a banking system made up of a great number of isolated units, each working within a limited circle and each of necessity governed by its own immediate interests, without reference to what would be for the greatest good of all. While the intelligent managers of individual banks may fully recognize the necessity of greater cooperation, they are, under the law, powerless to effect it.

If we can so amend the present national-banking act as to permit the formation of an association of all the banks of the country to meet these needs, we shall have gone a long way toward solving the problem which is before us. If, then, in addition, we provide a more scientific basis for bank-note circulation, so that the volume of circulation will be responsive to the needs of business, we shall, I believe, have met the two main requirements of a satisfactory solution. In addition to that, if we can aid in creating a discount market in this country similar to the discount markets in Europe, so that the most liquid portion of our bank funds will not of necessity be forced to such a large degree as at present into the making of call loans upon stock-exchange collateral, but will, instead, be available for the needs of commercial business, we shall have so broadened our banking methods as to bring incalculable benefit to the commercial life of the country.

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I believe that the conclusions which I present herewith meet those conditions, and that the organization which it is proposed to create will insure the benefits which we seek without running any risk of creating a financial institution which can be controlled by ambitious monetary interests or dominated by political influence.

While we have found much that is admirable in the operation of the various government banks of Europe, not one of them is applicable to our needs here. The good results which they obtain can, I believe, be reached without the creation of such a central bank. I feel that the plan which is proposed reaches those results without being open to the objections which may well be brought against such an institution.

I recognize the fact that the formulation of a definite plan is the task of the Commission, and can be accomplished only after the subject has been studied with care in all parts of the country.

I hope that the plan which I now submit for your consideration, and which in its main features, in my opinion, meets the necessary requirements, may be found of value to the Commission in the necessary work of construction.

NELSON W. ALDRICH.

RESERVE ASSOCIATION OF AMERICA.

CHARTER AND LOCATION.

It is proposed to charter the Reserve Association of America, which will be the principal fiscal agent of the Government of the United States. The authorized capital of the Reserve Association shall be approximately \$300,000,000. The length of its charter shall be 50 years. The head office of the association shall be in Washington, D. C.

The country shall be divided into 15 districts, and a branch of the Reserve Association shall be located in each district.

The Reserve Association and its branches shall be exempt from State and local taxation, except in respect to taxes upon real estate owned by it.

CAPITAL.

Only national banks of the classes hereinafter provided for may subscribe to the capital stock of the Reserve Association. A national bank having a minimum capital of at least \$25,000 may subscribe to an amount of capital stock of the Reserve Association equal to 20 per cent of the stock of the subscribing national bank, and not less, and each of such subscribing banks shall become a member of a local association as hereinafter provided for. Fifty per cent of the subscriptions to the capital stock of the Reserve Association shall be called in cash; the balance of the subscriptions will remain a liability of the stockholders, subject to call.

Shares of the capital stock of the Reserve Association will not be transferable, and under no circumstances may

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they be owned by any corporation other than the subscribing national bank, nor by any individual, nor may they be owned by any national bank in any other amount than in the proportion here provided. In the case of a national bank increasing its capital after it once becomes a subscriber to the stock of the Reserve Association, the national bank shall thereupon subscribe for an additional amount of the capital stock of the Reserve Association equal to 20 per cent of the national bank's increase of capital, paying therefor its then book value, but only one-half of this additional subscription will be called in cash, as hereinbefore provided. In the event of a national bank which is a holder of the capital stock of the Reserve Association decreasing its capital, it shall surrender a proportionate amount of its holdings of the capital stock of the Reserve Association; or if a national bank goes into liquidation, it shall surrender all of its holdings of the capital stock of the Reserve Association. The capital of the Reserve Association so surrendered shall be canceled and the national bank thus surrendering stock in the Reserve Association shall receive in payment therefor a sum equal to the then book value, as shown on the balance sheet of the Reserve Association, of the stock so surrendered.

EARNINGS AND DIVIDENDS.

The earnings of the Reserve Association shall be distributed in the following manner:

After the payment of all expenses and taxes the stockholders shall receive 4 per cent. Further earnings shall be divided, one-half to go to the surplus of the Reserve Association until that surplus shall amount to 20 per cent of the paid-in capital; one-fourth to go to the Government of the United States, and one-fourth to the stockholders; but when the stockholders' dividends shall reach 5 per cent they shall receive no additional distribution.

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After the stockholders receive 5 per cent the earnings shall be divided, one-half to be added to the surplus of the Reserve Association and one-half to go to the Government. After the stockholders receive 5 per cent per annum and the surplus of the Reserve Association amounts to 20 per cent of the paid-in capital, all excess earnings shall go to the Government. The minimum dividends to the stockholders shall be cumulative.

LOCAL ASSOCIATIONS OF NATIONAL BANKS.

All subscribing banks shall be formed into associations of national banks, to be designated as local associations. Every local association shall be composed of not less than 10 banks, and the combined capital and surplus of the members of each local association shall aggregate not less than \$5,000,000.

All the local associations shall be grouped into 15 divisions, to be called districts. The territory included in the local associations shall be so apportioned that every national bank will be located within the boundaries of some local association. Every subscribing national bank shall become a member of the local association of the territory in which it is situated.

DIRECTORS OF LOCAL ASSOCIATIONS.

Each local association shall elect annually a board of directors in the following manner:

The number of directors may be determined by the by-laws of the local associations. Three-fifths of that number shall be elected by ballot cast by the representatives of the banks that are members of the local association, each bank having one representative, and each representative one vote, without reference to the size of the bank. Two-fifths of the whole number of directors of the local association shall be elected by these same representatives of the several banks that are members of the

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association, but in voting for these additional directors each representative shall be entitled to as many votes as the bank which he represents holds shares in the Reserve Association. At such elections there shall be no proxies. The authorized representatives of a bank, as herein provided, must be either the president, vice president, or cashier of the bank he represents.

DIRECTORS OF BRANCHES.

As heretofore provided, all the local associations shall be grouped into 15 divisions, and each of these divisions shall be designated a district. There shall be located in each district a branch of the Reserve Association. Each of the 15 branches of the Reserve Association shall have a board of directors, and those directors shall be elected in the following manner:

The board of directors of each local association shall elect by ballot one member of the board of directors of the branch of the Reserve Association. In this manner there will thus be elected as many directors of the branch of the Reserve Association as there may be local associations in the district in which that branch of the Reserve Association is located. In addition to that number there shall be elected a number of the directors equal to two-thirds of the number of local associations in the district where the branch is located. Such additional directors shall be elected in the following manner:

There shall be chosen by the banks composing each local association a voting representative or proxy holder. In choosing such voting representative each bank shall be entitled to as many votes as it holds shares in the Reserve Association. The voting representatives of the several local associations which form a district shall then meet at the office of the branch and elect an additional number of directors of the branch equal to two-thirds of the number elected directly by the local associations;

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that is, equal to two-thirds of the number of local associations composing the district. Each voting representative at such election shall have a number of votes equal to the number of shares in the Reserve Association held by all the banks composing the local association which he represents.

The first business of the board of the branch as thus constituted shall be to add to its numbers by the election of an additional number of directors equal to one-third the number of local associations situated in the district. Such additional directors shall fairly represent the industrial, commercial, agricultural, and other interests of the district and shall not be officers of banks. Directors of banks shall not be considered as officers.

The manager of the branch shall be ex officio a member of the board of directors of the branch and shall be chairman of the board.

The board of directors of a branch of the Reserve Association will thus be composed of—

First. A group of directors equal in number to the number of local associations composing the district, and this group shall be elected by the directors of the local association, each director having one vote.

Second. A group of directors equal to two-thirds of the foregoing group and elected by stock representation.

Third. A group of directors equal in number to one-third of the first group, representing the industrial, commercial, agricultural, and other interests of the district, and elected by the votes of the first two groups, each director thus voting having one vote.

Fourth. The manager of the branch shall be ex officio a member of the board of directors of the branch and shall be chairman of the board.

All the members of the board of directors of the branch, except the ex officio member, shall, at the first meeting of

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the board, be classified into three classes, and the terms of office of these three classes shall be, respectively, one, two, and three years. Thereafter members of the board shall be elected for a term of three years.

DIRECTORS OF THE RESERVE ASSOCIATION.

The board of the Reserve Association shall consist of 45 directors, and it shall be composed in the following manner:

First. Six ex officio members, namely, the governor of the Reserve Association, who shall be chairman of the board; two deputy governors of the Reserve Association, the Secretary of the Treasury, the Secretary of Commerce and Labor, and the Comptroller of the Currency.

Second. Fifteen directors to be elected, one by the board of directors of each branch of the Reserve Association. They shall be elected by ballot, each member of the branch board having one vote.

Third. Twelve directors, who shall be elected by voting representatives, one representing the banks embraced in each district. Each voting representative shall cast a number of votes equal to the number of shares in the Reserve Association held by all the banks in the district which he represents.

Fourth. The board as thus constituted shall select 12 additional members, who shall fairly represent the industrial, commercial, agricultural, and other interests of the country, and who shall not be officers of banks. Directors of banks shall not be considered as officers.

At the first meeting of the board all the members of the board, except the ex officio members, shall be classified into three classes, and the terms of office of these three classes shall be, respectively, one, two, and three years. Thereafter members of the board shall be elected for a term of three years.

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No member of any national or State legislative body shall be a director of the Reserve Association, nor of any of the branches, nor of any local association.

The directors of the Reserve Association shall annually elect an executive committee and such other committees as the by-laws of the Reserve Association may provide. The executive committee shall consist of nine members, of which the governor of the Reserve Association shall be ex officio chairman and the two deputies and the Comptroller of the Currency ex officio members.

The executive committee shall have all the authority which is vested in the board of directors, except such as may be specifically delegated by the board to other committees or to the executive officers.

There shall be a board of supervision elected by the board of directors from among its number, of which the Secretary of the Treasury shall be ex officio chairman.

EXECUTIVE OFFICERS OF THE RESERVE ASSOCIATION.

The executive officers of the Reserve Association shall consist of a governor, two deputy governors, a secretary, and such subordinate officers as may be provided by the by-laws. The governor and deputy governors shall be selected by the President of the United States from a list submitted by the board of directors. The governor shall be subject to removal by the President of the United States for cause. The term of office of the deputies shall be seven years, but the two deputies first appointed shall be for terms of four years and seven years, respectively.

In the absence of the governor or his inability to act, the deputy who is senior in point of service shall act as governor.

EXECUTIVE OFFICERS OF BRANCHES.

Each branch shall have a manager and a deputy manager. They shall be appointed by the governor of the Reserve Association, with the approval of the executive committee.

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The powers and duties of the manager and deputy manager and of the various committees of the branches shall be prescribed by the by-laws of the Reserve Association.

FUNCTIONS OF THE LOCAL ASSOCIATIONS.

Any member of a local association may apply to that local association for a guaranty of the commercial paper which it desires to rediscount at the branch of the Reserve Association in its district. Any such bank receiving a guaranty from a local association shall pay a commission to the local association, to be fixed from time to time by the board of directors of that local association. The guaranty of the members of the local association, in the event of loss, shall be met by the members of the local association in the proportion to the ratio which their capital and surplus bears to the aggregate capital and surplus of the local association, and the commission received for such guaranty, after the payment of losses and expenses, shall be distributed among the several banks of the local association in the same proportion. A local association shall have authority to require additional security from any bank offering paper for guaranty, or may decline to grant the application.

The total amount of guaranties by a local association to the Reserve Association shall not at any time exceed the aggregate capital and surplus of the banks forming the guaranteeing association.

FUNCTIONS OF THE RESERVE ASSOCIATION.

All of the privileges and advantages of the Reserve Association shall be equitably extended to every national bank of any of the classes herein defined who shall subscribe to its proportion of the stock of the Reserve Association and shall otherwise conform to the requirements of this act.

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The Government of the United States and those national banks owning stock in the Reserve Association shall be the sole depositors in the Reserve Association. All domestic transactions of the Reserve Association shall be confined to the Government and the subscribing banks, with the exception of the purchase or sale of Government or State securities or securities of foreign governments or of gold coin or bullion.

The Government of the United States shall deposit its cash balance with the Reserve Association, and thereafter all receipts of the Government shall be deposited with the Reserve Association or (when necessary) with such national banks as the Government may designate for that purpose in cities where there is no branch of the Reserve Association. All disbursements by the Government shall be made through the Reserve Association.

The Reserve Association shall pay no interest on deposits.

The Reserve Association may rediscount notes and bills of exchange arising out of commercial transactions, for and with the indorsement of any bank having a deposit with it. Such notes and bills must have a maturity of not more than 28 days, and must have been made at least 30 days prior to the date of rediscount. The amount so rediscounted shall in no case exceed the capital of the bank applying for the rediscount. The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, corporation, or firm, rediscounted for any one bank, shall at no time exceed 10 per cent of the capital and surplus of said bank.

The Reserve Association may also rediscount, for any depositing bank, notes and bills of exchange arising out of commercial transactions having more than 28 days, but not exceeding 4 months, to run, but in such cases the paper must be guaranteed by the local association of which the bank asking for the rediscount is a member.

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Whenever, in the opinion of the governor of the Reserve Association, the public interests so require, such opinion to be concurred in by the executive committee of the Reserve Association and to have the definite approval of the Secretary of the Treasury, the Reserve Association may discount the direct obligation of a depositing bank, indorsed by its local association, provided that the indorsement of the local association shall be fully secured by the pledge and deposit with it of satisfactory securities, which shall be held by the local association for account of the Reserve Association; but in no such case shall the amount loaned by the Reserve Association exceed two-thirds of the actual value of the securities so pledged.

The rate of discount of the Reserve Association, which shall be uniform throughout the United States, shall be fixed from time to time by the executive committee and duly published.

The Reserve Association may, whenever its own condition and the general financial conditions warrant such investment, purchase to a limited amount from a depositing bank acceptances of banks or houses of unquestioned financial responsibility. Such acceptances must arise from commercial transactions and have a maturity not exceeding 90 days, and must be of a character generally known in the market as prime bills. Such acceptances shall also bear the indorsement of the depositing bank selling the same, which indorsement must be other than that of the acceptor.

The Reserve Association may invest in United States bonds and in short-term obligations—that is, obligations having not more than one year to run—of the United States, or of any State, or of certain foreign governments to be named in the act.

The Reserve Association shall have power at home and abroad to deal in gold coin or bullion, to grant loans thereon, and to contract for loans of gold coin or bullion,

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giving, when necessary, acceptable security for their repayment.

The Reserve Association shall have power to purchase from its depositors and to sell, with or without its indorsement, checks or bills of exchange payable in England, France, or Germany, and in such other foreign countries as the board of the Reserve Association may decide. These bills of exchange must arise from commercial transactions and be of a maturity not exceeding 90 days, and shall bear the signatures of at least three responsible parties, of which the last one shall be that of a depositing bank.

The Reserve Association shall have power to open and maintain banking accounts in foreign countries and to establish agencies in foreign countries for the purpose of purchasing and selling and collecting foreign bills of exchange, and it shall have authority to buy and sell, through such agencies, prime foreign bills of exchange arising from commercial transactions, running for a period not exceeding 90 days, and bearing the signatures of two or more responsible parties.

DOMESTIC EXCHANGES.

It shall be the duty of the Reserve Association or any of its branches, upon request, to transfer any part of the deposit balance of any national bank having an account with it to the credit of any other bank having an account with the Reserve Association. If a deposit balance is transferred from the books of one branch of the Reserve Association to the books of another branch, it may be done by mail or telegraph upon terms to be fixed from time to time by the executive committee.

FUNCTIONS OF NATIONAL BANKS.

In addition to the rights now conferred by law, national banks shall be authorized to accept commercial paper drawn upon them, having not more than 90 days to run,

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properly secured, and arising out of **commercial** transactions. The amount of such acceptances shall not exceed one-half the capital and surplus of the accepting bank.

National banks shall not have authority to establish branches except in the city or town in which they are located.

The organization of banks to conduct business in foreign countries shall be authorized. The stock of such banks may be held by national banks. The bank so organized may have an office in the United States, but shall not compete with national banks for domestic business not necessarily related to the business being done in foreign countries.

There shall be established a new class of national banks, to be known by a specifically designated name. Such banks may have savings departments and may make properly secured loans on real estate, such loans to be restricted to a certain proportion of the aggregate time and savings deposits in the bank. The reserve requirement in such banks will be less against savings and time deposits than against demand deposits.

Another class of national banks shall be authorized, which shall be in effect national trust companies, to be designated by some appropriate name and to exercise all the functions and have all the privileges, including length of charter, which are given to trust companies by the laws of the various States. These national institutions shall be subject, like other national banks, to inspection and examination by the National Government.

There shall be no change in the percentage of reserve required by law to be held against demand deposits by national banks, except as otherwise provided herein, but the deposit balance of any national bank in the Reserve Association shall be counted as a part of its legal reserve.

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REPORTS TO THE COMPTROLLER.

The Reserve Association shall make a report, showing the principal items of its balance sheet, to the Comptroller of the Currency once a week. These reports shall be made public. In addition, full reports shall be made to the Comptroller of the Currency coincident with the five reports called for each year from the national banks.

All reports of national-bank examiners in regard to the condition of national banks shall hereafter be made in duplicate, and one copy shall be filed with the Reserve Association for the confidential use of its executive officers.

National banks of all classes shall hereafter make a weekly report to the Comptroller of the Currency showing the principal items of their balance sheets, such reports to be available for the use of the executive officers of the Reserve Association.

NOTE ISSUES.

There is hereafter to be no further issue, beyond the amount now outstanding, of bank notes by national banks. National banks may, if they choose, maintain their present note issue, but whenever a bank retires the whole or any part of its existing issue it will permanently surrender its right to reissue the notes so retired.

The Reserve Association must, for a period of one year, offer to purchase at ——— (a price not less than par and accrued interest) the 2 per cent bonds now held by national banks and deposited to secure their circulating notes. The Reserve Association shall take over these bonds with the existing currency privilege attached and assume responsibility for the redemption (upon presentation) of outstanding notes secured thereby. The Reserve Association shall issue, on the terms herein provided, its own notes as fast as the outstanding notes secured by such bonds so held shall be presented for

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redemption, it being the policy of the United States to retire as rapidly as possible, consistent with the public interests, bond-secured circulation and to substitute therefor notes of the Reserve Association of a character and secured and redeemed in the manner provided for in this act.

The Reserve Association agrees to hold, for a period of not less than 10 years, the bonds so purchased, or any Government security which may be exchanged for them by refunding or otherwise. The Reserve Association, however, shall have the right, with the approval of the Secretary of the Treasury, after two years to dispose annually of \$50,000,000 of the bonds held by it to secure circulation. The Government reserves the right at all times to purchase at par from the Reserve Association, through the trustees of the postal savings bank or otherwise, any or all of such bonds so held.

If the Government should adopt the policy of issuing securities at a higher rate of interest than 2 per cent, the Reserve Association shall have the right to exchange at par the Government bonds which it may have acquired from the national banks, previously held by them to secure circulation, for any bonds bearing interest at a rate not exceeding 3 per cent, but in that event the amount of annual taxes to be paid on notes based upon such new securities shall be as much greater as the interest rate of the new securities shall exceed 2 per cent.

To illustrate: If the Government should decide hereafter to issue a $2\frac{1}{2}$ per cent bond, the rate of taxation on currency issued by the Reserve Association thereon would be 1 per cent instead of one-half of 1 per cent, as on the existing twos, and upon a 3 per cent bond the rate of taxation would be $1\frac{1}{2}$ per cent.

In addition to the authority to issue notes to replace any national-bank notes outstanding at the time of the organization of the Reserve Association, it shall have the right

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to issue additional circulating notes as follows: The whole or any part of the first \$100,000,000 of such additional notes shall pay to the Government an annual tax of 3 per cent; above \$100,000,000 and not more than \$200,000,000 may be issued at an annual tax of 4 per cent; above \$200,000,000 and not more than \$300,000,000 may be issued at an annual tax of 5 per cent; all above \$300,000,000 shall pay an annual tax of 6 per cent.

All note issues of the Reserve Association must be covered to the extent of at least one-third by gold or other lawful money, and the remaining portion by bonds of the United States or bankable commercial paper as herein defined, or both. (It should be provided either that the Reserve Association may also hold in its reserve foreign coin, or that the Treasury will issue gold certificates against foreign coin.) The notes are to constitute a first lien upon all the assets of the Reserve Association, and adequate provision must be made for their immediate redemption in lawful money on presentation at the head office of the Reserve Association or any of its branches.

The notes of the Reserve Association shall be received at par in payment of all taxes, excises, and other dues to the United States, and for all salaries and other debts and demands owing by the United States to individuals, corporations, or associations, except obligations of the Government which are by their terms specifically payable in gold, and for all debts due from or by one national bank to another, and for all obligations due to a national bank.

The Reserve Association shall at once, upon application and without charge for transportation, forward its circulating notes to any depositing bank against its credit balance.

