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SENATE

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Part 2 }

SUGGESTED PLAN  
FOR  
MONETARY  
LEGISLATION

SUBMITTED TO THE NATIONAL MONETARY COMMISSION

BY

HON. NELSON W. ALDRICH

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REVISED EDITION

OCTOBER, 1911



WASHINGTON

1911



*To the Members of the National Monetary Commission:*

When I submitted to the commission in January last the outline of a plan for monetary reform based upon the formation of a National Reserve Association, I was not prepared to offer definite suggestions with reference to several important phases of the subject. Among the questions then left for further examination were:

(1) What relation should State banks and trust companies sustain to the Association?

(2) What practical method could be devised by which the 2 per cent bonds of the United States held by national banks could be purchased and held by the National Reserve Association without prejudice to the best interests either of the Government, the national banks, or the Reserve Association?

(3) What means could be adopted to insure the maintenance of adequate reserves by the association and otherwise to provide such effective regulation of discounts and note issues as would enable the organization to respond promptly at all times to normal or unusual demands for credit or currency without danger of undue expansion or inflation?

As the plan was originally offered at your request to serve as a basis for discussion and criticism when the constructive work of the commission was taken up, it seems to me desirable before the commencement of this work that the plan should be presented in as complete a form as possible. I therefore respectfully submit herewith for your consideration a revision which contains suggestions covering the points to which I have referred.

NELSON W. ALDRICH,

*Chairman National Monetary Commission.*

WASHINGTON, October 14, 1911.



# THE NATIONAL RESERVE ASSOCIATION OF THE UNITED STATES.

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## CHARTER CAPITAL AND LOCATION.

1. It is proposed to charter the National Reserve Association of the United States, which shall be the principal fiscal agent of the Government of the United States. The authorized capital of the National Reserve Association shall be 20 per cent of the capital of the banks eligible for membership (approximately 300 millions). The length of its charter shall be 50 years. The head office of the association shall be in Washington, D. C.

## MEMBERSHIP.

2. All national banks and all State banks and trust companies which comply with the requirements for membership hereinafter set forth (secs. 60-64) may subscribe to the capital stock of the National Reserve Association. (The word "bank," when used hereinafter, shall be understood to refer to all such national banks, State banks, and trust companies as shall comply with the requirements for membership hereinafter defined.) A bank having a minimum capital of \$25,000 may subscribe to an amount of capital stock of the National Reserve Association equal to 20 per cent of the stock of the subscribing bank, and not less, and each of such subscribing banks shall become a member of a local association as hereinafter provided. Fifty per cent of the subscriptions to the capital stock of the National Reserve Association shall be called in cash; the balance of the subscriptions will remain a liability of the subscribers, subject to call.

3. Shares of the capital stock of the National Reserve Association shall not be transferable, and under no cir-

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cumstances may they be owned by any corporation other than the subscribing bank nor by any individual, nor may they be owned by any bank in any other amount than in the proportion herein provided. In case a subscribing bank increases its capital, it shall thereupon subscribe for an additional amount of the capital stock of the National Reserve Association equal to 20 per cent of the bank's increase of capital, paying therefor its then book value, as shown by the last published statement of the Association. A bank applying for membership in the Association after its formation must subscribe for a proportional share of its capital stock, paying therefor its then book value. In case a subscribing bank reduces its capital, it shall surrender a proportionate amount of its holdings of the capital stock of the National Reserve Association. If a bank goes into liquidation, it shall surrender all of its holdings of the capital stock of the National Reserve Association. The shares surrendered shall be canceled and the bank shall receive in payment therefor a sum equal to their book value.

### **EARNINGS AND DIVIDENDS.**

4. The earnings of the National 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 National 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. After the stockholders receive 5 per cent the earnings shall be divided, one-half to be added to the surplus of the National Reserve Association and one-half to go to the Government. After the stockholders receive 5

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per cent per annum and the surplus of the National 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.

### **ORGANIZATION.**

5. All subscribing banks shall be formed into associations of banks, to be designated as local associations. Every local association shall have corporate powers and 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. The territory included in the local associations shall be so apportioned that every bank will be located within the boundaries of some local association. Every subscribing bank shall become a member of the local association of the territory in which it is situated.

6. All of the local associations shall be grouped into divisions, to be called districts.

The country shall be divided at first into 15 districts, and a branch of the National Reserve Association shall be located in each district, the location to be determined by the directors of the National Reserve Association. The districts may be readjusted from time to time, and new districts and new branches may be created by the directors.

7. The National Reserve Association and its branches and the local associations shall be exempt from State and local taxation, except in respect to taxes upon real estate.

### **OFFICERS AND DIRECTORS.**

#### **(A) DIRECTORS OF LOCAL ASSOCIATIONS.**

8. Each local association shall elect annually a board of directors, the number to 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

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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 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 National 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.

### (B) DIRECTORS OF BRANCHES.

9. Each of the branches of the National Reserve Association shall have a board of directors, to 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 National Reserve Association. In this manner there will thus be elected as many directors of the branch of the National Reserve Association as there may be local associations in the district in which that branch of the National Reserve Association is located.

10. In addition to that number there shall be elected in the following manner a number of directors equal to two-thirds of the number of local associations in the district where the branch is located. 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 National Reserve Association. The voting representatives of the several local associations which form a district shall elect an additional number of directors of the branch equal to two-thirds of

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the number elected directly by the local association; 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 National Reserve Association held by all the banks composing the local association which he represents.

11. The board of the branch as thus constituted shall at once 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.

12. 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 National 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 local associations, each association 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.

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

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## (C) DIRECTORS OF THE NATIONAL RESERVE ASSOCIATION.

14. The board of the National Reserve Association shall at first consist of 45 directors, and shall be constituted in the following manner:

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

15. Second. Fifteen directors to be elected, one by the board of directors of each branch of the National Reserve Association. In case the number of districts shall be increased hereafter, each additional district shall be entitled to elect an additional director.

16. Third. Twelve directors, who shall be elected by voting representatives of the various districts, each of whom shall cast a number of votes equal to the number of shares in the National Reserve Association held by all the banks in the district which he represents.

17. Fourth. The twenty-seven directors thus elected shall in turn elect twelve 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.

18. Not more than three of the directors elected under paragraphs 16 and 17 shall be chosen from one district.

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

### **(D) COMMITTEES OF THE NATIONAL RESERVE ASSOCIATION.**

21. The directors of the National Reserve Association shall annually elect from their number an executive committee and such other committees as the by-laws of the National Reserve Association may provide. The executive committee shall consist of nine members, of which the governor of the National Reserve Association shall be ex officio chairman and the two deputies and the Comptroller of the Currency ex officio members, but not more than one of the elected members shall be chosen from one district.

22. 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, or such as may be specifically reserved or retained by the board.

23. 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.

### **(E) EXECUTIVE OFFICERS OF THE NATIONAL RESERVE ASSOCIATION.**

24. The executive officers of the National 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 shall be selected by the President of the United States from a list submitted by the board of directors, and shall be subject to removal by a two-thirds vote of the board of directors for cause. The term of office of the deputies shall be seven years, but the two deputies first elected shall serve for terms of four years and seven years, respectively. The deputies

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shall be elected by the board of directors and may be removed for cause at any time and their places filled by the board. In the absence of the governor or his inability to act, the deputy who is senior in point of service shall act as governor.

### (F) EXECUTIVE OFFICERS OF BRANCHES.

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

26. 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 National Reserve Association.

### (G) EXECUTIVE OFFICERS OF THE LOCAL ASSOCIATIONS.

27. The directors of the local association shall annually elect from among their number a president, a vice president, and an executive committee, whose powers and duties and terms of office shall be determined by the by-laws of the local association, subject, however, to the provisions of this Act.

28. The local associations, the branches, and the National Reserve Association shall each have by-laws which shall provide, among other things, a method of filling vacancies on their respective boards of directors.

The by-laws of the local associations and of the branches shall be subject to the approval of the National Reserve Association.

[The Act will provide a preliminary organization for the Reserve Association, to remain in effect until the permanent organization created by the foregoing sections can be perfected.]

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### **FUNCTIONS OF THE LOCAL ASSOCIATIONS.**

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

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

31. Any local association may by a vote of three-fourths of its members and with the approval of the National Reserve Association, assume and exercise such of the powers and functions of a clearing house as are not inconsistent with the purposes of this Act. The National Reserve Association may require any local association to perform such services in facilitating the domestic exchanges of the Reserve Association as the public interests may require.

32. The local associations shall appoint examiners, who shall have authority to examine into the condition of the banks composing the association under such regulations as may be adopted by the local association, with the approval of the National Reserve Association. Copies of the

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reports of these examinations shall upon request be furnished to the executive officers of the National Reserve Association and of its branches.

33. A local association may by a vote of two-thirds of its members suspend a bank from the privileges of membership for a failure for thirty days to maintain its reserves, or to make the reports required by this Act, or for misrepresentation in any report or examination as to its condition or as to the character or extent of its assets or liabilities.

## **FUNCTIONS OF THE NATIONAL RESERVE ASSOCIATION.**

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

35. The Government of the United States and those banks owning stock in the National Reserve Association shall be the sole depositors in the National Reserve Association. All domestic transactions of the National 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.

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

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37. The National Reserve Association shall pay no interest on deposits.

38. The National Reserve Association may rediscount for and with the indorsement of any bank having a deposit with it, notes and bills of exchange arising out of commercial transactions. (This language, whenever used, is intended to apply to all notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, and not for carrying stocks, bonds, or other investment securities.)

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.

39. The National Reserve Association may also rediscount, for and with the indorsement of any bank having a deposit with it, notes and bills of exchange arising out of commercial transactions as hereinbefore defined, 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.

40. Whenever, in the opinion of the governor of the National Reserve Association, the public interests so require, such opinion to be concurred in by the executive committee of the National Reserve Association and to have the definite approval of the Secretary of the Treasury, the National 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

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with it of satisfactory securities, which shall be held by the local association for account of the National Reserve Association; but in no such case shall the amount loaned by the National Reserve Association exceed three-fourths of the actual value of the securities so pledged.

41. The rates of discount which the National Reserve Association shall have authority to fix from time to time shall be published when fixed, and shall be uniform throughout the United States.

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

43. The National 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 its dependencies, or of any State, or of foreign governments.

44. The National 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, and to give therefor, when necessary, acceptable security, including the hypothecation of any of its holdings of United States bonds.

45. The National Reserve Association shall have power to purchase from its subscribers 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 National Reserve Associa-

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tion may decide. These bills of exchange must have arisen out of commercial transactions, must have not exceeding 90 days to run, and must bear the signatures of two or more responsible parties, of which the last one shall be that of a subscribing bank.

46. The National 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, with or without its indorsement, through such correspondents or agencies, checks or prime foreign bills of exchange which have arisen out of commercial transactions, which have not exceeding 90 days to run, and which bear the signatures of two or more responsible parties.

### **DOMESTIC EXCHANGES.**

47. It shall be the duty of the National Reserve Association or any of its branches, upon request, to transfer any part of the deposit balance of any bank having an account with it to the credit of any other bank having an account with the National Reserve Association. If a deposit balance is transferred from the books of one branch to the books of another branch, it may be done, under regulations to be prescribed by the National Reserve Association, by mail or telegraph at rates to be fixed at the time by the executive committee of the branch at which the transaction originates. (See also sec. 72.)

### **FUNCTIONS OF NATIONAL BANKS.**

48. 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 four months to run, properly secured, and arising out of commercial transactions. The amount of such acceptances outstanding shall not exceed one-half the capital and

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surplus of the accepting bank, and shall be subject to the restrictions of section 5200 of the Revised Statutes.

49. The organization of banks to conduct business in foreign countries and in the dependencies of the United States shall be authorized. The stock of such banks may be held by national banks, but the aggregate of such stock held by any one bank shall not exceed 20 per cent of the capital of that bank.

The bank so organized may have an office in the United States, but shall not receive deposits in the United States nor compete with national banks for domestic business not necessarily related to the business being done in foreign countries or in the dependencies of the United States.

50. National banks shall be given the right, under proper restrictions and regulations to be defined in the Act, to establish separate savings departments, and to lend, under proper restrictions, not more than 40 per cent of their savings deposits upon productive real estate, such loans not to exceed 50 per cent of the actual value of the property.

## **RESERVES.**

### **(A) RESERVES OF SUBSCRIBING BANKS.**

51. All subscribing banks must conform to the following requirements as to reserves to be held against deposits of various classes, but the deposit balance of any subscribing bank in the National Reserve Association and any notes of the National Reserve Association which it holds may be counted as a part of its required reserve.

52. (1) *Demand deposits.*—There shall be no change in the percentages of reserve required by law to be held against demand deposits by national banks in different localities, and hereafter the same percentages of reserve against demand deposits shall be required of all subscribing banks in the same localities.

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53. (2) *Time deposits.*—All time deposits and moneys held in trust payable or maturing within 30 days shall be subject to the same reserve requirements as are demand deposits in the same locality.

All time deposits and moneys held in trust payable or maturing more than 30 days from date shall be subject to the same reserve requirements as demand deposits for the 30 days preceding their maturity, but no reserves shall be required therefor except for this period. Such time deposits and moneys held in trust must be represented by certificates or instruments in writing and be payable only at a stated time not less than 30 days from date of deposit, and must not be allowed to be withdrawn before the time specified without 30 days' notice.

54. (3) *Savings deposits.*—Savings deposits to be defined in the Act, shall be subject to notice of 30 days or more and shall be covered by a reserve amounting to 40 per cent of that required of demand deposits in the same locality.

### (B) RESERVES OF NATIONAL RESERVE ASSOCIATION.

55. All demand liabilities, including deposits and circulating notes, of the National Reserve Association shall be covered to the extent of 50 per cent by a reserve of gold (including foreign gold coin and gold bullion) or of other money of the United States which the national banks are now authorized to hold as a part of their legal reserve; provided, however, that whenever and so long as such reserve shall fall and remain below 50 per cent the National Reserve Association shall pay a special tax upon the deficiency of reserve at a rate increasing in proportion to such deficiency as follows: For each  $2\frac{1}{2}$  per cent or fraction thereof that the reserve falls below 50 per cent the percentage of taxation shall increase at the rate of  $1\frac{1}{2}$  per cent per annum.

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56. In computing the demand liabilities of the Association a sum equal to one-half of the amount of the United States bonds held by the Association which have been purchased from the national banks, and which had previously been deposited by those banks to secure their circulating notes, shall be deducted.

## REPORTS.

57. The National 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.

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

59. All subscribing banks shall, under regulations to be prescribed, make a report monthly, or oftener if required, to the National Reserve Association showing the principal items of their balance sheets.

## STATE BANKS AND TRUST COMPANIES.

60. A bank or a trust company which is incorporated under the laws of any State may subscribe to the capital stock of the National Reserve Association in the same manner and under the same conditions as prescribed for national banks, and such subscribing bank shall become a member of a local association and have the same rights and privileges therein as if it were a national bank; provided—

61. (1) That (a) if a bank, it shall have a paid-in capital of not less than that required for a national bank in the

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same location; and that (b) if a trust company, it shall have an unimpaired surplus of not less than 20 per cent of its capital, and if located in a city of 25,000 inhabitants or less, shall have a paid-in capital of not less than \$100,000, and in a larger city a proportionately greater capital up to \$500,000 in a city of 500,000 inhabitants or more.

62. (2) That it shall have and agree to maintain against its demand deposits a reserve of like character and proportion to that required by law of a national bank in the same location; provided, however, that deposits which it may have with any subscribing national bank, State bank, or trust company in a city designated in the national banking laws as a reserve city or a central reserve city shall count as reserve in like manner and to the same extent as similar deposits of a national bank with national banks in such cities.

63. (3) That it shall have and agree to maintain against all other classes of deposits the percentages of reserve required by this Act.

64. (4) That it shall agree to submit to such examinations and to make such reports as are required by law and to comply with the requirements and conditions imposed by this Act.

### **NOTE ISSUES.**

65. There shall be no further issue of circulating notes beyond the amount now outstanding by any national bank. 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 shall permanently surrender its right to reissue the notes so retired.

66. The National 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 held by subscribing national banks and deposited to secure their circulating notes. The National Reserve Association

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shall take over these bonds and assume responsibility for the redemption (upon presentation) of outstanding notes secured thereby. The National 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 redemption, and may issue other notes from time to time to meet business requirements, 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 National Reserve Association of a character and secured and redeemed in the manner provided for in this Act.

67. All provisions of law requiring national banks to hold or to transfer and deliver to the Treasurer of the United States United States bonds other than those required to secure outstanding circulating notes and Government deposits shall be repealed.

68. All note issues of the National Reserve Association must be covered to the extent of at least one-third by gold or other lawful money, and the remaining portion by bankable commercial paper as herein defined or obligations of the United States, but no notes shall be issued whenever the lawful money so held shall fall below one-third of the notes outstanding.

69. Any notes of the Reserve Association in circulation at any time in excess of \$900,000,000<sup>1</sup> which are not covered by an equal amount of lawful money held by the association shall pay a special tax at the rate of 1½ per cent per annum, and any notes in excess of \$1,200,000,000 not so covered shall pay a special tax at the rate of 5 per cent per annum.

70. The notes are to constitute a first lien upon all the assets of the National Reserve Association, and shall be

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<sup>1</sup> The \$900,000,000 and \$1,200,000,000 are to be understood as including any national-bank notes which may be outstanding at the time.

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redeemable in lawful money on presentation at the head office of the National Reserve Association or any of its branches.

71. The notes of the National 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 bank to another, and for all obligations due to a bank.

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

### **UNITED STATES BONDS.**

73. Upon the application of the National Reserve Association the Secretary of the Treasury shall exchange the 2 per cent bonds bearing the circulation privilege purchased from the banks for 3 per cent bonds without the circulation privilege, payable after fifty years from the date of issue.

74. The National Reserve Association shall pay to the Government a special franchise tax of  $1\frac{1}{2}$  per cent annually during the period of its charter upon an amount equal to the par value of such bonds transferred to it by the subscribing banks.

75. The Reserve Association shall agree to hold the 3 per cent bonds so issued during the period of its corporate existence, provided that after five years the Secretary of the Treasury may at his option permit the Reserve Association to sell not more than fifty millions of such bonds annually; and provided further that the United States reserves the right at any time to pay any of such

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bonds before maturity, or to purchase any of them at par for the trustees of the postal savings, or otherwise.

[The effect of this exchange and agreement will be to enable the United States to provide permanently for a large part of the public debt at a net interest charge of  $1\frac{1}{2}$  per cent.]

