X-560

MEMORANDUM.

December 8, 1917.

There are at present 7,678 National banks. Of this number 7428 have circulation and there are outstanding and in the hands of National Banks unissued at the present time (December 1, 1917) $717,052,065 of national bank notes.

While the backs of national bank notes are identical, every national bank issuing notes has to maintain special plates; and on account of the great number of banks, and different denominations the Bureau of Engraving and Printing is obliged to maintain approximately 11,000 plates for different banks - at least one set for each national bank availing itself of the circulatinn privilege. Although the Bureau of Engraving and Printing is reimbursed for this expense, it greatly hampers it in making rapid production of notes; and the expense of redemption is, of course, enhanced in equal proportion.

It is very desirable at the present time to minimize in every feasible way the work of the Bureau of Engraving and Printing, this Bureau being very severly overtaxed by the demands upon it for the printing of bonds, revenue stamps, war savings stamps, United States currency, Federal reserve notes, etc.

Three methods have suggested themselves as possible ways of attacking the problem - there are doubtless others:

__First__: To adopt a standard national bank note with a blank space upon which the name of the bank, and the name of the president and cashier if necessary, may be printed as a separate operation. This will probably require special legislation.

Second - To provide so that each national bank depositing bonds with the Comptroller of the Currency for circulation will deposit these bonds as now, but deposit them in trust for the Federal Reserve Bank of its District. Instead of issuing national bank currency, the Comptroller will issue Federal Reserve Bank currency of the

District, which currency will be sent direct to the applying bank. The bank receiving the currency will be relieved of all expense of maintaining plates and of redemption, because that expense will be borne by the Federal Reserve Bank. If for example, a Bank in Utah deposits $50,000 of bonds with the Comptroller of the Currency it will receive $50,000 of San Francisco Federal Reserve Bank currency, subject to the usual redemption fund requirements. The Federal Reserve Bank of San Francisco will redeem and replace unfit notes as they come in. The effect upon the Bureau of Engraving and Printing will be that instead of 11,000 National bank note plates, it will be required to maintain only 60 plates (12 sets) for Federal Reserve Bank currency. It is possible that this plan might be worked out by means of regulation by the Comptroller of the Currency without change in the law.

Third - Section 18 of the Federal Reserve Act providing for the conversion of 2% bonds with circulation privilege into 3% bonds, might be modified so as to make it more effective. A 3% short-time conversion bond - say ten years - might be issued with the privilege of circulation when the bonds are held by Federal Reserve Banks, but subject to a tax of, say, $1\frac{1}{2}$%

or even 2% on circulation. National banks might sell their 2% bonds to Federal Reserve Banks for the aforesaid conversion bonds, giving up their circulation at the same time, and Federal Reserve Banks would immediately thereafter buy back the bonds and issue circulation to the national banks covering the bonds. This would operate the same as plan 2, in respect to making 60 plates of Federal Reserve Bank notes take the place of 11,000 plates of national bank notes, and would also have the effect of redeeming and getting out of the way as quickoy as possible the 2% bonds with conversion privilege, this having been one of the objects of the framers of the Federal Reserve Act.