FEDERAL RESERVE BOARD

WASHINGTON

X-258

July 3, 1917.

Dear Sir:

It is desired to send letter of inquiry to a small number of representative banks, and an equal number of representative business men, placing before each group appropriate questions with reference to the use of the trade acceptance. This is for the purpose of obtaining data for use in connection with the work the Board is now doing with reference to commercial paper. Will you in order to further this work, be kind enough to transmit to the Board at your early convenience:

(1) A list of about fifty member or non-member banks in your district divided about equally between large city banks, banks in places of moderate size, and country banks, selecting in each case those that are representative and likely to furnish good information.

(2) A list of fifty representative business men in your district divided about evenly between manufacturers, jobbers or wholesalers, and retailers, each separately classified. These names should be those of representative concerns, selected without any reference to whether they are or are not known to be employing the trade acceptance, and chosen simply as active representative concerns. It would be well to furnish names identified with the various sections and industries of the district as far as possible.

Yours very truly,

Secretary.

X-259

WAR FINANCE AND THE FEDERAL RESERVE BANKS.

A. C. Miller.

Address before the Joint Conference of the
WESTERN ECONOMIC SOCIETY AND THE CITY CLUB
Hotel La Salle, Chicago, June 22, 1917.

We are at war, and have already taken the first steps in its financing. If all the many succeeding steps that we shall have to take in the field of finance and elsewhere are as successful as this first step in our financing we shall find ourselves in fortunate circumstances. Good financing can not win a war, but modern wars can not be won without good finance. No country within so short a time after entering upon war has ever undertaken or succeeded in placing a long-term loan of such magnitude as the first of our war loans, the Liberty Bond Loan of $2,000,000,000. Not only has the loan been fully subscribed, but the indications are that it is oversubscribed by perhaps as much as $1,000,000,000. It shows that the country is alive to the heavy responsibility it has assumed in entering the war, and that financially it is in a state of exceptional readiness.

Many factors have contributed to the success of our first war loan, and many more will be necessary to the success of the loans which will follow. The banking power of the country has never been more effectively utilized in a great financial transaction than in connection with the negotiation of the Liberty Loan. Of necessity, and before the development of a more complete and adequate program of war finance, this loan had to be carried through as a banking operation. The banks of the country have performed a great service not only in facilitating individual subscribers to the loan and in assuming the function of distributors of Government bonds to ultimate investors, but also in offering to take a considerable part of the loan on their own account in anticiaption of future sales to their customers, and without any thought of advantage or profit to themselves. That the whole process of placing the loan has been carried through so far with such smoothness, ease, and with so little disturbance of the money markets of the country, is due to the brilliant sagacity of the Secretary of the Treasury in planning the several steps of this collossal operation, and to the reassuring presence and ready support, at every stage of the process, of the Federal Reserve banking system. Effective use has been made of successive issues of short-term certificates of indebtedness. Pending the flotation of the Liberty Loan, these certificates were used to provide the Treasury with funds for meeting its current disbursements, particularly in the shape of advances to the Allies. Being issued in an aggregate amount of $1,000,000,000 and in definite anticipation of replacement by long-term Liberty Bonds, they have done much to mitigate the pressure on the money markets by the shifting of funds incident to the negotiation of a $2,000,000,000 loan. Indeed, a constant feature of the Treasury's policy has been the vigilant care exercised to see that the funds received by the Government in payment of its obligations should be returned as promptly as possible to the money market, in order to minimize, or if possible altogether to avoid, the disturbance ordinarily incident to the transfer of funds on so huge a scale. It is remarkable that the rate for call money, which is a highly sensitive barometer of money conditions in the leading money market of the country, has at no time since the inauguration of the Liberty Loan operation shown any disquieting firmness or alarming increase, 6½% being the highest rate thus far reached.

The Federal Reserve Banks, as the country's foremost and most fundamental banking agency, have naturally had an important part in facilitating the transactions growing out of our first war loan, and it is of course to be expected that they will have much to do with the successive loan issues which will be brought out later. Indeed, it is to be expected that their status and the range and extent of their activities may be profoundly affected by the financing both of a public and private character which will follow in the train of war conditions, should the war run on for a year or more.

It is two and a half years since the Federal Reserve Banks were set in operation. Their activities, until recently, however, have been of restricted dimensions. Established primarily for the service that they could render to the financing of trade and industry and as a protection against the vicissitudes of the modern credit system, their chief value thus far has been to give to the country's banking and business affairs an undertone of strength and a feeling of security, and at times to exercise a restraining and prudential effect on the course of the country's banking policies and affairs. Although no such serious responsibility as that which now confronts the nation in the field of public finance could have been foreseen by the framers of the of the Federal Reserve Act, provision was nevertheless made by which the Federal Reserve Banks could be used as instrumentalities in support of Government finance, and we may therefore expect to see them becoming more and more, as the war goes on, a powerful auxiliary factor in the financial operations of the nation. How much their position and character may be changed under the weight of the new and varied obligations which may be imposed upon them by reason of the fact that war is to become the principal business of the nation for a year or more, is a question that cannot but be viewed with anxiety by those who have believed that these great institutions should always find their primary and normal field of activity in serving the needs of the country's industrial and commercial enterprise. For the war will some day be over. If, therefore, it should result that, as a consequence of undue reliance upon the resources of the Federal Reserve System in financing the war, the System was transformed and its ability to assist in the recuperation of American industry and its readjustment to the altered conditions of the whole world of commerce which may safely be predicted to follow the close of the war, impaired, the consequences would be of the most serious character. It should also not be overlooked that there will be many readjustments of our internal trade and industry during the war in the process of adapting our economic organization to the necessities of our new situation. Many industries may be expected to experience a slackening of demand for their output and will need the conserving care of a well administered credit system to tide them through the period of the war. Many others will be under stiff and urgent pressure rapidly to expand themselves to meet the intensified demands for their output occasioned by the war, and will need the use of the Reserve Banks' credit facilities. These things may not bulk large in our calculations at the moment, when our minds are preoccupied with questions of Government finance. But as the deep disturbance which will be wrought in our whole industrial organization, as the war proceeds, develops, these needs will make themselves felt. Proper concern and provision for the credit needs of our industry and trade both during the war and after the war ought not, therefore, to be prejudiced or foreclosed by undue or improper use of the resources of the Federal Reserve System, - vast and inexhaustible as they may appear to many to be at the moment - in the financing of the war.

When the amendments which have just passed Congress, providing for a greater concentration of the gold holdings of the country in the Federal Reserve Banks, become effective, the twelve Federal Reserve Banks will have a normal credit-lending and note-issuing power in the aggregate of about $2,000,000,000. Thus far, less than one-fourth of this power has been utilized in extending accommodation to the money markets of the country, whether through the member banks of the Federal Reserve System, or otherwise through open-market operations. The System possesses, therefore, an untouched margin of lending power of some $1,500,000,000. When it is recalled that a dollar of reserve credit extended to a member bank by a Federal Reserve Bank may multiply itself by five fold or more in the lending power of the member bank, it is at once apparent that the banks composing the Federal Reserve System - member banks and Federal Reserve Banks together - have a potential credit capacity for the borrowing community of some $7,500,000,000. This is an enormous potential credit power. But is is important that we should recognize that such power has its dangers and temptations as well as its protective strength and reassurance. To the expansionist it opens alluring vistas of inflation. By its wise use, however, it is capable of becoming at critical times a factor of decisive importance in the credit operations which will have to be undertaken during the period of the war - a bedrock of strong and wise finance.

What the Federal Reserve Banks <u>can</u> do usefully to help the financing of the country in its present crisis is one thing; what they may find it necessary to do against their best judgment and to the prejudice of the System's healthy devellpment, is another.

How much the Federal Reserve System can be the maker of its own destiny during the period of the war is at best uncertain. The Federal Reserve Banks are, after all, but one part, however, important a part, of our national machinery of finance, and that machinery will work to poor purpose if any important part of it does not mesh in with other essential parts. The making of a national financial policy for the conduct of the war is not in the hands of the Federal Reserve System. The System occupies, it is true, by reason of its control of money rates, a position of strategic strength in the general credit affairs of the country. But the extent to which the Federal Reserve System will feel justified in using its powers of control to affect the direction or alter the course of the nation's financial policy will almost of necessity depend upon the extent to which its advice is sought in the shaping of our national financial policies, and the degree of support accorded its judgment and action by the country at large. It may well be that our experience in this respect will repeat that of the leading European belligerents, and that the banking policy of the Federal Reserve System, like that of the English, French, and German banking systems, will be what the general financial policy of the Government and nation make it. If our general policy of finance is courageous, sound, and strong, our banking policy can be sound and strong. But if our general financial policies are weak or vacillating, our general banking policy, and that of the Federal Reserve System in particular, is likely of necessity to be weak.

As yet the general plan of finance for conducting the war has not been determined. There is still much discussion in and out of Congress as to the relative parts of the burden of war outlay to be assumed by taxation and by loans, and the more discussion proceeds, the more apparent it is also becoming that no plan for mobilizing the financial resources of the nation on the scale of magnitude in contemplation will be adequate, which is not buttressed at every critical point by an effective mobilization of the country's economic resources. Of necessity, the first steps in providing for Government outlays and the immediate advances needed by our Allies, will have to be furnished by loans. The first of these, the Liberty Loan, is now being carried to completion, and in its negotiation the Federal Reserve Banks have had their necessary and important part to play. A loan of $2,000,000,000, even in a country as rich as ours and as prosperous in a pecuniary sense as ours has been during the past two years, is probably to be regarded as in excess of the current funds of the country immediately available for investment. Extensive banking accommodation was therefore to be presumed to be necessary, at least in the first steps of its placement. How much of the $2,000,-000,000 loan is being taken by the ultimate invester, and how much by the banks and other intermediate agencies, is not yet known. It may be assumed, however, that a considerable part of it will be some time in finding lodgment in the hands of the permanent invester, and that this amount, together with much that has nominally been taken by investers, will have required the extension of some temporary banking assistance. In these circumstances, it has been the policy of the Federal Reserve Banks to give to their members and to the banks of the country generally, and through them to their customers, who were subscribing to the Liberty Loan, credit facilities on liberal terms. The Federal Reserve Banks have been authorized to make preferential rates of 3% upon 15-day paper of member banks, and 3-1/2 % (the rate carried by Liberty Loan bonds) to the banks - member, non-member, and savings - and to their customers, who are borrowing on their 90-day notes for the purpose of effecting payment of their bond subscription. The Federal Reserve Board has also authorized a special one-day rate, as low as 2%, in order to enable the banks in the country's greatest financial centers to prevent undesirable disturbances in the market for call money. For under conditions like the present, the state of the call money market has a very definite influence upon the general financial situation.

The marked effect which these policies have had in promoting a spirit of confidence among the banks of the country and the people generally in taking hold of the Liberty Loan, cannot be doubted, in view of the unprecedented success of this whole vast operation. Whether these liberal policies will beget a false sense of security and excessive reliance upon banking credit, and especially upon the resources of the Federal Reserve System, to finance the war loans of the Government it is too early to say. Banks can, perhaps, safely undertake the financing of wars of ordinary financial magnitude, but a war calling for expenditures and advances estimated, as they are by the Secretary of the Treasury, at $10,000,000,000 for the first year, clearly calls for more fundamental financial provision than can be provided by the banks of this or any other country. Indeed, rich and powerful both in a financial and an economic sense as the United States is, it cannot but awaken earnest solicitude how we should best proceed in undertaking to finance a war that is to cost $10,000,000,000 a year.

The wealth of the United States was estimated before the war at about $180,000,000,000. It is now estimated as high as $225,000,000,000, and some even venture to place it as high as $250,000,000,000. If we take the last named figure, it is three times the estimated wealth of Great Britain or Germany, and the inference has been hastily drawn by some that we, therefore, as a people possess three times the contributive capacity of Great Britain or Germany, which have been the heaviest spenders among the European belligerents. Such comparisons, however, are apt to be misleading. It is not so much the assessed wealth of a country, but its realizable wealth that counts in war time as an index of financing capacity, and there are great differences between countries with regard to the proportion of their total wealth on which they can realize for the purposes of war financing - England, among the present belligerents, being manifestly far the most fortunately circumstanced in this respect. But of far more importance even than realizable wealth as an index of a nation's financial or contributive capacity, is current income or the current product of industry, especially for a country which has to be taken by itself and do all its financing from within, and without external assistance - for such is the position of the United States. We shall have to pay as we go, out of our own unaided resources; that is, out of current income or the current product of industry. How much of our current income and product is to be regarded as effective income - that is, as made up of things available for Government use - is the question that must be answered in attempting to estimate the financial and contributive capacity of the nation for war purposes. By effective income is meant that portion of the total gross income of the nation which is in excess of a reasonable and proper provision for the living requirements of the people. It is that excess which, in war time, is to be regarded as the nation's available or spare income - that is, the income that can be spared or withheld from individual consumption and turned over for the use of the Government. Obviously the wider this margim of surplus or disposable income, the greater the effective financial strength of a country.

What, then, is our effective income?

Our gross annual income was estimated before the war at $30,000,000,000. The growth of our industrial and productive power and the rise of prices which have gone on apace during the past two years are estimated to have carried our gross national income up to from $35,000,000,000 to $40,000,000,000. If the latter figure may be taken as approximately correct, it is clear that the expenditures in contemplation for the war ($10,000,000,000) will absorb about one-fourth of our gross national income, and call for a considerable addition to the annual savings of the nation. How much this amount is in excess of the present annual savings or investment fund of the American people - that is, the proportion of its income annually set aside and withheld from consumption - can only be conjectured; but our present actual savings fund is almost certainly less by one-half than the amount which it is proposed to raise for the purposes of the war. It was competently estimated that the annual savings fund of Great Britain before the war amounted to $2,000,000,000. It is doubtful whether ours amounts to more than twice as much as Great Britain's, but even if we take an optimistic view of the situation and allow that ours may amount to as much as $5,000,000,000, it is clear that the financing of the war confronts us with the problem of converting an additional $5,000,000,000 of the gross income of the American people into savings to be turned over for the use of the Government.

The undertaking may well seem stupendous and to involve for many classes of the consuming public very drastic revisions of their customary mode of living. The more the situation is pondered, however, the clearer it becomes that we cannot successfully undertake the financing of the war except by putting it on a foundation of economic concrete by the practice of thrift on a scale which has not been our national habit for many decades. There are no mysteries in sound finance; no short-cut and easy methods by which we can make something out of nothing. We shall be dealing in self-deception, therefore, if we attempt to avoid facing the fact that the war, on the scale which is projected, will call for a diversion of about one-fourth of the annual income- or let it be stated more fundamentally, one fourth of the annual productive power of the nation - from individual use to Government use. Thus stated, it is clear that saving on a scale of unprecedented intensity will be an essential preliminary under any effective scheme of national finance we may adopt, and the question, which is much discussed, as to whether taxation or loans should be our chief reliance, or the proportions in which the two should be combined, gets its chief meaning from the effect that the one or the other, or any given combination of the two, may be expected to have either in stimulating or in forcing national thrift and the growth of our annual savings.

The danger of the loan policy is that by deluding itself with a notion that it is putting the burden on to the future, it will, through resort to fatuous and easy expedients, put the burden both on the present and on the future. This will happen if the loan policy, failing to induce a commensurate increase in the savings fund of the nation, degenerates, through the abuse of banking credit, into inflation - raising prices against the great body of consumers as well as against the Government, thus needlessly augmenting the public debt, and increasing the cost of living just as taxes would. The policy of financing war by loans, therefore, will be but a fragile and deceptive and costly support unless every dollar obtained by the Government is matched by a dollar of spending power relinquished by the community; in other words, will fail and develop into inflation unless the dollars which are subscribed to the bonds of the Government are real dollars, the result of real savings and of real retrenchment. The danger to be feared in undertaking to finance our war by credit is that sophistry and financial legerdemain may lead us to attempt to carry the operation through as an operation in banking finance instead of as an operation in saving and investment. The doctrine is already current in the country, with the sanction of some leading bankers, that our war cannot be financed except by credit expansion running to the limits of inflation. Being dealers in banking credit, they naturally take the view that the expansion of credit in question will properly have to be an inflation of banking credit; for this is the new and most recent form of inflation which the gigantic war in Europe has been bringing to the front as a device in war finance.

Inflation as an expedient of public finance has long been practiced, although it has never had the sanction and approval of those whose business it has been to lay down canons of finance rather than to engage in the practice of finance. The record of our own great wars and the records of the great wars of other nations in modern times show pretty uniformly that timidity in facing the serious realities of war finance has usually developed a situation from which escape was finally sought through the desperate and costly expedient of Government currency inflation. Such was our disastrous experience in the Civil War, when resort was taken to the greenback currency, which was nothing but a device of inflationism, and some $500,000,000 thereby added to the cost of the war- which might have been avoided had the Government's financial operation been maintained on a strong and healthy basis - to say nothing of the demoralization wrought in business and the hardships and iniquities inflicted upon the great body of defenseless working men and consumers. Clear and specific as the teachings of that experience are to those who can learn from history, it will remain for this war to demonstrate whether or not the lesson has been fully taken to heart. Inflation is full of seductive potentialities to the pundits of paper finance. Even if we do not avowedly repeat the costly mistakes of our Civil War by ventures in the field of Government currency inflation, we may yet reach a similar result and land the community in a similar plight through the more subtle and less vulgar process of banking inflation.

The average business man, and even the majority of bankers, have been very slow to appreciate the fact that in such a country as ours, with a highly organized system of mobile banking credits, banking credit is the most common form of purchasing medium used by the business community. When an ordinary commercial bank opens a credit on behalf of any of its customers for $10,000, it creates by a stroke of the pen an addition to the supply of the purchasing media of the country of $10,000 less discount, just as unmistakably as if it had issued $10,000 in bank notes or had paid out any of the other forms of conventionally recognized currency or money.

Banking credits which originate in connection with actual operations in industry or commerce, and which are protected against over over-extension by effective reserve requirements, are of course a highly desirable substitute for currency in a community which is habituated to modern banking practices. The superior convenience of the check as against the bank note as a form of remittance and payment is altogether obvious, and explains the well-established preference of the American business community for it. Nor is it liable to the abuse of inflation as long as the banking credit which is circulated by means of the check is bottomed upon genuine, that is to say productive, operations in industry and trade, resulting in an increased supply of goods. Inflation takes place whenever the supply of the purchasing media is increased more rapidly than the supply of goods produced and to be exchanged. Prices then rise. Their rise is inevitable under the operation of the general law of demand and supply, to which the value of money is no exception but rather the most exact case. The power to purchase and pay is the power to bid, and when the supply of the means of purchase and payment- no matter what their forms, whether gold certificates, bank notes, Federal reserve notes, or bank deposit-credits circulated by means of checks- outruns the increase in the supply of goods available for purchase, there will be increased bidding for the goods, with the inevitable resultant of increased prices. The evidence and the meausre of a state of inflation proceeding from inflation of money, currency, or credit, is the rise of prices. When, therefore, banking credits are opened for any other purpose than to facilitate transactions which result in an increase in the production and supply of goods, banking credit is being used to lay the foundation of inflation.

We have a marked advance of prices in this country since the beginning of the European war. The rise is estimated at 45%. We have also had in the same time an increase in the supply of the country's purchasing media, consisting of money, currency, and most of all, banking credits, of some $5,500,000,000, or 45%. An examination of the resources of the banks of the country so far as that is possible, indicates moreover, that a very considerable volume (45%) of the banking credits created since the beginning of the European war in 1914 is offset by securities of an investment, not a commercial, character- consisting largely of Government obligations. That is to say, a large part of the new banking credit which has been created in the past two and half years has not been used to finance the increased production of goods, but to finance the transfer of ownership and use of a part of the existing production to the hands of borrowing Governments. The conclusion is irresistible that inflation has been in progress to a marked degree in this country during the past two years and a half, and that the steady forward march of prices which has cramped and pinched the average consumer has been caused, for the most part, by the rapid expansion of banking credit and currency without a commensurate expansion of productive industry.

The same process, only in a vastly intensified degree, has been going on in the belligerent countries of Europe and has given rise repeatedly to the gravest expressions of solicitude by those who are engaged in looking through the tissues of paper finance to the inexorable economic facts. All of the belligerent countries of Europe, in one degree or another, have undertaken to finance the war by borrowing, with inflation results that, for the most of them, make a tragic record of hardship for the masses and needless augmentations of the nations' debts, and will leave behind, at the close of the war, and for the next generation a heritage of unspeakable financial confusion.

Inflationism may not be the ultimate term in weak or bad finance, and situations and conditions may from time to time present themselves to us which will make a degree of temporary inflation unavoidable. But inflation is so nearly always bad, and so nearly always avoidable - if there be but will and courage enough on the part of the community and its governors - that it is pretty nearly an ultimate test of the character and workings of a country's credit and financial system. I repeat, therefore, that if our loan policy through an undue reliance upon banking credit, degenerates into inflationism, it means that the loan policy is failing, and therefore that the system of undertaking to induce the people to save for the use of the Government - in brief, the voluntary system of finance - must give way to some other more rigorous method or system - the system of compulsion or financial draft. That may mean either (1), taxation carried to the limit, that is, conscriptive taxation, as some already propose, or (2), conscriptive borrowing - a less drastic form of financial draft - as the only acceptable alternatives to inflation.

For let it not for a moment be overlooked that inflation, in its effects, amounts to conscriptive taxation of the masses. It is, indeed, one of the worst and the most unequal forms of taxation, because it taxes men not upon what they have or earn, but upon what they need or consume. The only difference, for the masses between this kind of disguised and concealed taxation and taxes which are levied and collected openly, is that in the case of the latter the Government gets the revenue, while in the former case it borrows it, and those to whom it is eventually repaid are not those, for the most part, who have been mulcted for it. Inflation, therefore, produced a situation akin to double taxation in that the great mass of the consuming public is hard-hit by the rise of prices induced by the degenerated borrowing policy, and later has to be taxed in order to produce the revenue requisite to sustain the interest charge on the debt contracted and to repay the principal. The active business and speculative classes can usually take care of themselves in the midst of the confusion produced by inflation, and recoup themselves for their increasing outlays. Indeed, inflation frequently makes for an artificial condition of business prosperity. That is why war times are frequently spoken of in terms of enthusiasm by the class of business adventurers. But it is a prosperity that is dear-bought and at the expense of the great body of plain-living people. It would be a monstrous wrong if, in financing our present war, we should pursue methods that would land us in a sea of inflation in which the great body of the American people, who are called upon to contribute the blood of their sons to the war, were made the victims of a careless or iniquitous financial policy.

In warning thus emphatically against the dangers to our whole economy that will follow the financing of our war by an inflation of banking credit, I would not for a moment wish to be understood as implying that the war could be financed without the extensive cooperation of banking institutions and our system of banking credit. Loans in such amounts as the Government will place cannot be raised to any important extent out of past savings, for those have already been crystallized into fixed forms of investment. Nor can they come entirely out of immediately present savings. They must in some degree anticipate future savings. We have just completed the negotiation of our first war loan of $2,000,000,000. Our ordinary savings may be at the rate of $400,000,000 a month, and if this has already been increased by one-half (it will have to be doubled in order properly to finance the war) it will have yielded, in the months during which the negotiation of the Liberty Loan is being carried to completion barely enough to effect the payment of the loan. In those circumstances, it was clearly necessary that the great financial institutions of the country should make advances, either to their customers in aid of the payment of their subscriptions to Liberty bonds, or directly to the Government in payment of their own subscriptions, in the expectation that they could subsequently place the bonds so acquired with the investing public.

How long a time might reasonably be allowed Liberty Loan subscribers who have sought accommodation from their banks in order to complete their subscriptions, to take up these loans, or how long a time should be allowed the banks which have made direct subscriptions in order to work off their bonds on the saving and investing public, in other words, how far we might safely go in anticipating future savings, is a question upon which opinions may well differ. Competent opinion in England, where a similar problem has had to be faced in connection with their great $5,000,000,000 war loan, has assumed that a year is the normal limit beyond which banking accommodation should not be extended in carrying buyers of Government loans. Our situation and circumstances are probably more favorable to a shortening of this process. England's whole trade and industry have been seriously dislocated by the war. Her producing power has been much impaired, and therefore the source on which her saving power has to operatehas been much diminished. Ours is a contrary situation. We have, as a nation, never come so near realizing our full productive capacity; our potential savings fund, therefore, never been so large; and the circumstances seldom so favorable for the rapid conversion of potential savings into actual savings. Moreover, the stream of wealth out of which savings are to be made is a pretty continuous flow in this country. A much shorter period of time than what has been thought necessary in England in order to assist the anticipation of future savings would, therefore, seem to be necessary in this country, and it seems doubtful to me whether, as a statement of the normal situation, more than six months should, on the average, be allowed in which to take up credit extended to individuals in order to enable them to buy Government bonds, and they should be pressed hard to complete their prepayments of borrowed funds in four months, if we are to avoid the danger of inflation. The banks ought to be put under pressure to work off their own bonds, that they do not as a matter of banking policy mean to hold as a part of their permanent investments, within a period of not more than from four to six months. Otherwise they will not be in a position satisfactorily to assume their obligations in connection with the subsequent loans which will be placed by the Government under a program of providing $10,000,000,000 a year, or over $800,000,000 a month.

But when all is said, and every reasonable and proper provision for the legitimate use of the banking and credit machinery of the country is made, in order to mobilize the nation's money savings, let us not make the mistake of supposing that the saving which is called for in the present exigency is merely a saving of dollars. It is a saving of the productive power of the community from the service of private consumption for the service of public needs which is called for, and the saving of money is of consequence only so far as it results both in a transfer and in an increase of the effective industrial power of the nation for Government use.

Taxation, and even loans which are bottomed upon real money savings can at best only provide the Government with buying power. But the Government will need more than buying power in order properly to finance the war. As the war goes on, it will become clearer that this is a war of economic strength and resources, and that victory will lie with the nations which are best able to diminish the processes of economic waste and best able to resist the processes of economic exhaustion. More than buying power will, therefore, be needed for the effective prosecution of the war and its successful issue, no matter how orthodox and carefully guarded in a financial sense, the methods of providing the Government with the needed buying buying power are. Napoleon summed up his experience as the greatest soldier of his age in the statement "An army marches on its belly." The experience of the present war is every day reinforcing the doctrine that a successful army is carried on the back of industry. It cannot therefore be too emphasized, in the discussion of plans for the mobilization of the financial resources of the country, that, much as the Government will need buying power, it will need something far more potent and fundamental than buying power. It will need arm power, tool power, nature power; - and brain power and will power to organize and vitalize and direct these. Nature power we have in unlimited abundance. Our present problem is to combine with it the undeveloped potentialities of our arm power, our brain power, our saving power, and our will power; the power to do, and the power to do without - the power to do, that means producing more, and the power to do without, that means saving more.

Can we, then, reorganize our life during the period of the war so as to increase the productive power of the nation and so to increase our savings as to provide a quarter of this productive power for the use of the Government? We can if we will, but only by an heroic exercise of our national will to enforce the necessary economic sacrifices and saving. To make our saving effective, we must find and impose upon ourselves a substitute for the English blockade of Germany and the German submarine blockade of England in forcing economy and saving. I have been told upon trustworthy authority that when the policy of the submarine warfare against England was under discussion in Berlin, one of the most eminent of Germany's economic strategists argued vigorously against it, not on the ground of its violation of the established rules of international practice, but on the ground that it would help England more than it would hurt her. "Keep the submarine away from England's shores and England will eat herself into bankruptcy quicker than the submarine can bring her to starvation."

So I believe it is coming to be recognized, by those who appreciate that this war is an economic endurance contest, that England's blockade of Germany has been one of Germany's greatest aids in the financing of her war. It has forced the most rigid sort of economy, and through bringing the whole nation appreciably near the point of starvation, has led them to accept the most drastic control of living that the world has ever seen, and so has measurably offset for the great mass of the people the terrible and iniquitous injuries that would otherwise have been inflicted upon them by the financial policy of inflation which Germany has followed in this war. Those who are puzzled because of the scanty use that has been made in Germany of war taxation to finance the war - her whole reliance being placed substantially upon loans - have here, I believe, the explanation of this strange phenomenon. It shows that inflation can only be absorbed on an empty stomach and where "rationing" is established as a supplementary process of public finance.

We must of our own choice impose a blockade upon ourselves against the seductions of luxuries and the temptations to waste. That means we must save, save, save. More than this, we must study how to make our saving most effective.

Effective saving in war time means much more than simply cutting down the number of dollars which we spend and turning them over to the Government as taxation lendings for its use. Savings of dollars is good as far as it goes, but it is a mere beginning and does not go far enough. Much, in many instances very much, depends upon what I economize in the process of making my savings. Some economies are much more effective than others, and the test of effective saving must be whether that which I refrain from consuming, in the process of saving dollars, results in leaving unused an equivalent value of the kinds of commodities which the Government needs. Suppose my income is $10,000 a year, and that my family and myself have been in the habit of spending all of it. We now decide to economize to the extent of $1,000 in order to subscribe to the bonds of the Government.

How can we make that saving most effective; that is, most effective when tested by what it enables the Government to get in the way of needed articles and service? If my family cuts down its consumption of plain food - beef, bacon, beans, potatoes, etc.; - plain clothing, gasolene, fuel, transportation, domestic service, etc., all of these, things that the Government needs for the war - my family's saving is very much more effective than if it simply cut down the purchase of expensive dress, a box at the opera, an annuity to an aged relative, a contribution to a school or club, etc. In either case, I am putting the Government in possession of the buying power of a thousand dollars which I had previously been accustomed to spend. But in the former, in addition to handing over to the Government one thousand of dollars, I am leaving on the shelves of shopkeepers, etc., one thousand dollars worth of goods and services of the kind which the Government wants and needs, and which it can buy with the $1,000 I have turned over to it. My saving has been effective because I have gone without the use of goods and services which it is important for the Government to have, and turned over to the Government $1,000 with which it can buy them. In the second case, where my family economizes on costly dress, fancy foods, and other products of the luxury trades which get their value not so much from the quantity of labor it takes to produce them as from the rarity of skill, my saving of a thousand dollars is not nearly so effective as in the former case in turning over to the Government a commensurate value of the kind of commodities or the kind of labor it requires.

Saving luxuries doubtless accomplishes something, but much less than is frequently supposed. If I am in the habit of spending $100 a year for a suit of evening clothes and decide, in view of the war, to forego that expenditure and turn over the $100 to the Government in payment of a subscription for a bond, what have I turned over in the way of effective industrial power? The $100 which the suit of evening clothes costs, represents, after all, a comparatively moderate amount of labor and a comparatively moderate amount of material. The high cost of the suit to me is mainly for the skill, the taste, and workmanship of the designer. Perhaps I pay a good deal for the fashionable label that goes under the collar or the magnificent rooms into which I am ushered in the process of relieving me of $100 for a suit of clothes. In brief, the price which I pay is made up largely of what the economists call "prestige value"; that is to say, in the instance chosen, I am paying the extravagant price for dress rather than for clothing, paying the high price not to get comfortable protection for my body in the cold winter evenings, but to get something which gives me a feeling of correctness - style, fit, fashion, etc.

If these illustrations are suggestive, they point to the conclusion that we must put intelligence and discrimination into our economies if they are to be made effective savings. The test we must apply is not merely how many dollars have we saved, but how much productive power and material have we released for the use of the Government and those industries which are producing the kinds of things the Government requires. Indeed, not only must we put intelligence and discrimination into our economies and saving, but we must do it with something of a religious zeal. The man who saves most effectively for his Government will be the man who, in the course of his daily life, says, "Here is something the Government can use as well if not better than I can. Ordinarily I would have bought it and consumed it. I am not going to buy it now. I am going to leave it for the use of the Government. The Government's needs are more important than my desires." Thus, while we must press our economies in all directions, we must recognize that it is not the man who saves upon his costly extravagances, but the man who, in addition, saves upon the basic materials or necessities of life, whose dollars count most when they reach the hands of the Government.

It is no part of my present purpose to discuss the economic value, in war time, of the doctrine of "Business as usual", but I believe certain inferences are clear from the preceding analysis. Much business will be speeded up during the war and its condition will be one of unusual activity. Other business cannot be as usual, if we are to pursue a program of effective national thrift, and public opinion should not permit it to be so. As we go along, and the necessities of the war become more exacting, we shall learn how to reorganize the industrial and consumptive economy of the whole nation and every class in the nation, so as to make it contribute most to the efficiency of the nation, as a nation that is organized for the business of conducting the war. The health and working efficiency of the nation must not be allowed to suffer impairment; but when a reasonable allowance is made for these ends, the nation's needs must take the right of way as against the desires and wants of its individual members, even though some business languishes here and there, and is not "as usual". In brief, economic and industrial principles rather than "business" or "money-making" principles must be our guide in reshaping our economic organization for the business of war. No plan of finance, therefore, which is conceived simply in terms of dollars, however real the dollars be, unless also conceived in terms of the goods and productive power thereby set free for public use, can hope to succeed in the fact of the present national exigency. How much more serious, therefore, will be our national self-deception if, by a process of credit-mongering, the dollars which are turned over to the Government are not real dollars, the results of acts of saving, but more or less fictitious dollars, created by acts of inflation.

Saving will never be as easy for the nation as during the period of this war, if we know why we are in this war. The war and all that it implies in the way of high and chivalrous national endeavor should be our substitute for our customary luxuries and individual during the war. This is a time for national, not individual, indulgences. We can afford to be generous in a national indulgence of the character which has carried us into this war. Indeed, when we consider the vast consequences for civilization and the democratic principle that hang on the issue of the war, we cannot afford to be other than generous in support of the cause which we hold true and dear, even though it involves the severest self-denial for us as individuals.

Wars, it has been said, except those waged in national defense, are luxuries. If ours is such a war, it represents a luxury that has become an imperative necessity. We are not fighting a war of defense, but unless we put into the prosecution of our war a will that is ablaze with passion, it may become a war of defense. We are fighting a war in defense of our principles; the same principles for which the fathers gave their blood. From one point of view such a fight may be a luxury, from the other point of view it is a necessity. But whether it be regarded as the one or the other, it means that for the time being we must give generously of our substance and devotion as well as of our lives, as for a thing that we cherish as more than life.

War against the Imperial German Government "to make the world safe for democracy" means to me, primarily, war to break the stubborn will of the most stiff-necked, iron-blooded oligarchy that, since the breakdown of feudalism in Europe, has ever taken possession of the life and destiny of a powerful and docile people, and sought to impose its will upon them and through them upon the world. Drunk with power, and with a will that is mad with lust for dominion, the will of the Junker oligarchy of Prussia must be broken. But it will not be, unless we match its will with a will of our own as strong for the things we know to be right as theirs is for the things we know to be wrong. It is a big and difficult, but heroic and noble, enterprise on which we have entered. It calls for men, it calls for munitions, it calls for money. But more than these, it calls for will power, for this is a war of wills.

FEDERAL RESERVE BOARD

X-262

WASHINGTON

DIVISION OF REPORTS AND STATISTICS

July 6, 1917.

Dear Sir:

Through oversight code word "BLOT" was assigned to new asset item "Gold with Federal Reserve Agent", this code word already figuring against item "Exchanges for Clearing House."

Kindly use code word "BLIK" to designate item "Gold with F. R. Agent," which item should go into the "reserve" block, preferably over or below item "BELT", Due from Treasurer of U. S., Gold Redemption Fund (F. R. Notes)

Very truly yours,

Secretary.

EX-OFFICIO MEMBERS
WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

Dear Sir:

This letter is being sent to a limited number of bank officers.

In order to ascertain the present position of the trade acceptance as an element in the commercial paper of the country, the Federal Reserve Board would consider it a favor if you would reply briefly to the following questions, answers to which are desired for its information:

(1) How many and what proportion of your jobbing and manufacturing customers are now requesting those to whom they sell goods to sign trade acceptances?

(2) How many of those included under (1) are also giving trade acceptances to those of whom they buy?

(3) How many or what proportion of those included under (1) and (2) are in the habit of discounting trade acceptances with you?

(4) What rates, if any, were in effect by your bank on July 2, 1917, for the discount of trade acceptances?

(5) Is your rate for such trade acceptances lower than the rate you would charge in discounting the direct note of the concern offering you such acceptances? If so, how much lower?

(6) Would you grant a greater aggregate line of accommodation to the concern offering you trade acceptances than you would to the same concern on its own direct obligation accompanied by a satisfactory statement of condition? If so, how much larger (in percentages)?

(7) What can be done by the Board or by others to encourage the use of the trade acceptance?

Enclosed is a copy of the Board's Regulations for 1917 on page 6 of which will be found the definition now in force with regard to trade acceptances.

Very truly yours,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

365.

Dear Sir:

This letter is being sent to a limited number of business men.

In order to ascertain the present position of the trade acceptance as an element in the commercial paper of the country, the Federal Reserve Board would consider it a favor if you would reply briefly to the following questions, answers to which are desired for its information.

(1) Do you at present ask your customers to give you trade acceptances for goods bought from you?

(2) Do you at present give trade acceptances when you buy goods?

(3) Do you find that the trade acceptances furnished you by customers are more promptly paid than open accounts (with or without "cash discount") for like amounts?

(4) Do you discount trade acceptances at your bank, and, if so, what rate is charged you? Is this less than the rate on your straight paper? If so, how much?

(5) Does your banker give you a larger aggregate line on trade acceptances than on your straight paper? If so, how much larger (in percentages)?

(6) What can be done by the Board or by others to encourage the use of the trade acceptance?

Enclosed is a copy of the Board's regulations for 1917, on page 6 of which will be found the definition now in force with regard to trade acceptances.

Very truly yours,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-266 ADDRESS REPLY TO
FEDERAL RESERVE BOARD

Dear Sirs:

There are being sent to you to-day under separate cover three hundred copies of form 83a, blank application for stock for use by State banks and trust companies; and also three hundred copies of a supplement to form 83a, outlining information to be filed as exhibit 3 with each application. Kindly destroy any of the old application forms that you may have on hand.

The Board will continue to receive applications made out on the old forms, but it is desired that no more of these forms be given out.

Very truly yours,

Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-268

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

Dear Sir:

There is being sent to you, under separate cover, a supply of form No. 56 (Revised), application for additional stock. Kindly discard the old forms you may have on hand.

Very truly yours,

Assistant Secretary.

July II, 1917.

To Members of the Staff of the Federal Reserve Board:

By direction of the Federal Reserve Board, I hand you the following suggestions transmitted by Mr. Herbert Hoover:

"Enlist in the food economy campaign. Wishing to aid my country during the war I promise:

I. To eat one wheatless meal a day,

2. To eat beef, mutton or pork not more than once a day,

3. To economize in the use of butter,

4. To cut my daily allowance of sugar in tea or coffee and in other ways,

5. To eat more vegetables, fruit and fish,

6. To urge in my own home or the restaurants I frequent the necessity of economy."

Very truly yours,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-270

July 12, 1917.

Dear Sir:

The Federal Reserve Board has, during the past few weeks, received communications from several Federal Reserve banks asking if any action could be taken looking toward the exemption of their employes from the operation of the Federal draft for military service.

The Treasury Department has more recently referred to the Board letters and telegrams from the governors of most of the Federal Reserve banks asking if this exemption could be secured on the ground that the banks are fical agents for the Government and are doing a large amount of additional work in cident to their duties as such, and in connection with the bond issues.

While the Board appreciates the importance of protecting the organizations of the Federal Reserve banks, it is unable, after very careful consideration, to find any grounds upon which to base a request for the exemption of employes of Federal Reserve banks. The law does not authorize specific exemption in favor of the employes of Federal Reserve banks or of the Federal Reserve Board, and while the banks will doubtless suffer some inconvenience, just as member banks, insurance companies, and mercantile concerns will, the Board believes that the executive officers of the Federal Reserve banks should, as a rule, release cheerfully any employes who may be drawn under the selective draft, filling their places either with men who are beyond the draft age, or with competent women, as has been done to such a great extent in all belligerent countries. The Board does not see how it can take the position that Federal Reserve banks are so much in a class by themselves that general exemption in their favor should be requested, and it does not believe that such a request could be granted if made. The Board realizes the possibility that some employes may be drawn whose services are especially valuable to the banks, and in such specific cases, it would suggest that application be made for exemption.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

July 12, 1917.

Dear Sir:

The Federal Reserve Act empowers the Federal Reserve Board "to add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in Section 19 of this Act; or to reclassify existing reserve and central reserve cities, or to terminate their designation as such."

A committee of the Board has had under consideration for some time past the suggestion that certain cities which are now the domicile of "country banks" should be given the status of reserve cities. The committee has prepared a list of cities as shown on the list enclosed herewith, which might, by reason of their population, be classed as reserve cities. From this list of 27 cities, the committee has recommended that 8 cities be named as reserve cities, to wit:

Buffalo, N. Y.	Jacksonville, Florida.
Toledo, Ohio.	Grand Rapids, Michigan.
Peoria, Illinois.	Evansville, Indiana.
Memphis, Tennessee.	Oakland, California.

In all but one of these 8 cities, amounts due to banks exceed 23 per cent of the total deposits. In the city which constitutes the single exception - Buffalo - the bank deposits aggregate only 13.4 per cent of the total, but the sum total of these (more than $12,000,000), the population of the city and its importance as an industrial center, would seem to justify the reclassification proposed.

You are requested to bring this letter to the attention of your Executive Committee or Board of Directors, and to acquaint the Board at your earliest convenience of the consensus of opinion regarding the proposed action, at the same time making any suggestions which you may deem proper.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-275

July 13, 1917.

Dear Sir:-

This morning I wired you as follows, which I now confirm:

> "You may discontinue daily statements by wire until July twenty-seventh; resume them July twenty-eighth to thirty-first inclusive; then discontinue; resume again August fourteenth to seventeenth inclusive; then discontinue and resume again August twenty-eighth to September second inclusive."

The Board appreciates the additional work that these statements entail upon your force, but deems it important that it keep in close touch with the situation during those periods when payments are being made on account of Liberty bond subscriptions. The Board requests that care be taken to resume the telegraphic advices on the dates above indicated.

Very truly yours,

Governor.

PRESS STATEMENT.

July 13, 1917.

The Federal Reserve Board today announced that arrangements had been completed for the organization of a branch of the Federal Reserve Bank of San Francisco at Spokane, Washington. The branch will be under the control of a board of five directors, three of whom have been designated by the Federal Reserve Bank of San Francisco and two by the Federal Reserve Board. Those designated on behalf of the Federal Reserve Bank are as follows:

Mr. E. T. Coman is President of the Exchange National Bank of Spokane

Mr. D. W. Twohy is President of the Old National Bank of Spokane.

Mr. Charles A. McLean is at present Manager of the Spokane Clearing House.

Those designated on behalf of the Federal Reserve Board are as follows:

Mr. Peter McGregor is a farmer and stock raiser living near Spokane.

Mr. G. I. Toevs has had long experience in the milling and banking business and is now Vice President and Manager at Spokane for the Centennial Mill Company.

Mr. McLean will be Manager of the Branch and Chairman of its Board.

The Board has been advised that the eligible state banks in the territory adjacent to the Spokane branch will take the neces-

Press Statement.

sary steps toward becoming members of the Federal Reserve System as soon as possible and it is understood that the local banking community will freely use the new branch, while there will be close working arrangements between it and the Spokance Clearing House.

FEDERAL RESERVE BOARD

WASHINGTON

X-279

July 14, 1917.

Dear Sir:

The Federal Reserve Board is desirous to learn the amounts of accommodation extended by your bank to nonmember banks in your district in connection with Liberty Loan operations. As your schedules BD-4 fail to specify the amounts of nonmember bank paper discounted for your members, will you be good enough to send us these data distributed by 15-day, 30-day and 90-day maturities at the time of discount by your bank. May I also request that in the future all nonmember bank discounts be specified on schedules BD-4 by prefixing letter "N" to the items in question.

Respectfully,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-282

DIVISION OF REPORTS AND STATISTICS

July 17, 1917.

Dear Sir:

May we ask that you kindly state the amount of dividend declared during the past month of June and amount paid on or before June 30; also amount paid after that date. As it is desired to reproduce this information in the forthcoming August Federal Reserve Bulletin you will greatly oblige us by sending us the data at your earliest convenience.

Very truly yours,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-283.

July 17, 1917.

Dear Sirs:

Your attention is directed to the following paragraph from a letter addressed to the Treasury Department by the Director of the Bureau of Engraving and Printing under date of July 11, 1917, in relation to deliveries of Federal reserve notes:

> "The balance due on orders calls for 9,782,000 sheets with a face value of $325,940,000, and on account of which 185,000 sheets have been printed and delivered daily. The New York bank particularly wanted increased deliveries on its orders. On account of the work of the Bureau now being placed on an eight-hour basis, the daily schedule of deliveries of these notes and of other work will have to be considerably reduced, and the date of the completion of the orders in hand for these notes will be advanced from the first to the latter part of September."

Very respectfully,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-286

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

July 18, 1917.

Dear Sir:

Referring to our telegraphic request of even date that you resume the sending of daily telegrams showing bills rediscounted by members (item FEND), collateral notes secured by U. S. securities (MAZE) and by commercial paper (FISH), bills bought in the open market (FORD) and totals of bills discounted and bought (TACK), I desire to state that these data are to take the place of the fuller telegram giving condensed statement of condition of your bank, temporary discontinuance of which was authorized on June 13. These loan statements should be sent to us every evening, beginning to-night.

On the dates indicated in Governor Harding's instructions of June 13 the fuller telegraphic statements are to take the place of the daily telegram of bills discounted and bought.

Respectfully,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-287

July 18, 1917.

Dear Sir:

In view of joint custody and control on the part of Federal Reserve agents and Federal Reserve banks over unissued Federal Reserve notes, and certain funds as provided by the Federal Reserve Act as amended June 21, 1917, the Federal Reserve Board has decided that it will not require bonds of Federal Reserve agents and assistant Federal Reserve agents in as large amounts as heretofore. It has prescribed as minimum bonds:

for Federal Reserve agents	$100,000
for Assistant Federal Reserve agents	$ 50,000

Should the directors of any Federal Reserve bank deem it desirable to require larger bonds, no objection will be made by the Board to such action.

Very truly yours,

Governor.

July 18, 1917.

PRESS STATEMENT.

The Federal Reserve Board today announced the personnel of the Board of Directors of the branch of the Federal Reserve Bank of Kansas City which is shortly to be established at Omaha, Nebraska.

The branch will be operated by a board of five directors, of whom three have been selected by the Federal Reserve Bank of Kansas City, as follows:

Luther Drake, Omaha, Nebraska.
President, Merchants National Bank.

J. C. McNish, Omaha, Nebraska.
Owner, McNish Cattle Loan Company.

W. B. Hughes, Omaha, Nebraska.
Manager, Omaha Clearing House.

The Federal Reserve Board has designated two directors as follows:

P. L. Hall, Lincoln, Nebraska.
President, Central National Bank.

R. O. Marnell, Nebraska City, Nebraska.

The Manager of the branch will be Mr. W. B. Hughes, and it is understood that many of the functions heretofore exercised by the Omaha Clearing House Association in connection with the examination of banks will be transferred to the new branch.

The State of Wyoming will probably be included in the territory assigned to the Omaha branch.

FEDERAL RESERVE BOARD

WASHINGTON

X-289

July 19, 1917.

Dear Sir:-

With reference to Section 13 of the Federal Reserve Act as amended by the Act approved June 21, 1917, providing in part that

> "Any Federal reserve bank * * * solely for the purpose of exchange or of collection, may receive from any nonmember 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 nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank."

The Board has adopted an opinion of its counsel on this provision of the law, which takes the position that the Federal reserve banks should require nonmember banks desiring to make deposits with Federal reserve banks to maintain a substantial balance, sufficient to offset during time of transit checks or other items drawn against the depositing bank and presented by the Federal reserve bank for payment, as well as items received from the depositing bank.

This opinion will be published in full in the forthcoming issue of the Federal Reserve Bulletin.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-281

July 19, 1917.

Dear Sir:

On June 28th a letter, X-236, was sent you, on behalf of the Federal Reserve Board, in relation to further progress in check clearing and collection. The Board not having heard to the contrary assumes that you are making arrangements to carry its suggestions into effect. It would, however, like to be informed as to the progress you are making in this matter, and to receive copies of such circulars as you may have issued to your member banks.

The Board has in contemplation a general circular to all member banks covering the subject of charges which they may make against their own customers. It is thought, however, that it is not desirable to issue this circular immediately, nor until the Federal Reserve banks have made more progress in the development of clearing operations.

It seems proper to take this opportunity of calling attention to the suggestion of the Board some months ago that the Federal Reserve banks arrange in the near future to collect maturing notes and drafts for their member banks. A committee of governors was appointed to look into this subject, but so far as we have been advised, this committee has made no report. One of the Federal Reserve banks has asked if it may proceed with its own arrangements, and there seems to be no reason why it should not do so; for while uniformity is desirable, it is not necessary that all the banks should adopt identical methods simultaneously. The Board would like to see the Federal Reserve banks develop this function as early as possible because this is one of the important ways in which Federal Reserve banks may be of service to their country members, and suggests that each bank proceed to do so independently.

Very truly yours,

Governor.

X-293

Form 44-a
(1917 ed)

Federal Reserve notes outstanding and funds held jointly by the Federal Reserve Bank and Agent at ______________ as security for outstanding Federal Reserve notes, also gold held by the Federal Reserve Bank with the Treasurer of the United States for redemption of outstanding Federal reserve notes.

______________________________ 191
(Place) (Date)

CODE WORD:

RACE Federal reserve notes outstanding at end of month $______________

Funds held as security for outstanding Federal reserve notes:

RAFT	Gold coin	$__________	
RAID	Gold certificates	__________	
RARE	Silver dollars	__________	
RASH	Silver certificates	__________	
REEL	United States notes	__________	
RENT	Subsidiary silver	__________	
ROPE	TOTAL FUNDS on hand		$__________
	Credit balances		
ROLF	With Federal Reserve Board	__________	
REIN	In Gold Redemption Fund	__________	
RICH	TOTAL		$__________
ROOT	Total funds held jointly by Federal Reserve Bank and Agent as security for outstanding F. R. notes		$__________
RUSH	Gold held by the Federal Reserve Bank with the Treasurer of the United States for redemption of Federal reserve notes.		$__________
RYZE	Total funds held against outstanding F. R. notes		$__________
BEET	FEDERAL RESERVE NOTES (own) held by F.R. Bank		$__________

Signature ______________________________
Federal Reserve Agent.

Figures for the above items to be telegraphed to the Federal Reserve Board at and as at close of business on the last day of each month. Signed report to be mailed.

FEDERAL RESERVE BOARD

WASHINGTON

X-296

July 24, 1917.

Dear Sir:

The Board has had frequent inquiries since the passage of the Act approved June 21, 1917, amending the Federal Reserve Act, as to the proper construction of Section 22 as amended, which requires the vote or written consent of a majority of the board of directors of a bank for loans to directors. Inquiry is made whether specific authority must be procured in each case where a loan is made or whether this assent may be given for all loans up to a specific amount.

In the opinion of the Federal Reserve Board and of its counsel, the assent may be given by a resolution of the board of directors fixing a specific amount but all loans made under such authority should be reported and ratified at a subsequent meeting of the board of directors.

It is suggested that a resolution of the board of directors of a member bank might be adopted substantially as follows:

"RESOLVED, That the president, cashier, or assistant cashier of this bank be, and he is hereby authorized to discount notes, drafts, or bills of exchange for ______________________, a director of this bank, on the same terms and conditions as other notes, drafts, bills of exchange or other evidences of debt are discounted for customers of the bank, Provided, the aggregate amount of such notes, drafts and bills of exchange discounted for such director and remaining unpaid shall at no time exceed the sum of $______________. Provided, further that in any case in which any note, draft or bill of exchange is discounted under authority of this resolution, a report shall be made thereof at the next subsequent meeting of the Executive and Discount Committee of the Board and such report shall show the aggregate amount of liabilities of such director to this bank."

You are requested to advise any of your member banks which may be interested, of this ruling of the Board.

Very truly yours,

Governor.

TREASURY DEPARTMENT

WASHINGTON

July 23, 1917.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period June 19 to 30, 1917, amounting to $72,688.32, as follows:

	$5	$10	$20	$50	$100	Total
Boston........	22,000	6,000	3,000	5,000	11,000	47,000
New York:.....	763,000	417,000	125,000	. ...	13,000	1,318,000
Philadelphia..	4,000	34,000	13,000	12,000	. ...	63,000
Cleveland.....	52,000	20,000	22,000	6,000	. ...	100,000
Chicago.......	96,000	77,000	71,000	12,000	. ...	256,000
St. Louis.....	4,000	12,000	. ...	. ...	. ...	16,000
Minneapolis...	36,000	. ...	. ...	. ...	. ...	36,000
Kansas City...	99,000	. ...	9,000	1,000	1,000	110,000
Dallas........	54,000	23,000	. ...	. ...	. ...	77,000
San Francisco.	41,000	3,000	48,000	. ...	. ...	92,000
	1,171,000	592,000	291,000	36,000	25,000	2,115,000

2,115,000 sheets @ $34.368 per M $72,688.32

The charges against the several Federal reserve banks are as follows:

		Bureau appropriations			
	Sheets	Compensation.	Plate Printing.	Materials.	Total.
Boston......	47,000	$512.58	$661.62	$441.09	$1,615.29
New York.....	1,318,000	14,374.11	18,553.49	12,369.43	45,297.03
Philadelphia	63,000	687.08	886.85	591.26	2,165.19
Cleveland...	100,000	1,090.60	1,407.70	938.50	3,436.80
Chicago.....	256,000	2,791.94	3,603.71	2,402.56	8,798.21
St. Louis...	16,000	174.50	225.23	150.16	549.89
Minneapolis.	36,000	392.61	506.77	337.86	1,237.24
Kansas City.	110,000	1,199.66	1,548.47	1,032.35	3,780.48
Dallas......	77,000	839.76	1,083.93	722.64	2,646.33
San Francisco	92,000	1,003.35	1,295.09	863.42	3,161.86
	2,115,000	$23,066.19	$29,772.86	$19,849.27	$72.688.32

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation, "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

B. R. NEWTON.

Assistant Secretary.

X-298

FEDERAL RESERVE BOARD

WASHINGTON

DIVISION OF AUDIT AND EXAMINATION

July 25, 1917.

Dear Sir:

On June 28th the Federal Reserve Board addressed a letter (X-236) to the chairmen and governors of all Federal Reserve banks, outlining further steps in the development of the clearing and collection system. Acknowledgments have been received from most of the banks, which show that no progress has been made in the direction indicated, and express in some cases a desire to defer action pending a discussion of the subject at a conference of governors of Federal Reserve banks.

The Board, however, wishes to expedite the matter and sees no necessity for any further discussion or delay, and accordingly rules:

(1) For the time being, any Federal Reserve bank may, at its discretion, extend to each member and clearing bank an exemption from service charges upon a maximum of 250 checks per month. The Board believes that this exemption will encourage direct dealings on the part of the smaller banks, with their Federal Reserve bank.

(2) In cases where checks are not sent to the Federal Reserve banks but are sent direct from one member bank to another for credit of the sending bank on the books of the Federal Reserve bank, these transactions should be mutually agreeable to the banks concerned; for the Board cannot prevent the receiving bank from making a reasonable charge (as between banks) for the transfer as provided in Section 13 as amended. An opportunity is afforded all member banks to clear their checks at par by sending them to the Federal Reserve bank. If, for the purpose of saving time, or for any other reason, a bank desires to send its checks direct, it should make its own arrangements.

(3) As the Federal Reserve Act as amended provides that no form of money in the vaults of member banks can be counted as reserve, it may be expected that their stock of gold and lawful money will be diminished, and that there will be a corresponding increase in their stock of national bank notes and Federal Reserve notes. Therefore, pending the further development of the clearing system, Federal Reserve banks should receive from banks which are obliged to make shipments of cash to keep their balances good, any form of United States currency

fit for circulation on the same terms which have been heretofore extended to shipments of gold certificates and legal tenders .

In connection with the collection of "maturing notes and bills", to which reference was made in the letter of July 19th, the Board wishes to point out that

(4) Section 13 as amended permits a Federal Reserve bank to receive from member banks for collection maturing notes and bills; and, for purposes of exchange or of collection, from other Federal Reserve banks maturing notes and bills, payable in its district; or, solely for purposes of exchange or collection, from any non-member bank, maturing notes and bills. Each Federal Reserve bank therefore, should give notice that it will undertake the collection of maturing notes and bills which are payable at any town or city where the Federal Reserve bank has satisfactory arrangements for collecting checks through banks, and a similar notice should be sent to every other Federal Reserve bank that such collection will be made for other Federal Reserve banks on satisfactory banking points in its own district. The banks should announce that these collections will be made subject to the usual limitations as to liability, the actual cost of collection to be deducted when the proceeds are accounted for, and for their protection may exact a service charge of say 25¢ for each unpaid item.

In the opinion of the Board, action as indicated above is essential for the development of the collection system, and the plans outlined should be made effective at the earliest possible moment, or in any event not later than August 15, 1917. Other features and the elaboration of details can be considered later.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS
WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY AND FISCAL AGENT
ADDRESS REPLY TO FEDERAL RESERVE BOARD

X-299

July 25, 1917.

Mr. J. F. Curtis,
Secretary Federal Reserve Bank,
New York.

Dear Mr. Curtis:

The Board has received and considered your letter of July 24th advising it that a meeting in Washington of the governors of Federal reserve banks had been called for August 15th and succeeding days. The meeting not having been called by the Federal Reserve Board, and it not being clear from your letter by whom it had been called, I assumed from your statement that it would be devoted to a discussion of procedure in handling the next Liberty Loan campaign, that it must have been called at the instance of the Secretary of the Treasury. When your letter however, was brought to his attention he stated that he had not asked for such a conference, and that as a matter of fact, in the present circumstances he did not desire such a meeting. In order that you may be fully advised as to the viewpoint of the Treasury on this subject, I enclose herewith copy of a letter addressed to the Board by Assistant Secretary of the Treasury Crosby.

In view of the foregoing, and there being no matters relating to the Federal Reserve System on which the Board wishes to advise with the governors of the Federal reserve banks at this time, it has concluded that plans for the proposed meeting should be abandoned, or at least held in abeyance pending information as to the need for it.

There is no question as to the powers of Federal reserve banks, as defined by statute, within their respective districts; but in matters which concern inter-bank relations and the operations of the Federal reserve banks as a system, authority is vested by law solely in the Federal Reserve Board. Accordingly, it must take the position that conferences of governors of Federal reserve banks can with propriety be held only when called by it; and in harmony with this view, the Secretary of the Treasury has informed the Board that whenever it appears desirable that fiscal agency operations should be considered at a conference, he will communicate his wishes through the Federal Reserve Board.

Should the governor of any Federal reserve bank, or any group of governors, feel at any time that a conference should be held, the suggestion should be made to the Board for its determination.

Very truly yours,

Governor.

X-301.

TREASURY DEPARTMENT

WASHINGTON

Assistant Secretary.

July 25, 1917.

My dear Governor Harding:

Referring to the note addressed to you and signed by Mr. Curtis, Secretary of the Federal Reserve Bank of New York, dated July 24, in which it is stated that a conference of all the governors of Federal Reserve Banks had been called to meet in Washington August 15th and succeeding days, I beg to state that this undertaking is quite unknown to me; nor does it seem to me desirable that initiative of this sort should be taken save through you, in case the Treasury Department should desire such a conference. It may, indeed, be desirable before the actual campaign of the next Liberty Loan shall take place, that certain officials of the Federal Reserve Banks should be asked, through your Board, to assemble in Washington. The initiative in that matter, however, it appears to me, should rest either with you or the Treasury Department. Only in this way can there be any assurance that the subject matters desired by the Secretary of the Treasury to be discussed will be prepared for discussion on a given date. A conference of governors of Federal Reserve Banks held in Washington would have so distinctly the air of an official conference called by the Secretary of the Treasury that it seems to me quite necessary that his authority should be had before such conference should occur.

Sincerely,

OSCAR T. CROSBY

Assistant Secretary.

Hon. W. P. G. Harding,
Governor, Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

X-302
ADDRESS REPLY TO FEDERAL RESERVE BOARD

July 27, 1917.

Dear Mr.

Under authority of the Federal Reserve Act as amended on June 21, 1917, "Subject to the approval of the Federal Reserve Board, the Federal reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the Federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability."

There is inclosed a signature card, which you will please have your assistant sign and return. This signature should be certified by you.

In case you are to be absent at any time, you are requested to advise the Board in advance of such absence, so that the Board may be advised of the authority of the Assistant Federal Reserve Agent to sign Gold Settlement Fund telegrams. He should sign as indicated below:

"R. L. Austin,
Federal Reserve Agent,
By___________________
Assistant Federal
reserve agent."

For your information, the Board has held that assistants may also sign, as above indicated, in the absence of the Federal reserve agent, reports and other communications usually sent to the Federal Reserve Board by the agent.

Very truly yours,

Governor.

BRANCH BANKS
OATH OF DIRECTOR.

State of....................................)
) SS.
.........................of..................)
(City or County)

I, the undersigned, having been elected a Direc- tor of the ....Branch of the Federal Reserve Bank of ....located in the City of......................... State of.........................., and in District No................. as defined by the Reserve Bank Organization Committee, being a citizen of the United States, and resident of the State of.................... do solemnly swear (affirm) that I will, so far as the duty devolves upon me, diligently and honestly administer the affairs of said branch, fairly and impartially, and without discrimination in favor of or against any member bank or banks; that I will not knowingly violate, or willingly permit to be violated, any of the provisions of the statutes of the United States which relate to Federal Reserve Banks and their branches.

....

Subscribed and sworn (affirmed) to before the undersigned, a Notary Public in and for the State and ....aforesaid, this ....day of..................191 .

...........................Notary Public.

FEDERAL RESERVE BOARD

WASHINGTON

X-303

July 27, 1917.

Dear Sirs:

On April 27, 1917, the Federal Reserve Board directed to you a letter (X-113) in reference to the difficulties arising from the form of punch which Federal Reserve Banks are using in cancelling Federal Reserve notes to be forwarded to Washington for redemption.

Some of the replies received from the various Federal Reserve Banks indicated that some of the banks are already using punches of the kind employed by the subtreasuries, while others held that the difficulty caused by the use of the 36 hole punch could not be eliminated merely by punching fewer notes at one operation as suggested in the Federal Reserve Board's letter, but that they would be willing to change the dies on their punches to correspond to those in use by subtreasuries, provided the Treasury Department would rule that half notes punched in that manner would be redeemed, for Federal Reserve Banks only, at full face value in case of the loss of the other halves.

Thereupon a request was made by the Reserve Board upon the Treasury Department to modify its former ruling of May 9, 1916, which applied only to notes cancelled by the 36 hole punch, so as to include notes punched in the manner employed by the subtreasuries.

As a result the Board has now been advised that the Treasurer of the United States will in future redeem for Federal Reserve Banks only, half notes cancelled by punches similar to the subtreasury punches, provided proper affidavits of loss of the other halves have been filed with the Treasurer.

In view of this ruling it follows that those Federal Reserve Banks now using the 36 hole punch may change their dies to correspond with those in use by subtreasuries and at the same time retain their right to redeem half notes at full face value in case of the loss of the other halves supported by affidavit in proper form.

Very truly yours,

Governor.

July 19, 1917.

To the Federal Reserve Board and
The Comptroller of the Currency.

Gentlemen :

As joint counsel for the Federal Reserve Board and the Comptroller of the Currency, this office has been requested to file an opinion on the subject of what, if any, deductions may be made from the liabilities of member banks in determining the amount against which reserve must be carried.

Section 19 of the Federal Reserve Act, as amended by the Acts approved August 15, 1914, and June 21, 1917, definitely fixes the amount and character of reserve to be maintained. Each member bank is required to maintain with the Federal reserve bank of its district an actual net balance equal to not less than a fixed per cent of the aggregate of its demand deposits and a fixed per cent of its time deposits. The amount fixed varies according to whether the banks are located in reserve, central reserve, or non-reserve cities, but with the exception of the variations in the amount the requirements are identical in each case.

Demand deposits are expressly defined as all deposits payable within thirty days.

Time deposits, under the terms of the Act, 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.

Demand deposits may include -
(a) Individual deposits.
(b) Government deposits.
(c) Bank deposits.

(a) No provision of the Act can be construed as authorizing any deduction from individual deposits or time deposits. The depositor may be indebted to the bank for money borrowed but no offset is allowed on account of such indebtedness.

(b) Government deposits are exempt from all reserve requirements under authority of the Act of April 24, 1917, and the total amount of such deposits may be deducted from demand deposits in computing reserve.

(c) In the case of bank deposits, the Act provides -

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

This language has heretofore been construed as authorizing member banks to deduct the aggregate amount due from other banks from the aggregate amount due to other banks, and to carry reserve only against the net balance due to other banks.

The circumstances under which this provision was incorporated in the Act, which will be later referred to, clearly indicates that this construction is consistent with the intent of Congress.

In determining the amount due from other banks, it has been customary, for years past, to permit national banks to treat the total amount of items placed in the mail and charged to the account of a correspondent as part of the balance due from such correspondent. In conformity with this custom member banks are still permitted to treat out-of-town items in this way.

In order that items payable in the same city in which the member bank is located may be placed on a parity with items payable elsewhere, member banks are likewise permitted to treat checks on other banks in the same place and exchanges for clearing houses as balances due from other banks, and to deduct the aggregate of such items from the aggregate balance due to other banks. This ruling of the Department seems also to be consistent with the purposes of the Act as indicated by the history of this legislation.

Prior to the Act of May 30, 1908, generally known as the Aldrich-Vreeland Act, no deductions were allowed by statute. In order, however, to afford some relief from the rigid reserve requirements which at that time necessitated the maintenance of a much higher reserve than is required at present, the Department permitted national banks to deduct from liabilities against which reserve must be carried -

(a) Government deposits.
(b) Balances due from other banks, including
    (1) Checks on other banks in the same place;
    (2) Exchange for clearing houses.
(c) National bank notes.

It is not entirely clear under what authority these deductions were allowed. National banks, however, were required at that time to maintain a certain reserve against "deposits". The Act was not specific as to what should be treated as deposits and so this language was probably construed to mean deposits which were not offset by assets which could be used for the immediate discharge of such liabilities.

The Aldrich-Vreeland Act ratified in effect the ruling of the Department in so far as it related to Government deposits. The Act expired by limitation on June 30, 1916, but the Act of April 24, 1917, above referred to, re-enacted the provisions exempting Government deposits from reserve requirements.

The Federal Reserve Act specifically authorizes the deduction of balances due from other banks.

This office is advised of no other provision of law authorizing any deduction from the amount against which reserve must be carried by member banks and no discretion is vested either in the Federal Reserve Board or the Comptroller of the Currency to permit such deductions.

Without passing upon the question whether or not the deductions allowed prior to the passage of the Federal Reserve Act were justified, it seems clear that since Congress has specifically defined deposits against which reserve must be carried, and has specifically authorized certain deductions to be made, there is no present justification for reading into the Act any intention on the part of Congress to allow other deductions not specifically mentioned.

Notwithstanding the liberal interpretation that has been placed upon the Act in defining balances due from other banks, it has been claimed that the amount against which reserve must be carried should be still further reduced -

(a) By permitting checks on other banks in the same place and exchanges for clearing houses to be deducted from gross demand deposits rather than from balances due to other banks.

(b) By permitting cash on hand to be deducted from gross demand deposits.

The argument advances in favor of the allowance of these deductions should, in the opinion of this office, have been addressed to Congress rather than to the Federal Reserve Board or the Comptroller of the Currency. As above stated, neither the Federal Reserve Board nor the Comptroller are vested with any discretion to permit deductions not specifically authorized by the Act and could not, in the opinion of this office, justify a ruling that banks might deduct cash or other items from their gross demand deposits in computing their reserve.

Respectfully,

M. C. ELLIOTT

Counsel.

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY AND FISCAL AGENT

ADDRESS REPLY TO FEDERAL RESERVE BOARD

X-508

August 3, 1917.

Mr. Frederic H. Curtiss,
Federal Reserve Agent,
Boston, Mass.

Dear Mr. Curtiss:

Attention has been given your letter of July 20, previously acknowledged, in which you state the difficulty surrounding reimbursement for a shipment of the notes of the Federal Reserve Bank of Boston, amounting to $450, by the New Orleans Branch of the Federal Reserve Bank of Atlanta to the Treasury Department for redemption. This transaction, as explained by you, resulted from advice from the Treasury Department to you of the receipt of notes to the amount of $450, when it became necessary for you to take from your vault a $10,000 gold certificate to make payment to the bank, you receiving $9,550, which you are now carrying as cash.

After consultation with the National Bank Redemption Agency in the Treasury Department, it is suggested that the Federal reserve bank making a shipment of other bank's notes to the Treasury Department for redemption could charge them on its books to the Gold Redemption Fund with the Treasurer of the United States and receive credit in that Fund on the books of the Treasurer. The Treasurer would then charge the Gold Redemption Fund of the Federal Reserve Agent of the bank whose notes were sent in for redemption and deliver the notes to the Comptroller of the Currency for credit of the Federal Reserve Agent of the issuing bank.

Should the Gold Redemption Account of any Federal Reserve Bank become unduly large because of such credits, transfer can be made, upon proper request, for credit in the Gold Settlement Fund. If the bank sending in notes of other banks for destruction prefers to have immediate credit in the Gold Settlement Fund, the Treasurer can charge the notes against the Gold Redemption Fund of the Federal Reserve Agent accredited to the bank of issue, and transfer a like sum to the Gold Settlement Fund for credit of the Federal reserve bank sending in the notes for redemption.

In order to have this plan effective the consent of all banks concerned to this method would have to be obtained. Copy of this letter has been sent to all Federal Reserve Banks and Agents.

Very truly yours,

Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-309

August 3, 1917.

My dear Mr. Treman:

Referring to your letters of July 31st and August 1st addressed to Governor Harding in regard to the matter of clearing. Governor Harding wrote to you concerning one of these on August 1, but when he went to New York last evening he passed the file to me.

It may be of some interest to you to know that I had a three hour conference with five members of the Committee of Twenty-five, including the Secretary of that Committee, on Wednesday last. In that debate the concensus of opinion expressed by the Committee was that one of two things must be done to popularize the Federal Reserve Collection System and bring in the non-member non-assenting banks; either that they must be allowed a per thousand or per item charge which would cover their actual out-of-pocket expense for making remittances, or that the Federal Reserve Bank must accept offsetting items without charge if it expects the member bank to remit without charge. At the same time, the Committee took the position that banks in reserve and central reserve cities did not need this help because they had other means of protecting themselves; yet they also admitted in the discussion that it was difficult for the Board to make a rule which would not apply equally to the big bank in the large city and to the little bank in the small town.

While I listened attentatively to all the Committee had to say and asked a good many questions to develop their position, I did not tell them what the Board had promulgated on this subject; but it is interesting to note that two ideas which the Board suggested to the Federal Reserve Banks would go a long way toward accomplishing the very purpose which this Committee considered essential, to wit: The paying of postage to the member bank and the exemption of charges on a sufficient number of items per day to enable the country bank, without expense to itself, to offset completely, or to a large extent at least, items sent to it for collection. You are familiar with the objections which have been raised by officers of the Federal Reserve Banks to these suggestions of the Board. The principal argument in each case has been that it would be too expensive; that it would be unusual and contrary to general practice; and yet it requires no argument to point out that the partial exemption of service charges, which admittedly would redound to the benefit chiefly of the country bank, would be far less expensive than the complete exemption of such charges;and I think I could contend with considerable force that we might begin with an exemption of ten items per day for each of the banks and gradually work up to twenty-five, fifty or even one hundred items per day, and perhaps finally agree to absorb the charges for all collections.

I agree with you, and also with Mr. Jay and others that the desirable, indeed, the essential, thing to accomplish is to get non-member banks to clear their items through the Federal Reserve Bank, or at least at par. The best way to do this is to get them in as clearing members, but in some districts it will take not only moral suasion, but an appeal to their self-interest to accomplish this. That it is important to make progress in the matter, however, I entirely agree with you, because if substantial progress has not been made and if the System has not made more friends before next December an effort will be made in the next Congress to get an amendment which will be more effective in accomplishing its purpose than the Hardwick amendment.

Despite possible opinions to the contrary, I have tried to keep an open mind on the entire subject, and have viewed it, not only from the standpoint of the general public, but also from the standpoint of the banker in the small town and in the big city. I cordially invite criticism and suggestions as to how to meet the situation. I believe that the scheme of offering exemption of charges on a given number of checks daily (which orginated with Governor Harding(is a good suggestion and should be given an honest and thorough trial. I believe that the self-addressed, stamped envelope, which is a scheme in common use in many large collecting banks, and which is being employed by several of our Federal Reserve Banks, is a reasonable and not improper concession to be made to the country banks; but if any of our Federal Reserve Bank officers have better suggestions, I shall be pleased to receive them.

Yours very truly,

(Signed) F. A. Delano.

Chairman of
Committee on Clearing.

Mr. R. H. Treman,
Deputy Governor, Federal Reserve Bank,
New York City.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY AND FISCAL AGENT

ADDRESS REPLY TO
X-312. FEDERAL RESERVE BOARD

August 9, 1917.

Dear Sir:

The Federal Reserve Board transmits herewith a ruling covering the joint custody and control of gold, lawful money and Federal reserve notes held by Federal reserve agents, as provided in the act approved June 21, 1917.

Very truly yours,

Governor.

(Enclosure)

FEDERAL RESERVE BOARD

WASHINGTON

X-313

August 8, 1917.

Dear Sir:

On July 25 a letter was sent out from the Federal Reserve Board covering the designation of 'Vice-Chairman' of your Board of Directors, such designation to extend to the close of the present calendar year.

The designation should have been 'Deputy Chairman' as indicated by the quotation from the amendments of the Federal Reserve Act given below:

Section 4 of the Act, as amended June 21, 1917:

"One of the directors of Class C shall be appointed by the Federal Reserve Board as deputy chairman to exercise the powers of the chairman of the board when necessary."

Please note this change.

Yours very truly,

Assistant Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

X-314

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

August 8, 1917.

Dear Sir:

With the view of enabling our Statistical Division to present in the monthly Bulletin classified figures of acceptances held by all Federal Reserve Banks as nearly up to date as practicable, you are requested to send us your semi-monthly statements of acceptances grouped by acceptors as promptly as possible. It is particularly desired that statements giving the holdings of acceptances as of the 15th of each month reach us not later than the 22nd, so that we may have sufficient time to consolidate the figures and send them to the printers on the day following.

Very truly yours,

Assistant Secretary.

X-315

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

August 8, 1917.

Dear Sir:

At the suggestion of the Office of the Secretary of the Treasury a slight change has been made in Form 44-a (1917 - Ed) through the substitution of item BEET (Federal Reserve notes held by the Federal Reserve Bank) for item GIST (Federal Reserve notes in actual circulation.)

Accordingly, I hand you herewith 25 copies of newly revised Form 44-a and would request that you use henceforth the new form when reporting your monthly Federal Reserve note account, discarding copies of the form previously sent to you.

Very truly yours,

Assistant Secretary.

25 copies sent under
separate cover.

THE LAW OF AVERAGES AND CREDIT GRANTING.

So far, credit granting has produced only one law of measurement that is used as a standard in credit granting. This has come about more as the result of subconscious experience, than as resulting from any basic analytical study. The law referred to, is well known current asset ratio of two for one. The fact that this ratio of 200% has become so generally used as to be almost axiomatic, has suggested that it might be well to make some real studies of the mathematics of credit from a fundamental standpoint.

There is a law that is universal and which can be invoked as an aid to the study of credit from a fundamental standpoint. This is the law of averages and it can be applied in the study of credit, in a manner parallel, to although, because being used on a non-exact and varying science, not with the same exactness as the insurance actuary uses it in the construction of his mortality tables.

Before going into the explanation of how the law of averages might profitably be used in the creation of a table on basic conditions and so as to bring to your consideration, one weakness in the present 200% axiom, let us consider, a little at length, the true condition that exists in the actual use of the current ratio test. All good credit men insist, more or less emphatically, that merchandise in the property statement be figured at cost. The reason is almost too obvious, but for fear of possible misunderstanding, and in order to get the premises for our argument correct, we will presume that this is done to prevent premature taking of profits and also, by keeping down the valuation, to prevent an undue inflation of the current ratio. This is good sound conservative judgment and is deserving adoption by such credit men as are not already following this precept. But this is really only part of the story, because, while we have demanded that merchandise be figured at cost, we have not made the same demand for accounts and bills receivable. These represent cost plus profit and we are tolerating an inflation of the current ratio by the difference between the cost of manufacture and sale and the billing price. If merchandise must be figured at cost, why not receivables, and for the same reasons or nearly so.

However, this is not a brief for the cause of receivables at cost, but is an argument to prove if possible the need for a more fundamental analysis than we have been in the habit of using. The analytical treatment, necessary for a more perfect understanding of the current ratio, consists in an analysis of the ratio that exists between receivables and the merchandise items, so as to determine the true balance and so as to know when the current ratio will be thrown out of proper proportion. If from year to year we take a percentage observation of the current ratio and find it stationary and at the same time find a rising ratio between receivables and merchandise, then we surely are confronted with a potential weakening in the current ratio, that should be properly explained by the maker of the statement. In parallel a stationary current ratio supplemented by a falling receivable to merchandise ratio, is in fact a strengthened current condition, of course providing that it is not carried to a ridiculous extreme.

Actual usage has established the use of the current ratio as a barometer of credit conditions and the present argument has at least injected the possibility of there being a necessary supplementary study of this current ratio. As a further supplementary study of a statement, it might be well to analyse in a similar manner from other angles. The following ratios seem logical and are advanced for consideration and the two already under discussion are tabulated with them so that the group may be complete at this place.

1. Current Assets to Current Liabilities
2. Receivables to Merchandise
3. Net Worth to Plant
4. Total Debt to Net Worth
5. Sales to Receivables
6. Sales to Merchandise
7. Sales to Net Worth
8. Profits to Sales

And now with this as a groundwork and a premise, we can approach more understandingly, the real fundamental or basic study. It is customary to transfer onto special comparative sheets the year after year statements of any company, so that they may be compared and the increases or decreases in any item shown, But mere increases or decreases indicate little unless taken in comparison with something else. It is the changes in the proportions of the statement from year to year that indicate the relative strength, weakness, progress or retrogression, which is another argument for a percentage analysis. But the comparison idea is a good one, only it, like the use of the unsupported current ratio, has not been carried out to a logical development.

We should not be content to compare the statements of a company with those of previous years of the same company alone. We should be in a position to compare our ratios with ratios that would indicate the general trend of the whole of any kind of business, or at least with as big a fraction of the whole business as we can secure. How many credit men know actually, not subconsciously, the actual ratio of the current items alone, even on a totaled group of one hundred grocer, shoe, hardware or other trade names. In order to secure this kind of fundamental information why not adopt some plan of the following nature?

Let a proper form be devised upon which can be entered the necessary amounts for the procuring of the ratios mentioned. Let each sheet or card have space for entering ten or a dozen full sets of information. Let sets of forms be made in some manner designated from each other for grocers, hardware houses, cotton names, etc. Send these cards out to such banks throughout the country as will be willing to cooperate. Do not have individual names of companies reported. The cards being filled out and returned would have the name of the city, the kind of business and the figures. This would make for no breach of confidence. It would establish no possible black list.

Let us now presume that such a set of statistics has been assembled and the machinery perfected for consecutively adding to it year by year; with this information at hand, we could make the following studies and provide ourselves with statistical information by which we could measure not only individual cases, but the general condition of a whole business. The following application of these figures is suggested, taking for example the wholesale grocery trade. First, by adding all the amounts for every name together, we would arrive at a set of national figures that would give us national ratios, which when compared year by year, would indicate the general trend of the whole of that kind of business. In the national analysis, it would be well to introduce what might be called a stabilized ratio by making the study cumulative year by year. Under this method, after several years, the ratios would not fluctuate too rapidly. In addition to this, a new set of figures should be started each year, showing the current year condition. This could be compared with the stabilized ratio and with the yearly ratios of proceeding years, showing year to year changes for the whole of any line of business. Then in addition to this, we could contrive a scientific economic division of the country and compile these figures by district so as to differentiate between economic conditions and trade practices of the various parts of the country. And at last having these fundamental ratios, we can make an analysis of an individual statement and have something more than inspiration or a hunch to stack it up against.

Supplemental to the creation of these ratios will come an insight into the character of a whole business that will make it possible for separate departments to originate series of questions for the individual borrower to answer that will be more flexible and fundamental than those we now have, because they will be based on an accurate knowledge of trade conditions. These same fundamental ratios will make it possible when assembled as a whole total, to estimate pretty closely the basic condition of the whole country, supplementing and proving the several very good business barometers now issued.

All of this deals only with the mathematics of credit and must not be put into the hands of the credit babe for him to use without discretion. The personal element must be largely used in the final decision and because of its management, a company that shows radically contrary to nearly every ratio, may be a good risk. Character must still be considered, but with this system in use, we can attach the proper importance to the figures because we will have a truer knowledge of their real and relative meanings, for the law of averages is inexorable and will show basic changes and weakness with a certainty far above temperamental guess work.

8/9/17

Washington, D. C.,
August 9, 1917.

RULES GOVERNING

CUSTODY OF GOLD, LAWFUL MONEY, AND FEDERAL RESERVE NOTES

HELD BY FEDERAL RESERVE AGENT.

These funds should be kept in safes, preferably with two locks each with a different combination, one in the control of the Federal Reserve Agent and his representative and the other in the control of the officers of the bank. As the Federal Reserve Bank is jointly liable for the safe keeping of funds, a joint record should be kept of all transactions.

CUSTODY OF PAPER PLEDGED AS COLLATERAL SECURITY.

While the law does not require the joint custody of the commercial paper and other eligible securities pledged as collateral for Federal reserve notes, it is desirable that such collateral also be held in this manner. In this case there would be no objection to having the Federal Reserve Agent designate a senior employe in the discount or credit department as his representative, and to the bank's appointing a similar representative to act as joint custodians of paper pledged.

AUDIT.

Whenever possible, it would be well to have the auditor of the bank maintain a continuous audit of the gold, lawful money and Federal reserve notes held in joint custody. At least once in each two months a complete examination should be made of the accounts of the Federal Reserve Agent and a copy of the report sent to the Federal Reserve Board.

W. P. G. HARDING
Governor.

SHERMAN P. ALLEN
Assistant Secretary.

RESOLUTION OF THE FEDERAL RESERVE BOARD
ADOPTED AT A MEETING HELD
AUGUST 9, 1917.

BE IT RESOLVED, that any member bank which has heretofore applied for and received permission of the Federal Reserve Board to accept drafts and bills of exchange in an amount not to exceed one hundred per centum of its capital and surplus, be, and it is hereby authorized and empowered under the authority of the Act of June 21, 1917, to accept up to one hundred per cent 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.

The authority herein granted shall be effective from this date, subject, however, to revocation by the Board at any time, upon ninety days' notice, as to any or all of the banks which are subject to the provisions of this resolution.

RESOLVED, further, that a copy of this resolution be sent to each bank which has heretofore been granted permission by the Board to accept such drafts and bills of exchange to an amount not to exceed one hundred per centum of its capital and surplus.

LETTER FROM A FEDERAL RESERVE AGENT.

"A certain matter has come up in the last few days in connection with the handling of Federal Reserve notes which, while unimportant, has occasioned, it seems to me, so much unnecessary work that some change ought to be made in the procedure.

The Board's circular letter No. 974 allowed Federal reserve banks to ship unfit Federal reserve notes of another Federal reserve bank direct to the Treasury Department for redemption.

The New Orleans branch of the Federal Reserve Bank of Atlanta shipped $450.00 of this bank's currency to the Treasury Department for redemption and called upon the Federal Reserve Bank of Boston to reimburse it to that amount, which they did, upon advice from the Treasury Department that the above amount of bills had been destroyed.

The Treasury Department advised me, as the Federal Reserve Agent of this bank, that the bills had been destroyed and I, in turn, reimbursed the bank for this $450.00. As my department carries no till money, it was necessary for me to get two officers from the bank to join with me to go down to our main vaults, open up my cash vault, take out a $10,000 gold certificate and have the bank give me in exchange $9,550 which I am now carrying in my cash.

Apart from the inconvenience of carrying petty cash of this character, you can see what this transaction will mean to my department if it comes every day or at frequent intervals, as is very possible if the other Federal reserve banks follow similar methods of handling these notes. In other redemption transactions as, for instance, where a member bank sends in unfit Federal reserve notes to the Treasury Department, these are charged by the Treasurer to the Redemption Fund of the Federal reserve agent and the bank is reimbursed. If a method of this sort could be carried out in connection with the redemption of unfit bills coming from Federal reserve banks, this matter would be simplified and, I believe, save the Federal reserve agents a great deal of extra work in the performance of their duties."

THE BOARD'S REPLY.

In further reference to your letter of July 20th, the Board is of the opinion that the difficulties incident to the shipment of small amounts of your unfit notes from the New Orleans branch of the Federal Reserve Bank of Atlanta to the Treasury Department at Washington may properly be met in any one of three ways.

First: As you know the only legal justification for shipment of unfit Federal reserve notes of the Federal Reserve Bank of Boston from the New Orleans branch to Boston for redemption is that the New Orleans branch acts under power of attorney as agent of the Boston Bank in making the shipment in the name of and for the account of the Boston Bank. The New Orleans branch could not, under the terms of the law, make this shipment for its own account, so that if, when the Boston Bank authorizes the New Orleans branch to make shipments of this character, it should specify that no shipment be made in a sum less than one thousand dollars, the New Orleans branch would be bound by these instructions, This would necessarily eliminate the possibility of requiring you, as Federal Reserve Agent, to make transfers of small amounts to your bank.

Second: Another way in which the difficulties you mention may be avoided is by making a settlement or adjustment of accounts through the books of the Gold Settlement Fund rather than making cash transfers from the Federal Reserve Agents' vault to that of the bank. As you are aware, the Federal reserve agents and the Federal reserve banks may make transfers of any amount through the Gold Settlement Fund so that even if New Orleans should make a shipment of less than $1,000, you may properly direct the Federal Reserve Board to transfer the sum involved, however small, to the account of the Federal Reserve Bank of Boston on the books of the Gold Settlement Fund (in even hundreds).

<u>Board's Reply</u>.

<u>Third</u>: Both the Federal Reserve Agent and the Federal Reserve Bank of Boston, in order to avoid transfers of small amounts of cash in Boston, may, if they so desire, authorize the Treasurer to make adjustments on the books of the Gold Redemption Fund so that if the New Orleans branch, for instance, should ship to Washington for redemption, a small amount of Federal reserve notes of the Boston Bank, the Treasurer will immediately charge the Gold Redemption Fund of the Agent with the amount of the shipment and credit the Gold Redemption Fund of the Federal Reserve Bank with the same amount. This method has already been authorized by four of the Federal reserve banks and it is operating very satisfactorily.

It is suggested that these are the only three ways in which the situation you describe may be satisfactorily settled without in any way violating the provisions of the law.

August 10, 1917.

X-321.

PRESS STATEMENT.

August 10, 1917.

The President has re-designated W. P. G. Harding as Governor and Paul M. Warburg as Vice Governor, of the Federal Reserve Board for the ensuing year.

FEDERAL RESERVE BOARD

WASHINGTON

X-322

August 10, 1917.

Mr. Pierre Jay,
Chairman Federal Reserve Bank,
New York.

Dear Mr. Jay:

I acknowledge receipt of your letter of the 8th instant, giving a digest of expressions of opinions of a number of Federal reserve agents on the subject of audit of Federal reserve agents' funds held in trust by the United States Treasurer, and note the various comments.

The Board is decidedly of the opinion that it would be a waste of time and money for the Federal reserve agents to send an auditor to Washington to check these accounts, the state of which is clearly shown each day by the balance. It would suggest, however, that if any Federal reserve agent deems it his duty to have some independent information regarding the status of his accounts, he might communicate direct with the Treasurer of the United States, or he could have a formal statement sent him periodically by the fiscal agent of the Board over his signature, or he might do as national banks do in the matter of destruction of unfit notes - secure the services of a professional bank agent here in Washington which could be had at a nominal sum, say $5 or $10 per annum. Perhaps this last suggestion is the best of the three, as it would carry out the idea of an independent audit without entailing any great expense. The agent selected could present his credentials to the Treasurer of the United States, and could, at stated intervals, ascertain the balance from the Treasurer's books and report it to the Federal reserve agent.

I am sending a copy of this letter to all Federal reserve agents.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-323

August 10, 1917.

Dear Sir:

For your information, I hand you herewith copy of a letter I am sending today to Mr. Pierre Jay, Federal Reserve Agent at New York, with reference to the audit of Federal reserve agents' funds held in trust by the United States Treasurer.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-325

August 11, 1917.

Dear Sir:-

The Board deems it advisable that there should be a thorough understanding on the part of the Federal reserve banks and of the member banks of its attitude in relation to the collection of "maturing notes and bills," and wishes to invite your attention to the distinction between the par clearing and collection of checks and drafts drawn on member banks and the collection of notes and drafts made by or drawn upon individuals, firms, or corporations other than banks.

Section 13 of the Federal Reserve Act, as amended by the Act approved June 21, 1917, provides in part that:

> "Provided, further, that nothing in this or any other section of this Act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks."

The question has been raised whether this provision of the law would prohibit a member bank from charging a Federal reserve bank for collecting and remitting for a note or bill of exchange forwarded to it by a Federal reserve bank for that purpose. In other words, does this provision of the law apply to promissory notes and bills of exchange as well as to checks and drafts on member banks? The Federal Reserve Act in several sections clearly distinguishes between "checks and drafts" on the one hand and "notes and bills" on the other. For instance, the first paragraph of Section 13 authorizes Federal reserve banks to receive from member banks deposits of "checks and drafts," without limiting the purpose for which the deposit must be made. The same paragraph authorizes a Federal reserve bank to receive "maturing notes and bills," but "for collection" only. So also, Section 16 of the Act requires a Federal reserve bank to receive deposits of "checks and drafts drawn upon any of its depositors," (i. e., upon member banks and upon banks carrying balances with Federal reserve banks), but nowhere is there any requirement that "maturing notes and bills" must be received at par, and it is obvious that such items were eliminated for the reason that no bank can properly be forced to credit at par an unmatured or uncollected note or bill. Not being in the nature of a cash item, such an instrument is necessarily subject to a discount. In other words, Congress in this section distinguishes between the ordinary check and bank draft, and the note and bill of exchange.

With these lights before us, a proper construction of the so-called "Hardwick amendment" to Section 13 which in terms, provides that

> "nothing in the Act shall be construed as prohibiting a member or nonmember bank from making charges * * * for collection or payment of checks and drafts and remission therefor by exchange or otherwise, but no such charges shall be made against the Federal reserve banks"

must necessarily draw a distinction between checks and drafts (on banks) and promissory notes and bills of exchange. Both the wording of this amendment and the purposes for which it was enacted necessarily lead to the conclusion that it was not intended to prohibit a member bank from charging a Federal reserve bank for services rendered in collecting bills and notes which the Federal reserve bank sends to it for that purpose. The phrase, "but no such charges shall be made against the Federal reserve banks" is construed by the Board as being intended solely for the purpose of preserving the check clearing and collection system inaugurated by the various Federal reserve banks; and there was no intention, either express or implied, to prohibit member banks or nonmember banks from making reasonable charges against Federal reserve banks for services rendered in collecting maturing notes and bills.

The Board holds therefore, that charges for transactions of this kind may be made now with the same propriety as before the passage of the Act of June 21, 1917. Such charges would seem to be permissible upon the hypothesis that notes and bills thus sent to a member bank by the Federal reserve bank for collection, are not drawn on the member bank, but upon some third party; and it would be unreasonable and unfair to permit a Federal reserve bank to select any particular member or nonmember bank to act as its intermediary or agent for the purpose of collecting and remitting free of charge all of the notes and bills held by it for collection and payable in any particular city or locality. Such service must be performed by the member or nonmember bank only as a matter of contract, and not because of any legal or moral obligation upon such bank to make collections gratis for the Federal reserve bank or for the banks for whom it acts as agent.

In the case of "checks and drafts drawn upon any of its depositors" (i. e., banks) however, the law provides that no charge for the service of collection, and payment and remission by exchange or otherwise, should be assessed against Federal reserve banks. The Board holds that the reason for this is that the Federal reserve banks are affording all member banks certain reciprocal advantages in the collection and clearance of checks, and because the Federal reserve banks are obligated to receive checks at par they may properly expect remission therefor on the same basis. In other words, the prohibition in the Hardwick amendment relating to the charges on the collection of checks and drafts on banks for Federal reserve banks, is merely an equalizing element in perfecting the check collection system, which must afford reciprocal privileges and advantages with the least possible expense to all concerned.

The paragraph of Section 16 which immediately follows the one which requires Federal reserve banks to receive on deposit checks at par, authorizes the Federal Reserve Board at its discretion, to exercise the functions of a clearing house for Federal reserve banks, or to designate a Federal reserve bank to exercise such functions, and to require each Federal reserve bank to exercise the functions of a clearing house for its member banks. In clearing house cities checks on member banks properly go to the clearing house, but promissory notes and drafts or bills of exchange payable by third parties, are not sent to the clearing house but are collected independently by the holding bank.

For these reasons the Federal Reserve Board is of the opinion that not only is it clear that the Hardwick amendment does not apply to the right of a member bank to charge the Federal reserve bank for the service of collecting notes and bills of exchange, but also that there is no sound reason or policy which would require that the Federal reserve banks should be immune from such a charge. While the Board must insist upon a strict compliance by the member banks with the law requiring par collection of checks for Federal reserve banks, it has no desire to deprive any bank of any compensation allowed by the law and to which the bank may be reasonably entitled. Because of competition, banks are performing many services free of charge which involve them in expense and for which they are justly entitled to remuneration.

In the opinion of the Board, it should be the aim of the Federal reserve banks in developing plans for the collection of "maturing notes and bills," to offer efficient service, but they should be compensated and protected against any abuse or expense in performing this service, and this principle applies, of course, to member banks.

It seems that some apprehension exists on the part of many member banks that the clearing of checks at par is but a prelude to a requirement that they make no charge for checks and drafts received by them for deposit and credit, or for collection and remittance from others than a Federal reserve bank. It appears, however, that the provisions of the so-called Hardwick amendment clearly preserve the right of any member bank to make a reasonable charge against depositors or banks other than Federal reserve banks, not to exceed one-tenth of one per centum, for such services, the amount of such charge to be determined and regulated by the Federal Reserve Board.

The Board would request that this letter be brought to the attention of your directors at the next meeting, and you are at liberty to communicate the views of the Board to any of your member banks which may be interested.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-327.

August 13, 1917.

Dear Sir:

The Board has received the following communication from the Secretary of the Treasury:

> "It seems important that close attention be given to shipments of gold and to remittances to foreign countries, and I am therefore requesting that the Federal Reserve Board communicate with the Federal reserve banks urging that they keep in touch as closely as possible with transactions of this character and report them to the Board for my information as well as for the use of the Board."

You are accordingly requested to continue the close supervision that you have hitherto exercised over shipments of gold and remittances to foreign countries. It seems especially desirable that you request the banks and foreign exchange houses of your district to keep you advised of transactions of this kind, in order that you may tabulate them and report them to the Board. Legislation is pending which, if enacted, will give the Federal reserve banks the legal right to call for this information.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-331.

August 15, 1917.

Dear Sir:

The Board is advised that several of the Federal reserve banks have recently requested the Federal Reserve Bank of New York to buy acceptances for their account. That particular institution is very wisely, in the opinion of the Board, not investing its funds in the market at this time, but is on the contrary liquidating its maturities. In order to fill the orders which have been received from other Federal reserve banks, the New York Bank has been selling to them from its own portfolio. From the standpoint of the Board, there is no objection to this, because the cash and reserve position of the system as a whole, is not affected. The Federal reserve banks, however, should not request the Federal Reserve Bank of New York, or any other Federal reserve bank to make purchases in the market for their account, at a time like the present, when the intermediary bank is not buying for its own account; in other words, while there is no objection to having Federal reserve banks participate if mutually agreeable, in the purchases which have already been made by the two or three banks which hold the bulk of acceptances, the Board does not feel that additional purchases should be encouraged at this time, and believes that the Federal reserve banks should adopt the policy of strengthening their position while money is easy, and that they should not seek investments for the sake of the income to be derived therefrom. The banks will have ample opportunities to increase their earnings during the periods of payments for government loans.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

August 15, 1917.

My dear Mr.

I am enclosing proof of an analysis of the State laws regulating the reserves required of State banks and trust companies.

This analysis will probably be published in the next Federal Reserve Bulletin for the information of the banks. To prevent any inaccuracies, I will be greatly obliged if you will let me know if it is correct, in so far as it affects the States in your Federal Reserve District. If not, please call attention to any changes that should be made. The Bulletin goes to press about August 28th and if it possible I should like to have it ready for that issue.

Sincerely,

Counsel

FEDERAL RESERVE BOARD

WASHINGTON

X-335.

August 14, 1917.

S i r :

The attached papers raise sundry questions with reference to the proper interpretation of the recent amendment to Section 22 of the Federal Reserve Act. These questions may be briefly summarized as follows:

(1) Is it necessary that the Board of directors should authorize the receipt on deposit of checks, drafts, or other items payable on demand from officers, or directors of the bank?

(2) Where an officer or director is a member of the firm or a stockholder in a corporation which is a customer of the bank, is it necessary that a majority of the directors should approve loans made to such firm or corporation?

(3) Would it be consistent with the purposes of the Federal Reserve Act to substitute for the resolution proposed by the Federal Reserve Board a written form of assent to be signed by a majority of the board of directors?

In reply to these several inquiries, it is respectfully submitted that the Board should adhere to its established policy of not undertaking to determine in advance whether a given transaction constitutes a violation of Section 22. Inasmuch as a violation of the provisions of this Section is made a criminal act subject to a severe penalty, the Board has no jurisdiction in the matter, and, as an administrative body, should not undertake to prejudge any case that may arise.

While the Board should not for reasons stated endeavor to express definite opinions on concrete cases arising, there would seem to be no objection to its advising the banks as to its understanding of the general purpose of this amendment, just as it approved in a former instance an opinion of this office dealing with the general purpose of Section 22. In this view, considering the context and the circumstances under which this amendment was added, it seems that Congress intended to remove any doubt as to the right of banks to receive deposits from directors under the same terms and conditions as it receives deposits from their customers and to pay such rate of interest as it pays to other customers. It also intended to remove any doubt as to the right of any bank to make loans to directors on the same general terms and conditions that it makes loans to their customers, it being provided in the latter case that as a condition precedent the directors, by an affirmative vote or written assent of at least a majority of the members of the Board, shall authorize such loan. The receipt of deposits with interest would seem to contemplate the receipt of checks, drafts, and other demand items on deposit, as well as the receipt of money or currency, but whether or not giving immediate credit to a director for such items may be construed as a loan until the item is actually collected involves a question of law upon which the Board should not express a definite opinion.

If the counsel for the bank should reach the conclusion that the courts might construe such a deposit to be a loan, the bank could by resolution of the Board authorize the receipt of such items, but this is a question which should be determined by the bank's counsel. In like manner, a loan to a firm or corporation in which the director is interested might or might not be construed by the courts to be a loan to the director within the meaning of this act; and so counsel for the bank should determine whether these transactions should be included within the resolution referred to. While this statute, a penal statute, would in all probability be liberally construed by the courts so as to avoid the possibility of including transactions not contemplated by Congress, the Board should not undertake to rule on the substance of any transaction or to express an opinion as to whether it would or would not constitute a violation of law. It should confine its attention to a consideration of those acts which are designed to make it a matter of record on the minutes or records of the bank that the officers have taken the affirmative action called for, and, to this end, the Board has heretofore suggested a form of resolution to be passed by the directors of the bank giving their assent to loans to directors. In this connection it might be stated that the substitution of the written assent of a majority of the directors for the affirmative vote of a majority would seem to be in accordance with the terms of the Act.

Respectfully,

M. C. ELLIOTT,

Counsel.

Hon. W. P. G. Harding,
Governor, Federal Reserve Board.

X-337

FEDERAL RESERVE BOARD

WASHINGTON

August 21, 1917.

Dear Sir:

Some time ago the Federal Reserve Board received communications from a number of banks in Wyoming asking that they be included in the territory to be assigned to the Omaha branch of the Federal Reserve Bank of Kansas City. The Board has since determined to authorize branches both in Omaha and in Denver, and it would appreciate an expression of your opinion as to the question, to which branch the State of Wyoming should be attached. The Board would probably not be willing to divide it between the two.

Very truly yours,

Secretary.

P. S. Please telegraph reply marking telegram:
"Charge Federal Reserve Board, Government rates".

MEETING - AUGUST 24, 1917.

Subjects Suggested for Consideration and Discussion

1. Division of Loans and Currency.

   a. Discussion difficulties in connection with the First Loan.
   b. Liberty Loan - Receipts - Transfers - Registration
   c. Subscriptions (Application Blanks
(Daily Reports
(Final Summary
(Allotments
   d. Temporary Receipts - 1st Payment
   e. Interim Certificates
Issue - Cancellations - Transfers
Part paid Certificates
Full paid Certificates - Registration
Return of unused and cancelled certificates
   f. Definitive Bonds - Registration
   g. Certificates of Indebtedness
Issues
Payments - cash - credit

2. Public Moneys.

   Government Deposit Department

   a. Discussion of forms used. Suggestions as to changes.
   b. Designation of Qualified Depositories.
   c. Redistribution of Government Funds with depository banks.

3. Treasurer's Office.

   Discussion as to proper method of reporting government transactions.

   a. Certificates of Indebtedness - Form 912.
   b. General, Liberty Loan and other Deposit accounts.
   c. Computation of interest - Deposit accounts - Liberty Bonds.
   d. Qualified Depositories.

4. Audit of Liberty Loan Expenses.

   Manner in which the bills and vouchers are to be presented in order to comply with the Treasury Department Regulations.

5. Federal Reserve Board.

   a. Form 101 - General Ledger Record - New Accounts, etc.
   b. Organization:
Management - Incoming subscriptions
Correspondence - Accounting Records - Reports
Reconcilements - Custody and control of Interim Certificates and Definitive Bonds - Deliveries
Auditing.
   c. Certificates of Indebtedness.
Method of handling which will insure prompt presentation and payment at maturity.
   d. Audit.
Liberty Loan Accounts - after final payment
Government Deposit Department
Interim Certificates and Definitive Bonds

6. Federal Reserve Banks

Accounting Forms and Records - Liberty Loan Department.

1. Application Blank - Part Paid - Full Paid Subscriptions.

2. Initial payment.
   a. Cash Record
   b. Certificates of Indebtedness, applied
   c. Counter receipts or acknowledgments
   d. Subscription Records
   e. Ledger Record
   f. Reports to Treasury
   g. Summary of Bank applications.

3. Allotment
   a. Adjust on Records
   b. Notice to Subscribers
   c. Return of Excess payments

4. Subsequent payments
   a. Cash
   b. Certificates of Indebtedness
   c. Credit on books of qualified depositories.
   d. Reconcilement of bank accounts before deliveries.

5. Custody of Interim Certificates and Definitive Bonds
   a. Control
   b. Record of Receipt from Treasury
   c. Signatures
   d. Delivery to delivery clerk
   e. Cancellations - Reissues.

6. Deliveries

   a. Authority to deliver
   b. Record of deliveries
   c. Registered mail record
   d. Signed acknowledgments returned by subscribers, checked by Auditor.
   e. Special delivery record definitive bonds.

FEDERAL RESERVE BOARD

WASHINGTON

X-339

August 22, 1917.

Dear Sir:

The Board has received a letter from the food administrator, Mr. Hoover, stating that he is just beginning a campaign to secure a larger amount of cattle feeding in this country, and that his investigation shows that the interest charge represents between thirty-five and forty per cent of the total costs of this industry. The legal rate of interest in many of the cattle raising states is 8% or more, and the food administrator suggests that if banks would make loans to the cattle people at a rate of interest not exceeding 7% (which he thinks they can afford to do in view of the 5% rediscount rate on six months' paper based on live stock, available at most of the Federal reserve banks) a stimulus would be given to the cattle raising industry, which all will agree is greatly needed at this time. The Board appreciates, of course, the limitations upon its powers in this respect, and does not wish to put any pressure upon the banks to induce them to charge less than legal rates, but it is informing you of the suggestion made by Mr. Hoover in order that, should you deem it expedient, you may point out to your member banks this opportunity of rendering very effective help in the present food crisis.

Very truly yours,

Governor.

1. Internal Auditing:

"While allowance is made for the tremendous increase in the volume of work due to the Liberty Loan and to the scarcity of senior bank men capable of assuming responsibility, still the fact that the Reserve Bank officials permitted the Auditing work to be neglected and in some instances almost entirely dropped, can not be justified. Auditors and their assistants were assigned to other duties. At the time when there was greater need for effective checks and safeguards than ever before the necessary care and vigilance were relaxed.

"Few Reserve Bank officials realize the importance of an internal auditing system. As a rule the present Auditors are capable, but they have not a sufficient number of competent assistants to enable them to keep at all times an effective check upon every department of the bank. There is a disposition to make the Auditor subject to the directions of the junior officers of the institution, whereas he should conduct his work independently, reporting only to the Board of Directors, the Governor and the Chairman of the Board.

"In some institutions a tendency is shown to assign administrative duties to the Auditor. While in the past, in the interest of economy, such a course was excusable, at the present time the organizations are so very large that the administrative and auditing departments should be separate. In each bank the auditing department should have a thorough organization. The bank should have as Assistant Auditor an experienced man capable of supervising the work of the department, in the event of the absence or disability of the Auditor. In addition the department should have as many audit clerks as are necessary to maintain at all times the proper control over all departments. Care should be exercised in the selection of men for this work. In the past the weakness has been due to the failure to employ the right class of men.

"For the proper protection of the bank the auditing work must be kept up to date and the Auditor should be held to a strict accountability for the work of his department. In case branches are established, the internal auditing system should be installed by him and the audits made under his direction. It is the duty of the Chairman, as a representative of the Directors, and the Governor, as the Executive Manager of the bank, to see that the work is properly done.

2. <u>Staff:</u>

"The tremendous increase in the work of the various departments of the Reserve Banks, due partly to the Liberty Loan, has shown the need for strengthening the staffs of Reserve Banks by addition of experienced bank men. Senior employes capable of assuming responsibility are needed in practically every bank. In some institutions there is room and need for additional officers. Reserve Banks should guard against the tendency apparent in some quarters, of centalizing duties and responsibilities in such a manner that the absence, disability or resignation of one or two officers would seriously hamper the business of the institution.

"In each bank and branch office there should be a good working organization. For every important position, whether official or clerical, there should be at least one competent assistant available to perform the duties in the event of the absence or disability of his immediate superior. There is a tendency on the part of many junior officers to handle work which should be delegated to their subordinates.

"It would be well for each Reserve Bank to have an organization chart prepared, the work of the different departments outlined, and the duties of officers and senior employes defined. Competent utility men should be available to assist in departments where their services are needed.

"It will be noted from the individual reports that a large percentage of the employes are women clerks. At first women were employed as stenographers, later in the transit department. At present, in some banks, they are employed in practically every department. It is apparent that it is to this source that the Reserve Banks mustlook to fill the positions made vacant by employes entering the military and naval service.

"The demand for bank clerks is so great that practically all banks are in competition for experienced men. The scale of salaries has risen at least fifteen to twenty-five per cent during the past year. The Reserve Banks must be prepared to pay higher salaries in the future.

3. <u>Liberty Loan Department</u>.

"Considering the volume of work handled, the difficuly in getting competent clerks, the lack of time in which to perfect a working organization, the inadequacy of the accounting forms suggested for use, the work of this department was handled fairly well.

"Some banks were fortunate in securing temporarily, the services of officers and senior employes of some of the largest institutions in the respective districts. Other banks hired public accountants to supervise the accounting details. In a few instances, the department was operated by bond men. The best results were obtained where an officer or officers of the Reserve Bank were in immediate charge of the banking and technical details. Through failure to understand instructions considerable confusion arose, in connection with reports and information furnished to the Treasury Department. The experience gained will be useful in the future. There is need for a better general understanding as to the duties of Reserve Banks in acting as fiscal agents, the information which the Treasury Department requires in connection with the Liberty Loan operations and a detailed explanation of the proper use of the forms now used.

"It is expected that at the conference in Chicago, August 24th and 25th, which will be attended by technical representatives of the Treasury Department and Federal Reserve Board, and the Auditor and representative of the Libery Loan Department of each Federal Reserve Bank, a better understanding will be established. It is quite apparent that the work of the Reserve Banks would be greatly simplified if there were issued by the Treasury Department, for the information and use of the staff of the Reserve Banks, a pamphlet giving detailed instructions covering the relations of the fiscal agent with every division of the Treasury Department.

"In the opinion of your examiner the handling of the banking and technical details of the Liberty Loan is essentially a banking matter and the work of this department should be supervised by an officer of the Reserve Bank, not by a bond man. The selling and publicity campaign should be directed by the Liberty Loan Committees but as the Reserve Bank is actually responsible for subscriptions, receipts and securities, the work should be supervised by properly designated officers of the bank, directly responsible to the Executive officers of the institution. The officers should have competent men in charge of the principal subdivisions of the work.

"Some Reserve Banks fail to realize that it is necessary to give to the securities in their possession as fiscal agents, the same care as to their own securities. Interim receipts are bearer instruments and should be treated similar to currency. As a general rule when the interim receipts and definitive bonds are received from Washington they should be placed under dual control. The amount necessary for each day's business should be released to the delivery clerk. It will be necessary for each bank to account for all securities received from the Treasury Department.

"The acknowledgment of delivery signed by the subscriber should be returned to the Auditor or his representative in the Liberty Loan Department and checked against the delivery record. After the final payment has been made on August 30th, a complete audit should be made under the direction of the Auditor of the bank. A periodical check should be made of the securities held in the Government Deposit Department."

FEDERAL RESERVE BOARD

WASHINGTON

X-341

August 23, 1917.

Dear Sir:

Chief Examiner Broderick has filed with the Board a report concerning the special visit which he recently made to your bank; a copy of the memorandum of suggestions which he made to the officers of your bank; and he has made in addition a general report to the Board in which he discusses important matters relating to auditing and accounting.

For your information and guidance copies of these reports are transmitted herewith.

Very truly yours,

Governor.

(Enclosures).

FEDERAL RESERVE BOARD

X-342.

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

August 23, 1917.

Dear Sir:

The Board wishes to invite your attention again to the importance of increasing the gold holdings of the Federal reserve banks.

About ten days ago one of the Federal reserve banks sent to all of its members (except those located in its own city, to whom a personal note was sent) a letter asking their cooperation in building up its gold holdings. The Board is informed that this bank has already received more than two hundred and fifty replies, all favorable, and that numerous shipments of gold certificates are being received.

If you have not already done so, the Board suggests that you send letters to your member banks urging their cooperation and pointing out that under the recent amendment to the Federal Reserve Act, a bank can carry as vault money any kind of United States coin or currency, including Federal reserve notes; and that there are over $500,000,000 of gold and gold certificates in general circulation which could be replaced to advantage by Federal reserve notes, thereby diverting the gold to the Federal reserve banks, thus increasing their strength and consequently the strength of all banking institutions.

The bank to which reference is made requested its member banks to set aside the gold certificates received, not paying out such certificates over their counters unless specially requested, but to forward them instead to the Federal reserve bank. It offered to pay transportation charges on such gold certificates whether fit or unfit for circulation, and to

(a) furnish therefor, free of expense, Federal reserve notes in such denominations as may be desired, or

(b) to place the amount to the credit of the remitting bank in the Federal reserve bank, or in any designated bank in the city.

Many of your banks will no doubt have need for currency of particular denominations for payroll or crop-moving purposes, and the present, therefore, seems to be an opportune time for attracting a substantial part of the gold certificates in general circulation into the vaults of the Federal reserve banks.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-345.

August 24, 1917.

Dear Sir:

The Board is of the opinion that it is important that Federal reserve banks should, at this time, keep themselves in as strong a position as possible, without declining to meet legitimate demands made upon them in their own districts. The statements of August 17th show that the reserves of the banks range from 68.3% to 91.1%. The view of the Board is that for the present the Federal reserve banks should endeavor to maintain a reserve position against note issues and deposits combined of between 75% and 85%, and that whenever this reserve should fall below 70% in any case, the Federal reserve bank should dispose of some of its bills to other banks which are in a stronger position.

The Board has concluded, therefore, that the proper policy for a Federal reserve bank to pursue at this time would be for it to discontinue any participation in open market transactions outside of its own district whenever its reserve falls below 75% of its deposit and note liability. This policy, of course, is subject to modification as conditions change, and the object of this letter is merely to outline a proper course of action for the next few weeks. The Board will advise the banks whenever any change in this policy appears to be expedient.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-346.

August 24, 1917.

Dear Sir:

The Federal Reserve Board has obtained a copy of an enabling act recently passed by the Legislature of the State of Pennsylvania, permitting State banks and trust companies to come into the Federal Reserve System. In response to inquiries from some of the Federal Reserve Banks, this Act will appear in the next number of the Federal Reserve Bulletin. The act in the form adopted by the State of Pennsylvania is so satisfactory that it constitutes a good standard for enabling acts in those States where these acts are needed.

Respectfully,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

X-348

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

August 25, 1917.

S i r :

In order that the Board may compare the rates under which exchange is bought and sold in the various districts, and the methods in which exchange on other Federal Reserve Cities is handled, I shall be obliged if you will send me the latest rules and instructions which you have issued on this subject.

Respectfully,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-349.

August 25, 1917.

Dear Sir:

In the future you will receive five copies of all mimeograph letters sent you from the Board for the use of the officers of your bank.

Very truly yours,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-351

Dear Sir:

Your letter of relative to increasing the supply of one dollar bills, has been received and will be brought to the attention of the Federal Reserve Board.

At the present time the supply of bills of this denomination is being increased at the rate of about one million dollars per week by converting large legal tender notes into those of the one dollar denomination. You and other bankers can materially assist in relieving the situation by sending in the large notes for conversion in this way.

Yours very truly,

Secretary.

Ex Officio Members

CARTER GLASS
Secretary of the Treasury,
Chairman
JOHN SKELTON WILLIAMS
Comptroller of the Currency

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, Governor
ALBERT STRAUSS, Vice Governor
ADOLPH C. MILLER
CHARLES S. HAMLIN

J. A. BRODERICK, Secretary
W. T. CHAPMAN, Assistant Secretary
W. M. IMLAY, Fiscal Agent

Address reply to
Federal Reserve Board

August 31, 1917.

X-351a

Dear Sir:

Section 9 of the Federal Reserve Act as amended by the Act of June 21, 1917, contains the following provision:

> "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: * * * * * "

In the opinion of Counsel for the Federal Reserve Board it will be necessary for the Board of Directors of your bank to approve or disapprove the acceptance of examinations by State authorities of State member institutions in your district, including institutions in those states in which the Federal Reserve Board has heretofore authorized such acceptance.

Will you therefore please bring this matter to the attention of your Board of Directors at as early a date as possible, with a view to securing the required action, and advise the Federal Reserve Board of the result thereof.

For your information it may be stated that this Board has heretofore authorized the acceptance of examinations in the following states:

Alabama	Michigan	Ohio
Illinois	Minnesota	South Carolina
Indiana	Missouri	Texas
Kansas	New Jersey	Virginia
Louisiana	North Dakota	Wisconsin
Massachusetts	Nebraska	

Very truly yours,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-553

September 7, 1917.

Dear Sir:

The large increase in the value of discounts and acceptances handled by the Federal Reserve banks, especially during the more recent period, suggests the advisability for the Board's Statistical Division of adopting the use of mechanical devices in the compilation and tabulation of the statistical data received from the Reserve Banks. This may add somewhat to the work of the Washington office, but, it is hoped, will materially reduce the amount of statistical work done at present by the several Federal Reserve banks and branches.

For the present no changes are contemplated in the groupings and classifications of the Monthly Bulletin, unless such changes are recommended by the banks themselves. It is suggested, therefore, that you go over the several tables of the Bulletin and write us at your early convenience whether the monthly information regarding discounts and acceptances as given in the Bulletin is sufficient for your purposes, and if not, what changes or additions would be desirable.

Respectfully,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-357

September 6, 1917.

To the Federal Reserve Board.

Gentlemen:

On July 9th, 1917, your Committee to whom has been referred the matter of designation of additional reserve cities made a report recommending to the Board that the following eight cities be named as reserve cities:

Buffalo,	New York	Jacksonville,	Fla.
Toledo,	Ohio	Grand Rapids,	Mich.
Peoria,	Illinois	Evansville,	Ind.
Memphis,	Tennessee	Oakland,	Cal.

On July 12th a letter was sent by the Governor of the Board to all Federal Reserve Banks suggesting that this matter be brought to the attention of the Executive Committee, and that recommendations be made to the Board in regard to these cities.

Replies to these letters have been received from all of the Federal Reserve Banks who are interested in the matter, which indicates that these cities, with the exception of Jacksonville, Florida, should be designated as reserve cities.

In the meantime your Committee has had a protest from the bankers of Evansville, as well as objections with respect to Jacksonville, and we now recommend that the original recommendation stand with respect to all the cities except Jacksonville. In this connection it should be pointed out that Evansville has a population of approximately 70,000 and has upwards of 30 per cent of banking deposits. Jacksonville on the other hand has a smaller population - 57,000 - and bank deposits of only 23 per cent.

Your Committee would suggest that the effective date when the above seven cities shall be named as reserve cities be fixed as of October 1st, 1917, if action by the Board is taken immediately, and that the bankers of Evansville be informed that if by a reason of the operation of the law the percentage of bank deposits should very considerably diminish the Board would be glad to reconsider its action, but at the present time the Board is warranted in the conclusion that Evansville should be added to the list of reserve cities.

Respectfully submitted

(Signed) F. A. DELANO.) Committee
(For F. A. Delano and A. C. Miller))

FEDERAL RESERVE BOARD

WASHINGTON

X-358.

September 8, 1917.

Dear Sir:

The following letter has been received from the Director of the Bureau of Engraving and Printing indicating an increase in the cost of Federal Reserve Notes from July 1, 1917, and is transmitted for your information:

> "On account of changing conditions as to labor and material costs, and in compliance with the decision of the Comptroller of the Treasury, dated August 3, 1917, requiring the amount of reimbursement for work done by this Bureau for other branches of the Government service to include the amount of the five and ten per centum increase of compensation under the sundry civil appropriation act of June 12, 1917 (Public Act No. 21), it will be necessary to increase charge for furnishing of Federal reserve notes from $34.368 to $36.56 per 1,000 sheets, effective July 1, 1917."

Very respectfully,

Fiscal Agent.

FEDERAL RESERVE BOARD

WASHINGTON

X-360.

September 8, 1917.

Dear Sir:

Inasmuch as the term of office of one class A director and one class B director of your bank, will expire on December 31, 1917, arrangements should be made to hold an election of directors to succeed those whose terms expire; such new directors to serve for terms of three years each.

The Board has fixed November 20 as the date for opening the polls. You should accordingly arrange to have printed:

(a) Certificate of election of District Reserve Elector.

(b) Certificate of nomination for Class "A" Director.

(c) Certificate of nomination for Class "B" Director.

These certificates, as printed last year, contain form of resolution to be adopted by the member banks. A sufficient number should be prepared and mailed to each member bank in the group which elected the director whose term expires on December 31, 1917. It will be necessary, therefore, for you, as chairman of the board, to group the banks in your district in accordance with the Act, following the general lines of the plan set forth in the circular of the Organization Committee. When these certificates have been returned by the banks the electors should be listed and the preferential ballot prepared.

Under the provisions of Section 4 this ballot need not show the name of the bank placing in nomination any candidate, but if not on the ballot a separate list should be prepared showing by whom each candidate is nominated. If this is done, the ballot form used will be somewhat simplified, since the voting columns, showing the first, second, and third choice of the elector, can appear on the same page as the name of the candidate.

Section 4 of the Federal Reserve Act provides that:

"Every elector shall, within 15 days after the receipt of the said list, certify to the chairman his first, second, and other choices."

The polls for the election of directors would, therefore, close 15 days after November 20, and in consequence, arrangements should be made to have the ballots in the hands of the electors not later than November 20.

Very truly yours,

Governor.

LIST OF OFFICERS AND DIRECTORS OF FEDERAL RESERVE BANKS

WHOSE TERMS EXPIRE IN 1917.

District No. 1. Boston.
Class A - T. P. Beal, Boston, Mass.
Class B - Charles A. Morss, Boston, Mass.
Class C - Frederic H. Curtiss, Boston, Mass.

District No. 2. New York.
Class A - R. H. Treman, Ithaca, New York.
Class B - W. B. Thompson, Yonkers, New York.
Class C - W. L. Saunders, New York, N. Y.

District No. 3. Philadelphia.
Class A - C. J. Rhoads, Philadelphia, Pa.
Class B - E. S. Stuart, Philadelphia, Pa.
Class C - Richard L. Austin, Philadelphia, Pa.

District No. 4. Cleveland.
Class A - Robert Wardrop, Pittsburgh, Pa.
Class B - T. A. Combs, Lexington, Ky.
Class C - D. C. Wills, Bellevue, Pa.

District No. 5. Richmond.
Class A - Edwin Mann, Bluefield, W. Va.
Class B - D. R. Coker, Hartsville, S. C.
Class C - Caldwell Hardy, Norfolk, Va.

District No. 6. Atlanta.
Class A - W. H. Toole, Winder, Ga.
Class B - Edgar B. Stern, New Orleans, La.
Class C - M. B. Wellborn, Anniston, Ala.

District No. 7. Chicago.
Class A - E. L. Johnson, Waterloo, Iowa.
Class B - M. B. Hutchison, Ottumwa, Iowa.
Class C - W. F. McLallen, Columbia City, Ind.

District No. 8. St. Louis.
Class A - Walker Hill, St. Louis, Mo.
Class B - Leroy Percy, Greenville, Miss.
Class C - John W. Boehne, Evansville, Ind.

District No. 9. Minneapolis.
Class A - L. B. Hanna, Fargo, N. D.
Class B - N. B. Holter, Helena, Mont.
Class C - John H. Rich, Redwing, Minn.

District No. 10. Kansas City.
Class A - C. E. Burnham, Norfolk, Nebr.
Class B - Harry W. Gibson, Muskogee, Okla.
Class C - Charles M. Sawyer, Kansas City, Mo.

District No. 11. Dallas.
Class A - E. K. Smith, Shreveport, La.
Class B - J. J. Culbertson, Paris, Texas.
Class C - W. F. Ramsey, Dallas, Texas.

District No. 12. San Francisco.
Class A - J. K. Lynch, San Francisco, Cal.
Class B - A. B. C. Dohrman, San Francisco, Cal.
Class C - John Perrin, Pasadena, Cal.

To the Federal Reserve Board:

Mr. Jerome Thralls of the Committee of Twenty-five, has forwarded to me at my request some information in regard to the daily sendings of checks for collection by typical banks, varying in capital and located in towns with population ranging from 700 to 134,900. This data, furnished by Mr. Thralls is, as I understand it, based upon the information gathered by the Committee of Twenty-five in support of its argument before Congress in favor of an exchange charge.

You will note from this report that the proposed exemption of service charges on twenty checks per day, or five hundred per month, as suggested by the Federal Reserve Board's Committee on Clearing, would operate to give free service to banks having a capital of $25,000 or thereabouts; would, in general, cut in two the service charge for banks of double that capital, and would make a substantial reduction say 25% in the service charges of banks with capital as high as $100,000. With banks having a larger capital than this, however, (and they are chiefly banks in reserve cities) the exemption of charges for twenty checks per day or five hundred per month, amounting to an exemption in service charge of say, $7.50 per month in the aggregate, would of course, result in a diminishing proportion of reduction amounting to a negligible sum in the case of very large city banks.

It appears that at the present time, under the operation of the clearing system as it exists, there are, even in the largest districts, only relatively small numbers of banks availing themselves of the privilege of sending their checks to the Federal Reserve Banks direct for collection. Most of the checks reaching the Federal Reserve Banks come through not to exceed fifty banks, even in districts with many member banks; and the overwhelming proportion of these are received from, say twenty banks.

It is a source of satisfaction to find that the further investigation and study of the subject seems fully to justify the Board in urging the Federal Reserve Banks to adopt the recommendations of the Board's Committee, the objects of which were:

First. To make a reduction in the service charge against member banks.

Second. To make that reduction in such a way as to cause it to appeal particularly to the small banks, becuase they have, thus far, profited least from membership in the Federal Reserve System and have lost most by reason of the loss of exchange.

Third: To bring about, if possible, or at least to encourage direct relations between the member banks and the Federal Reserve Banks.

As has already been pointed out, the principle of exemption for a small volume of business is recognized in the income tax laws of our own and all other countries, and seems to be justified in this case, not only in principle, but because it accomplishes the object which we wish to accomplish, as above explained.

Furthermore, the sending of a self-addressed, stamped envelope with all items sent for collection would seem not only justified by common banking usage, but is also consistent with the theory that we are asking the banks to remit at par, just as if the checks were presented by a messenger (in this case the letter carrier) at their own counters.

This subject was first taken up with the Federal Reserve Banks on June 28, 1917, and again on July 19 and July 25, 1917, and the Board has since received circulars covering the subject from the following banks:

" St. Louis	Federal	Reserve	Bank,	dated	July	25!
Kansas City	"	"	"	"	August	10!
Atlanta	"	"	"	"	Sept.	1!

Providing for the exemption of charges on 500 checks monthly".

Respectfully submitted,

9/10/17

MEMORANDUM OF DATA INCLUDED IN REPLIES TO QUESTIONS SENT BY THE COMMITTEE OF TWENTY-FIVE TO A NUMBER OF REPRESENTATIVE BANKS IN VARIOUS STATES.

Population	Capital	Deposits	Daily average number of checks rec'd on deposit	Daily average volume of checks rec'd on deposit	Daily average number of checks rec'd on deposit, collectible through the Fed. Res. Bank.	Daily average volume of checks rec'd on deposit collectible thru F.R.Bank
	$	$		$		$
700	25,000	151,110	23	1,259.66	20	1,100.
800	60,000	405,000	75	8,000.00	50	5,350.
1,600	50,000	458,000	45	2,250.00	25	1,250.
1,800	25,000	186,000	36	2,160.00	17	1,020.
2,000	50,000	712,000	1,000	10,000.00(Abnormal)	600(A/c summer Resort)	6,000.
2,180	50,000	400,000	100	5,000.00	30	2,000.
2,781	75,000	886,890	190	7,500.00	Not a member	. ...
2,800	50,000	275,000	200	25,000.00	50	7,500.
3,700	50,000	465,000	100	4,000.00	60	2,400.
4,000	25,000	175,000	82	9,200.00	20	2,300.
4,500	60,000	741,000	160	8,300.00	100	5,400.
5,000	100,000	700,000	117	7,800.00	115	7,600.
6,000	100,000	816,000	75	4,500.00	45	2,750.
7,000	150,000	1,200,000	300	24,000.00	100	10,000.
15,000	150,000	1,650,000	1,000	100,000.00	800	95,000.
20,750	250,000	2,000,000	1,500	100,000.00	500	50,000.
23,000	100,000	1,475,000	240	35,376.14	77	13,241.39
30,000	300,000	3,060,000	1,400	100,000.00	800	55,000.
134,917	1,000,000	600,000	4,805	960,000.00	920	435,000
134,917	400,000	13,399,500	9,000	1,750,000.00	(From 5,000 to 6,000)	(800,000 to 1,000,000)

DEPARTMENT OF JUSTICE

WASHINGTON

September 10, 1917.

The Honorable
The Secretary of the Treasury.

Sir:

I have the honor to acknowledge the receipt of your letter of the August 3rd. enclosing a letter of the 2nd instant from the Governor of the Federal Reserve Board to you and requesting my opinion upon the question propounded by him, as to whether State banks joining the Federal Reserve System become subject to the provisions of the Clayton Act (approved October 15, 1914; 38 Stat. 730; amended by Act of May 15, 1916) relating to interlocking directorates.

The pertinent provisions of the Clayton Act are found in Section 8, as follows:

> ..... no person shall at the same time be a director or other officer or employee of more than one bank, banking association or trust company, organized or operating under the laws of the United States, either of which has deposits, capital, surplus, and undivided profits aggregating more than $5,000,000; and no private banker or person who is a director in any bank or trust company, organized and operating under the laws of a State, having deposits, capital, surplus, and undivided profits, aggregating more than $5,000,000, shall be eligible to be a director in any bank or banking association organized or operating under the laws of the United States .....

> No bank, banking association or trust company, organized or operating under the laws of the United States, in any city ..... of more than two hundred thousand inhabitants ..... shall have as a director or other officer or employee any private banker or any director or other officer or employee of any other bank, banking association or trust company located in the same place.

The prohibitions of this section relate to banks which are "organized or operating under the laws of the United States". Obviously, the section does not apply to State banks merely as State banks, but applies to them, if at all, only in consequence of membership in the Federal Reserve System.

The Federal Reserve System embraces (1) National banks, whose membership is compulsory, and (2) banks organized under the "laws of any State or of the United States", which are eligible for membership under conditions prescribed in Section 9 of the Federal Reserve Act (approved December 23, 1913; 38 Stat. 251) Besides banks organized under State laws and doing business in the States (hereinafter called State banks), the latter class includes (a) banks organized under State laws but having offices and receiving deposits in the District of Columbia, as described in Section 713 of the Code of the District of Columbia, and (b) banks and trust companies, other than National banks, organized under the laws of the United States, i. e., banks and trust companies organized under Sub-chapters 4 and 11 of Chapter 18 of the Code of the District of Columbia (31 Stat. 1189).

National banks and banks and trust companies organized under the Code of the District of Columbia are clearly within the prohibitions of Section 8 of the Clayton Act. They are not only organized under the laws of the United States but of necessity operate under those laws as the laws of their existence.

Banks organized under State laws and carrying on business in the District of Columbia also fall within the prohibitions of Section 8 as "banks operating under the laws of the United States"; for, in carrying on business in the District, over which Congress exercises exclusive legislation, they are not only subject generally to the laws of the United States in force within the District, but by specific enactment they are required to make reports to the Comptroller of the Currency and are subject to be examined and taken possession of by him as provided with respect to National banks. (Act of June 25, 1906,, amending Sections 713 and 714, Code D. C.; 34 Stat. 458).

State banks which join the Federal Reserve System do not, however, operate under the laws of the United States as the laws of their existence, nor in territory over which the United States exercises exclusive legislation. These banks have merely voluntarily accepted the terms and provisions of the Federal Reserve Act (including regulations made pursuant thereto) in becoming members of the Federal Reserve System, from which they are at liberty to withdraw. Yet, since upon being admitted they become subject to the terms and provisions of the Federal Reserve Act, they may also be aptly described as "operating under the laws of the United States". Accordingly, Section 8 of the Clayton Act standing alone might reasonably be construed to include State member banks within its prohibitions.

Section 8 of the Clayton Act must be considered, however, in the light of the provisions of Section 9 of the Federal Reserve Act relating to membership of State banks.

Unlike National banks, State banks are not compelled, but in effect are invited to join the Federal Reserve System. In Section 9 as originally enacted Congress specified the provisions of law to which State banks must con form as conditions of membership, including in the specification certain provisions of preexisting law. The conditions of membership for State banks having thus been specified it could be argued not without reason that if Congress had intended by Section 8 of the Clayton Act to prescribe further conditions of membership it would have affirmatively expressed that intention, which it has not done.

But, whatever the original intention of Congress may have been in this respect, the present intention seems plainly to appear from the following provisions of Section 9 of the Federal Reserve Act as amended and reenacted by the Act of June 21, 1917, after the passage of the Clayton 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, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this Act. Subject to the provisions of this Act 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 privileges of member banks.

As thus amended, State member banks are made "subject to the provisions of this section and to those of this Act which relate specifically to member banks". Accordingly, they would appear not to be subject to the prohibitions of Section 8 of the Clayton Act under the rule of construction embodied in the maxim, "The express mention of one thing impliedly excludes all others".

The intention of Congress, however, is not left to appear by implication alone. Section 9 as amended goes further, and by positive provision declares that State member banks shall retain their "full charter and statutory rights" as State banks, "subject to the provisions of this Act and to the regulations of the board made pursuant thereto". Since the rights existing under State laws as to selection of directors seem clearly among the "charter and statutory rights" thus retained in full by State member banks, they must be held free in that regard from the restrictions imposed by Section 8 of the Clayton Act.

Respectfully,

(Signed) JOHN W. DAVIS.

Acting Attorney General.

FEDERAL RESERVE BOARD

WASHINGTON

X-369

September 11, 1917.

Dear Sir:

The Board wishes to call your attention to the importance of enforcing rigidly the regulations regarding penalties for impairment of reserve accounts. Last June there was some demand for accommodation at some of the banks, and it is anticipated that this pressure will be much greater within the next two or three months than it was then. If the policy of penalizing impaired reserve balances is not vigorously enforced by all Federal Reserve Banks, we may have to deal with a troublesome situation because of the reluctance of member banks to discount paper or to borrow money.

In order that it may be informed as to the situation, the Board requests that you advise this office of the practice of your bank in regard to impaired reserve accounts, both as to the penalties imposed, and as to the statements you receive from your member banks with respect to their deposits and reserves. Please forward copies of these statements.

Very truly yours,

Governor.

STATEMENT SHOWING MINIMUM AMOUNT OF NOTES TO BE KEPT ON HAND IN WASHINGTON FOR EACH FEDERAL RESERVE BANK, AMOUNT AT PRESENT ON HAND IN WASHINGTON, AND AMOUNT BEING PRINTED

(Deficit shown in red)

000 omitted

Federal Reserve Bank of		5s	10s	20s	50s	100s	Total
** BOSTON	On hand						
	Agreed Minimum	17,700	16 640	5,360	4,000	2,800	46,500
	Being printed						
	DEFICIT						
NEW YORK	On hand						
	Agreed Minimum	(No specific amount is kept for New York, the bank					
	Being printed	requesting printing of notes as needed)					
	DEFICIT						
****PHILADELPHIA	On hand						
	Agreed Minimum	15,000	20,000	20,000	10,000	10,000	75,000
	Being Printed						
	DEFICIT						
CLEVELAND	On hand						
	Agreed Minimum	15,460	18,200	29,040	5,400	2,800	70,900
	Being Printed						
	DEFICIT						
RICHMOND	On hand						
	Agreed Minimum	10,300	12,160	10,960	1,600	1,600	36,620
	Being Printed						
	DEFICIT						
ATLANTA	On hand						
	*Agreed Minimum	10,000	10,000	20,000	5,000	5,000	50,000
	Being Printed						
	DEFICIT						
***CHICAGO	On hand						
	Agreed Minimum	59,700	62,980	65,520	15,300	13,600	207,100
	Being Printed						
	DEFICIT						

*Letter of Federal Reserve Agent Wellborn dated September 6, 1917, requesting that this amount be kept on hand in Washington.

** Letter of Federal Reserve Agent Curtiss dated October 19, 1917, requesting additional supply of notes.

***Letter of Federal Reserve Agent Heath dated October 22, 1917, and telegram of October 18, 1917, requesting additional notes.

****Letter of Federal Reserve Agent Austin dated [illegible]ober 3, 1917, requesting additional notes

Federal Reserve Bank of		5s	10s	20s	50s	100s	Total
ST LOUIS	On hand						
	Agreed Minimum	9,000	9,600	4,000	1,200	800	24,600
	Being Printed						
	DEFICIT						
MINNEAPOLIS	On hand						
	Agreed Minimum	9,800	8,000	6,560	400	1,200	25,960
	Being Printed						
	DEFICIT						
KANSAS CITY	On hand						
	Agreed Minimum	18,800	13,000	13,000	2,000	1,600	48,400
	Being Printed						
	DEFICIT						
DALLAS	On hand						
	Agreed Minimum	5,480	8,200	5,480	3,200	3,600	29,960
	Being Printed						
	DEFICIT						
SAN FRANCISCO	On hand						
	* Agreed Minimum	5,000	13,000	10,000	2,000	2,000	32,000
	Being Printed						
	DEFICIT						

* No orders are to be placed for San Francisco unless requested by the bank.

2nd.
P. M. W.
Sept. 11 '17.

SOME SUGGESTIONS CONCERNING
THE GOLD EMBARGO PROBLEM.

It appears to me that the following principles should be observed by the Federal Reserve Board in granting or refusing licenses for the export of gold:

Shipments of gold should not be permitted unless it is clearly shown that the gold is used for the payment of goods. In other words, the transaction must be run down to a discovery of the purchaser and seller and the ultimate destination before the granting of a license for shipment will be considered.

In each case the applying concern should be requested to state exactly the name of the consignee and the nature of the underlying transaction.

This will, generally speaking, exclude shipments by banks, local and foreign, for their own account.

When information as complete as possible has been obtained, if the fact of American purchase and consumption has been established, a presumption will arise in favor of allowing the proposed shipment. If, however, it should appear that the proposed shipment of gold involves payment for goods bought in one foreign country and destined for another, the presumption will be against the proposed shipment. Such presumptions will in neither case be conclusive. Thus the presumption in favor of a shipment may still be overcome by the character or quantity of the articles imported considered in relation to their utility in the present war conditions, or political or international considerations may dictate a course at variance with commercial indications.

A ruling of this kind would at once throw back upon foreign countries the burden of shipping gold insofar as it is needed for their purchases in other countries, and will enable each country in turn to deal with its own nationals in regulating their purchases in foreign lands, involving shipments of gold.

It will thus become the duty of each country, including our own, to scrutinize the character and quantity of goods that are being paid for by gold remittances.

Whenever it is a question of excessive purchases of articles which are not necessaries, licenses for gold exports should be refused. This function might be exercised to better effect by an import council, similar to the export council, which will control importations.

Any hardships involved in this procedure might be mitigated if the banks in foreign countries which would be unfavorably affected through these measures, instead of exacting fold would either buy their own or other securities held in the United States or buy our securities - be it existing securities or Government securities to be issued for that purpose - or if, as in some cases they might, they would take our circulating notes.

In this connection, it may become necessary for the Secretary of the Treasury or the Board, or both, to circularize the banks of the country in order to advise them that they must not ear-mark any more gold for foreign concerns. This applies also to the Federal Reserve Banks. Ear-marking has in every respect the same effect as exportation and it might be advisable to ask all banks to state, for the confidential use of the Government, what amounts they have ear-marked at this time and for whom. It might become advisable at some later date to ask banks, except so far as bound by definite contract to the contrary, to undo these transactions by tendering the gold to their foreign correspondents and offering to keep the amount on deposit,

It is urged that an understqnding be sought with allied countries - particularly England and France - dealing with this problem. The so-called foreign exchange problem can be solved if, as far as consistent with war requirements, each country involved will try to adhere to the policy of not permitting its nationals to buy in a foreign country a larger quantity of goods than the purchasing country can pay for by shipping goods or selling securities, or for which the selling country is willing to grant an extended credit.

Respectfully submitted:

X-370.

FEDERAL RESERVE BOARD

WASHINGTON

September 12, 1917.

Federal Reserve Bank,

Gentlemen:

The following letter has been received by the Board:

"If the Federal reserve banks have any standard method of computing discount, I should be glad to learn what it is. Do you use a three hundred and sixty day discount table, or a three hundred and sixty-five day discount table? Do you count actual days, or do you assume thirty days per month? To make the inquiry more specific, will you kindly tell me what the discount at six per cent would be on various notes of $1000 each, bearing the following dates and running for the time specified:

Note of				
$1,000	dated February	1 -	due	in 30 days;
1,000	" "	1 -	"	" 1 month;
1,000	" "	1 -	"	March 1;
1,000	" "	1 -	"	in 150 days;
1,000	" "	1 -	"	" 5 months;
1,000	" "	1 -	"	July 1.

I should like to know particularly the day on which you would consider each of the above notes matured."

The Board would appreciate information as to your practice in this matter, accompanied by statements of interest in each of the cases mentioned in the foregoing letter.

Yours very truly,

Secretary.

MEMORANDUM ON INTER-NATIONAL EXCHANGE
FOR INFORMATION OF THE SECRETARY OF THE TREASURY.

The informal committee which met today to discuss the subject of inter-national exchange begs to submit the following memorandum of its views:

The committee consists of the following gentlemen:

Mr. Benjamin Strong

Mr. J. E. Gardin	Mr. D. G. Wing
Mr. J. E. Rovensky	Mr. James Brown
Mr. Albert Strauss	Mr. J. F. Curtis

GENERAL POLICY.

The committee recommends that an announcement be made by the Secretary of the Treasury to the effect that while there will be no hinderance on the export of gold, silver, or currency for legitimate purposes arising out of commercial transactions, as limited by a proper regard for war conditions, all applications for the export of coin, bullion or currency will be subjected to close scrutiny, to the end that such exports shall be made only when compatible with the public interests.

The committee recommends that upon the passage of the Trading with the Enemy Bill, imports into this country be so regulated as to curtail the importation of luxuries and other articles not essential for the public welfare. Such control forms a necessary step in the proper regulation of exchange, and will automatically reduce the demand for the export of gold; but it can be ultimately effective only if similar control is exercised by our Allies in cooperation with us.

The committee is informed that considerable amounts of gold and gold certificates are being carried from the country by individual travellers and by steamship officials; and it is suggested that due consideration be given to this aspect of the situation.

MACHINERY FOR REGULATION.

The committee recommends that committees be appointed in each Federal reserve district, to serve under the general direction of the Federal Reserve Board.

These committees should examine into all financial transactions between residents of this country and residents of foreign countries, American financial transactions between foreigners, and financial operations that may appear to be incompatible with the public interests.

Under the supervision of such committee only such concerns as shall be licensed shall be permitted to conduct foreign exchange transactions, and they should be required to report daily to the committee all operations for and between all foreign accounts; such reports to include a statement of all credits and debits to such account, with full details giving names of individuals affected; also the sale and transfer of securities for foreign account, and any other information that in the opinion of the committee may be necessary. All dealers in inter-national exchange should be required to obtain from their customers full information as to the details of all transactions to be reported. Every resident within each district,(whether or not a licensed dealer in foreign exchange) should be required to report to the committee the amounts due from enemies or allies of enemies, and also all property owned by him in enemy or ally of enemy countries; also all property held in any way, directly or indirectly, for enemy account or allies of enemy account.

Every member of a committee should take an oath at the time of qualification to the effect that he will not use for personal advantage, directly or indirectly, any information acquired as a member of the committee, nor reveal any information obtained by him in that capacity except to the proper officials.

The central organization should work in close cooperation with the export and import commissions, as soon as appointed, and the similar foreign exchange organizations of our Allies; and should have the benefit of all information acquired through the Departments of State, Justice and Commerce; the censorship of the mails, cables, and telegraphs, and all other available Governmental agencies.

The appropriation for the expenses of administering this section of the law should be increased to $350,000.

The propriety of charging nominal fees for licenses to deal in inter-national exchange should be considered.

METHOD OF CONTROLLING INTERNATIONAL-EXCHANGE.

The committee is unanimously of the opinion that the quotation for the pound Sterling in the United States should not be allowed to decline, as such a decline, apart from the moral damage to the cause of the Allies, would, without relieving the United States, place an additional burden upon its allies in the increased cost to them of commodities purchased in other markets; but this end must be accomplished in cooperation with the Allies and without any material diminution of the gold supply of the United States, which must, in the interest of the other Allies as well as of the United States, be retained here as a basis for our important credit operations.

The committee is also of the opinion that if demands on the United States for gold for shipment to other countries are not promptly controlled through an agreement with our Allies concerning the trade underlying these transactions, the only effective method of controlling the export of gold will be through restriction or prohibition of arbitrage operations. The effect of such restriction or prohibition will be to limit exchange transactions between the United States and foreign countries to such direct operations as are necessary to liquidate the direct trade between each country and the United States.

Any hardships which may be involved in this procedure would be mitigated if banks in foreign countries which are unfavorably affected by these measures would employ their funds in loans or investments in this country, instead of exacting gold.

In this connection, steps must be taken to prohibit our own banks for the future, from ear-marking gold or taking it into custody. Such ear-marking or custody has in every respect the same effect as exportation and it may be advisable to ask all banks to state, for the confidential use of the Government, what amounts they have ear-marked or held in custody at this time and for whom, and to report any future applications to ear-mark or hold in custody.

SILVER FOR SUBSIDIARY COINAGE AND FOR EXPORT.

The Committee recommends that the silver now lying inert in the Treasury for the redemption of silver certificates, be rendered available for use through the redemption of silver certificates and the substitution in their place of Federal Reserve Notes. The silver bullion so released should be used so far as required for subsidiary coinage and the balance will be available for export in place of gold. Silver certificates to the amount of about $456,000,000 are now outstanding.

The result of such steps will be the permanent substitution of gold for silver as the support of a substantial part of our currency and the immediate exportation of silver which is not needed in this country in substitution for gold which is urgently required. Legislation will probably be required to accomplish this. Steps must also be taken to expedite the printing of small bills by the Bureau of Engraving and Printing.

Respectfully,

BENJ. STRONG   JOHN E. GARDIN
D. G. WING   ALBERT STRAUSS
JOHN E. ROVENSKY   JAMES BROWN
J. F. CURTIS.

Washington, Sept. 13, 1917.

X-375.

FEDERAL RESERVE BOARD

WASHINGTON

September 14, 1917.

Dear Sir:

The Board has received through the Secretary of the Treasury an opinion by the Acting Attorney General of the United States regarding the charter and statutory rights of those State banks and trust companies which become members of the Federal Reserve System.

A copy of this opinion is transmitted to you herewith and your attention is especially directed to the quotations from Section 8 of the Clayton Act which appear at the bottom of the first and the top of the second page. You will note that the conclusion is reached that National banks and all banks and trust companies in the District of Columbia come within the prohibition of Section 8 of the Clayton Act; but that those State banks and trust companies which join the Federal Reserve System and which do not operate "under the laws of the United States as the laws of their existence, nor in territory over which the United States exercises exclusive legislation" are held to be free from the restrictions imposed by Section 8 of the Clayton Act as quoted in the opinion.

You are informed that the Federal Reserve Board will be governed by this opinion, and that its regulations relating to interlocking directorates will be modified accordingly. Please bring this to the attention of the State banks and trust companies of your district.

Very truly yours,

Governor.

Inclosures.

MEMORANDUM FOR CONSIDERATION.

It seems highly desirable that we should take advantage at this time, and perhaps make a virtue of our country's necessities in a careful study looking to a possible readjustment of our currency and coinage, the relations of our Treasury and subtreasuries to the issuance and redemption of various kinds of currency and coinage. The very large demands which the requirements of the war are making upon our currency and banking system, make this study both opportune and desirable, and there is reason to believe that there are opportunities for vastly increasing the efficiency of our methods, to the great advantage of the Treasury and the nation.

It is suggested that this study should embrace the following:

First. A consideration of various forms of currency which should be maintained;

Second. A consideration of the denominations of this currency;

Third. A consideration of the various forms of coinage to be maintained;

Fourth. The denominations of that coinage;

Fifth. A study of the methods and facilities for the redemption of currency and coinage;

Sixth. How far can the subtreasury system and the Federal reserve banks effectively cooperate in facilitating the above operations and at the same time coordinate these operations with meeting the needs of the Treasury in selling and distributing bonds, savings certificates, and the like, or in accumulating gold?

Seventh. To what extent and how may the Federal Government take advantage of the now existing high price of silver to revise its silver coinage and currency or sell some of its silver for gold?

Eighth. How far can Federal reserve notes be substituted for other circulation (e. g. gold or silver)?

Ninth. What legislation, if any, would be necessary to carry out the more desirable provisions?

Washington, Sept. 13, 1917.

Sweden, Norway, Denmark, Holland and Switzerland, all contiguous to Germany and of necessity entertaining intimate relations with the latter, are playing a role in the present difficulties that cannot be ignored by the United States. Our government through the powers being exercised by the President is doing the proper thing in placing an embargo on food and other products going into these countries and this control cannot be exercised too rigidly. Similar steps should be taken with financial transactions as we have good reason to believe that Germany is using any one or all of its neighbors as financial agents for the world at large. The Scandinavian countries in particular through freights mainly have accumulated vast credits in the United States, which in a measure are at the disposal of Germany through coercion or otherwise, and it isthe duty of the American Banker to close up all avenues through which this money can be made available to German interests. Cases are known where transfers have been attempted to Spain, Holland and Switzerland and vice versa and the writer has in mind one particular transaction of five million dollars that was transferred from Sweden for Swiss account to parties in New York. This particular transfer was referred back for an explanation, which after considerable delay was forthcoming to the effect that it was intended as cover for a loan that Switzerland had made in the United States but which did not mature until 1919. This on the face of it was such a specious reason that it was apparent that steps had to be taken to place an embargo on this money to insure its being used for that purpose only. This has been done most effectively, but I understand that the action was a source of grave disappointment to all parties concerned. Undoubtedly numerous sinister cases have occurred which have defied detection and radical steps will have to be taken to insure that all transfers through neutral accounts be properly explained and passed upon by any commission having the control of the exchanges in charge. Deposits are rapidly increasing in the United States, for which neutral countries have at the present time no use and as a result the United States is at a severe discount in these countries. This is merely academic and is of no advantage to the countries in consequence of the embargo now existing. Some of this money is seeking investment here, particularly in shipbuilding and loans on vessels flying the American flag. The Norwegian Government has taken up in toto a loan made in this country in 1914 and Switzerland has made provision for a loan of five million maturing in 1919, although this was rather compulsory. Owing to the fact that the rate of exchange on the dollar is such an adverse one, it is not likely that these funds will be withdrawn in the near future; consequently, the United States will continue to have the benefit of these deposits for some time to come - only proper steps must be taken that they are not made available for the use of the enemy, which in my opinion will not be such a difficult matter to prevent.

JAPAN. Gold shipments to this country arise from five sources.

1. The Bank of Japan has always made a practice of maintaining a large proportion of its gold reserve in foreign countries. At the beginning of the war they held a total gold reserve of 175 million dollars of which 109 millions was held abroad. On July 31st, 1917, they held a total gold reserve of 460 million dollars, of which 274 millions was held abroad. No figures are available as to what part of this 274 million is held in the United States, but it is certain that a considerable proportion is held on deposit in New York City.

2. Our imports from China, Korea and Formosa are to some extent financed through Japan -- the Japanese banks being purchasers in those countries of drafts on the United States.

3. Japan has been a heavy seller in this market of foreign exchange -- sterling, and roubles transactions being the most important.

4. Japanese concerns have obtained considerable credits in the United States. These credits have been in various forms; time import credits, straight loans, over draft credits, etc.

5. Our imports from Japan of silk, tea, etc., have been quite heavy; freights on Japanese steamers have risen as the result of advance in freight rates and in general our indebtedness to Japan on commercial transactions has been greater than formerly.

It is obvious that each of these classes must be treated separately.

1. It would be inadvisable to place any embargo on the gold reserves of the bank of Japan. The amount held here should be ascertained and placed at their free disposal. Care should be taken, however, that the Bank of Japan be not used as a channel for draining us of our gold.

2. Imports from China, Korea and Formosa as well as those from Japan should be paid for by gold exports if necessary. A large part of these imports, however, are not necessary to the successful prosecution of this war and should, therefore, be restricted. When proper restrictive measures have been adopted the volume of gold exports would be proportionately reduced.

3. Balances arising in this country from the sale to us of sterling and roubles (i.e. arbitrage operations), and from borrowing operations should not be paid out of our gold reserves.

Applications for permits to ship gold to Japan should disclose fully the transactions giving rise to such proposed shipment and licenses should be issued only in conformity with the above.

The fact that some of the gold exported by us to Japan is re-exported by them to India really has no bearing on the subject before us. Japan's exports of gold to India are made in settlement of her own transactions.

INDIA. Our direct commercial relations with India result in a large balance of trade against us. Our imports of jute, burlap, hides, etc., by far exceed the merchandise that we ship to that country.

The balance of trade thus created cannot under present conditions be settled through the medium of foreign exchange as India's exports to England (the customary settling point) to such extent exceed the imports from that country that exchange is unobtainable.

The situation is further complicated by the character of India's population and their deep aversion to any change in their financial methods. It has been found extremely difficult to induce the Indian population to accept any but metallic money. The British Government is now engaged in an attempt to force paper money into circulation, but to this date their efforts have not been successful to any considerable degree. The Government is fully alive to the situation; they have a full knowledge of international as well as local conditions and they have adopted all the measures that they deem advisable (such as regulating the import and export of bullion; acquiring all gold upon arrival at a certain rate; etc.) to meet the present situation. After all their efforts the existing condition is that our imports can only be paid for by our exporting gold or silver bullion.

It would be by far preferable that we shipped silver to India. Silver, however, is very scarce at present, and this method of settling our trade balance will only be feasible after some plan has been found that will increase the available supply of that metal. The advisability of putting to this practical use our large hoard of silver dollars is self apparent. Any metal exported to India will disappear permanently from curculation in spite of the efforts of the British Government. Shipping gold to India means a permanent loss to the financial world of just that much of the precious metal that is so badly needed for the purpose of forming the basis of the credit expansion that is necessary for the conduct of this war. Steps should therefore be taken to release at least a part if not all of the silver back of our silver certificates and put this metal which is now practically useless to use.

Until some method has been devised to accomplish the above object it will be necessary that we make shipments of gold. The nature of our business with India is such that it is feasible to couple each gold shipment with the commercial transaction or transactions giving rise thereto. Applications for permits to export gold to India should therefore be always accompanied with full facts regarding the character, destination and utility of the commodities to be imported into the United States as the result of such gold shipment.

FEDERAL RESERVE BOARD

WASHINGTON

X-383

September 17, 1917.

Dear Sir:

In view of the anticipated heavy demands upon Federal Reserve banks, the Board looks with approval upon the suggestion that the practice be encouraged of having short time commercial paper run for not longer than four months instead of six months as is frequently the case today. It seems desirable that the commercial banks of the country should have in their portfolios a maximum amount of paper that can be rediscounted with Federal reserve banks. As the Federal reserve banks can rediscount only paper which has not more than ninety days to run, it follows that if investments of member banks are in six months paper, on an average of only 50% of such paper is available at any one time for rediscount; but should the investments be in paper having four months or less to run, at least 75% would on an average have not more than ninety days to run to maturity and would therefore be immediately available for use at the Federal reserve bank.

The Board is of the opinion that the suggested change would greatly improve the banking condition of the country, as the banks would make a turn-over three times a year instead of twice, and the credits which they would provide would come up for consideration three times instead of twice a year. The borrower in good credit would have no reasonable grounds for complaint and the borrower in doubtful credit would be strengthened by frank conversations with his bankers at more frequent intervals than at present. It is suggested that if the bankers of the country will undertake this change in methods of borrowing and insist upon four months paper instead of six, the credit situation will be greatly improved within a short time; responsible borrowers would have greater assurance of credits and the banks themselves would be in position to meet contingencies with at least 50% more confidence than under the existing borrowing conditions.

Very respectfully,

Governor.

WHEREAS, it is necessary, in due course of business, for this bank to arrange with the Federal Reserve Board to transfer funds standing to its credit in the Gold Settlement Fund, upon telegraphic request rather than upon delivery of an order duly executed by an officer of the bank whose authenticated signature is on file with the Federal Reserve Board;

NOW, THEREFORE, BE IT RESOLVED, that all telegraphic requests, addressed to the Federal Reserve Board, for the transfer or payment of funds standing to the credit of this bank in the Gold Settlement Fund, shall be authenticated by including therein the code or test word furnished to this bank by the Federal Reserve Board for this purpose, and that the Federal Reserve Board be requested to honor all requests containing such code or test word, it being understood and agreed that this bank assumes full responsibility for all transfers made pursuant to telegraphic orders which include such code or test word.

RESOLVED, FURTHER, that a copy of this resolution be forwarded to the Federal Reserve Board for its files.

FEDERAL RESERVE BOARD

WASHINGTON

X-385

September 18, 1917.

Dear Sirs:

Reference is made to the letter of your Assistant Cashier, Mr. Davis, dated September 12, in which information is requested as to whether Federal reserve banks may make transfers from the Gold Settlement Fund, for the credit of member banks in the 5% Redemption Fund held by the Treasurer of the United States.

The Treasurer's office is agreeable to this arrangement, and such transfers can be made. It is, of course, desirable that they be made in as large amounts as possible.

Very truly yours,

Assistant Secretary.

Federal Reserve Bank,
Cleveland, Ohio.

FEDERAL RESERVE BOARD

WASHINGTON

X-385

September 18, 1917.

Dear Sir:

Inclosed you will find a copy of a resolution relative to the use of test words in connection with orders for transfers and payments through the Gold Settlement Fund maintained by the Federal Reserve Board.

Please acknowledge receipt, giving the date of the next meeting of the board of directors of your bank, and at that time have the matter brought to the attention of the board for its action.

Copies of the resolution have been sent to the Governor of your bank.

Since you also have transactions with the Gold Settlement Fund and are supplied with test words, we will be glad if you will write a letter to the Board stating the substance of the resolution and your agreement thereto.

Very truly yours,

Governor.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

Dear Sir:

Receipt is acknowledged of your application for the issue of a license authorizing the following shipment:

Consignee

Consignor

Per

Amount

Character of shipment

You are hereby informed that after due consideration of your application the Board has reached the conclusion that on the facts presented by you it does not find it compatible with public interest to authorize the exportation. The Board will consider any further evidence that you may wish to submit.

Respectfully,

FEDERAL RESERVE BOARD.

BY

FEDERAL RESERVE BOARD

WASHINGTON

X-388-a

Dear Sir:

Receipt is acknowledged of your application for the issue of a license authorizing the following shipment:

Consignee

Consignor

Per

Date of Exportation

Amount

Character of shipment

In response you are informed that a license in accordance with your application has been duly issued and that the Collector of Customs at ______________________ has been instructed to grant clearance for the shipment.

Your attention is directed to the fact that the issue of a license in this instance must not be taken to imply that a license will be granted on future applications under similar state of facts.

Respectfully,

THE FEDERAL RESERVE BOARD

By

Governor.

TREASURY DEPARTMENT

____
(date)

Collector of Customs at ______________________ mail
Instructed by telegraph.

Chief Division of Customs.

UNITED STATES SENATE.
Committee on Banking and Currency.

September 7, 1917.

Hon. Wm. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

My dear Governor:

I have just received your favor of the 5th instant returning me the letters of R. A. McCormick and P. P. de Francisco Flores. Please oblige me with copy of the actions taken by the foreign governments in fixing arbitrarily prices for American gold.

Great Britain, with a balance of trade against her, maintains the relative parity of the pound sterling in New York by buying at $4.71 plus, and in this way prevents the pound sterling from going below that fixed point. This would not be necessary by the United States where the balance of trade is in her favor. People prefer to transact their business in sterling bills for this very reason that it is stabilized by the British Government and they prefer for the same reason not to transact business in dollars when the dollar is not stabilized.

I regret that I can not see the force of the observation "in order to maintain the parity of the American dollar abroad, it would be necessary for American banks to export gold in sufficient quantities to offset not only American purchases abroad, but the purchases in neutral countries of all the nations with which we are associated in the war."

The shipment of American goods to Spain, $50,000,000 in excess of the shipment of Spanish goods to America, is a mathematical demonstration that Spain owes us $50,000,000 which it must pay either in dollar-exchange or its equivalent, therefore they having demand for $50,000,000 for transmittal to the United States are in actual need of $50,000,000 United States exchange in dollars or the equivalent, and if we did business with them directly instead of indirectly, the American dollar would be above par in its purchasing power in Spain, because of the Spanish need for the American dollar.

This looks to me as a case of mathematical demonstration. I should be pleased to know what answer you make to this.

I understand, of course, that Great Britain, with a balance of trade against her in Spain of 88 million dollars is in a position by causing the exchange to pass through London in pound sterling, to offset the balance in our favor of $50,000,000. But, if we did the business directly through our own agencies, Great Britain could not use our assets to discharge her liabilities. It is this which I protest.

Your suggestion that "Purchases of foreign bills on a large scale by the Federal reserve banks would not reduce the volume of exchange offered" I do not see the point of.. The American exporters need the Spanish bills and the Spanish exporters need the American bills. I am suggesting that the Act of Congress of June 21, 1917, be put into effect so that through the Federal reserve banks these exchanges could be accomplished at a minimum cost, without unfair profit to speculators in Spanish exchange, and on a scale sufficient to meet our import-export requirements.

Our business men absolutely need the Spanish exchange and must have it. The Spanish merchant needs American exchange and must have it, and this volume, while large, makes almost a complete offset. But, during the year, the Federal reserve bank agency at Madrid would have a total of 50 millions of dollars, an average of a million dollars a week of American exchange to sell to Great Britain at a profit to meet her requirement in Spain.

This is perfectly obvious to me. It only requires the medium which was provided for by the amendment to the Federal Reserve Act, approved June 21, 1917, in which the Federal reserve banks were authorized, and the Federal Reserve Board was empowered to order and to direct, the establishment of these agencies in foreign nations for the purpose of handling this exchange.

I remind you that the demand of the American business men for Spanish exchange goes to the local bank, and the local bank ought to be authorized to buy and sell Spanish exchange to the American exporter or importer, and place his exchange through the New York Federal Reserve Bank where the large part of this business would be transacted, in effect, by a cross entry.

The volume of our import business is very large, amounting to $2,659,000,000, and a discount of dollar exchange of 10% on this amount would net a loss to American exporters of sufficient amount to make this an unendurable condition and the amount of cash money that would be required to handle the actual balance would be small, since they adjust themselves from day to day. And since this fund would in reality be provided by banks in the United States transmitting to the New York Federal Reserve Bank the funds entirely coverning their requirements for Spanish exchange, for example, outside of their ordinary reserve balances.

For this reason I do not clearly apprehend the force of your observation that "it does not now appear wise that the resources of the Federal reserve banks, which now hold the entire legal reserves of nearly eight thousand member banks, should be weakened by over-investments in foreign bills."

The remitments of a member bank for foreign exchange are more than overbalanced by the amounts which the agents of the Federal reserve banks would receive in exchange from foreign countries to be transmitted to America, about three and a half billion dollars annualy just now.

And, it would be an asset in the hands of these agents in very large amounts, not a liability. For example, if the Federal Reserve Bank of New York had an agent with a desk and a safe in Madrid, representing the Federal Reserve Bank of New York, he would have received, if he transmitted all this business, an average of a million dollars a week for transmittal to New York, above the amount to be remitted back from New York to him.

I do not follow your reasoning that this would require the use of the reserves of the member banks. I certainly agree that if the purchases of the Allied Governments abroad could be drawn against in dollar exchange, the volume of sterling bills would be decreased to a corresponding degree and the large banks in this country could engage in the purchase of these bills, carry them for 60 or 90 days, payment being made at maturity out of the notes advanced to foreign governments by the United States Government, and that the Federal reserve banks could rediscount these bills for member banks or could buy them in the open market and they would be safe in engaging in an operation of this kind as they would be conducted on our own soil and in our own country.

I think the Government should do what it properly can to have this practise pursued of using the dollar exchange against credits which we extend to foreign Governments as a condition of the credit in order to give greater dignity to dollar exchange. But, I see no reason why all that you say might not be done, whether it is dollar bills or sterling bills, as they are precisely the same except that one is in pound sterling and the other is in dollars. And the pound sterling is kept at a stable figure by Great Britain.

Your observation "The Board has received a number of letters insisting that we establish a foreign exchange bureau, but in no case has it been demonstrated just what good would result from such action" would seem to imply that the exchange bureau depended upon the discounting of bills drawn against purchases of foreign Governments in this country. My opinion is that this machinery should be put in action in accordance with the contemplation of the act of Congress of June 21, 1917, in order that the American importer may have a means of transmitting his payments through his member bank and the Federal Reserve

Bank against credits in pesetas in the hands of Madrid agents of the Federal Reserve Bank of New York, and the exporters need the same facilities.

It is obvious, since Spain owes $50,000,000 more than she receives she has got to make her payments in pesetas, and therefore, the peseta would go into the hands of the Federal reserve agent and it would be at a discount and not at a premium as at present.

This is true, regardless of whether gold is a legal tender in Spain and regardless of the action of the Spanish Government. If what you think is true is a fact, that the new pesetas have a larger relative value measured in dollars, buys more than it did before because of this fact, certainly the condition would not be as bad as it appears to be. But, I do not believe this is true, and a letter which I sent you shows that it is not true, and I observe you make no answer whatever to the letter of Francisco Flores which I sent you. He does not explain that the peseta buys more, he apologizes that the dollars buys less, and that is the very point which I make. I should be glad to have the evidence upon which you make this statement that the new peseta buys more and therefore that the dollar does not buy less. This is the very point at issue, and you deny the fact that the dollar does buy less by necessary implication of the last paragraph of your letter.

I sympathize with your concluding word, "There appears to be a great deal of misinformation and lack of knowledge on this subject." But, I think that it is intolerable that we should permit this condition of misinformation or lack of knowledge to continue, and I am determined not to leave myself in this position. I am anxious on my part to do what I can to protect the American interests as I am sure that you are, and I should be very much obliged if you would be good enough to point out any error of the suggestions which I have offered.

The few National Banks handling foreign exchange are limited to an amount equal to their capital and surplus in handling this exchange and have a monopoly besides in this business. What I wish to see is that the 7,500 National banks should all have free access to this business through the Reserve Systems as Congress intended. This would enlarge the ability of the United States to handle easily all the import and export business which now reaches $8,900,000,000 annually, or an average of nearly $30,000,000 a day, or approximately $1,500,000,000 on a 60-day basis.

The Commissions and profits on this business should be distributed and made available for all our banks and of easy access and on reasonable terms to all our importers and exporters wherever located. The interests of American producers and of American consumers of foreign goods require this.

Yours very respectfully,

ROBT. L. OWEN.

FEDERAL RESERVE BOARD

WASHINGTON

September 19, 1917.

Hon. Robert L. Owen,
United State Senate,
Washington, D. C.

Dear Sir:

The Board has given very careful consideration to your letter of the 7th instant and directs me to assure you that while it is desirous of doing anything in its power to relieve the situation of which you complain, it is still unable to see how, under existing conditions, the desired result can be accomplished by requiring the Federal reserve banks to establish agencies in neutral countries for the purpose of buying and selling bills of exchange.

For several months past the Board has made a close study of the subject of foreign exchange, with the view particularly of ascertaining the steps which should be taken to protect our gold reserves. Our situation is complicated by reason of the fact that the United States is now at war, so that we can no longer consider the problem from our own standpoint only, but are obliged to take into account the interests of the other nations with which we are associated in the war.

The British Government is, as you say in your letter, stabliz-ing sterling in New York by purchasing bills in the open market, but it is not maintaining rates for sterling in other countries. The financial aid extended by our Government has enabled it to continue these purchases, which it contends are necessary to protect it against higher commodity prices. At the same time, the allied Governments and their nationals are constantly buying goods in nearly all the neutral countries of the world, and in most of these countries the trade balance is running against them. As neither the British nor French Government is making any effort to maintain exchange rates in neutral countries, the result is that bills resulting from their purchases seek a market in New York, where they are bought at fixed rates for British Government account. Consequently, purchases made by British subjects or French citizens in Spain or Sweden, may be settled by credits in London or Paris. Bills against these credits are offered for sale in New York, although neither the Government of the United States, nor any citizen of the United States may have been concerned at all in the original transaction. In this way our own favorable trade balances have been wiped out, and our banks have been obliged to make large shipments of gold for Swedish, Dutch, or Spanish account, as the case may be, thus indirectly settling British, French, or Italian transactions in these countries.

I enclose herewith a memorandum (Exhibit A) showing that shipments of gold from the United States to Spain from January to August 1917 have amounted to $88,866,000. The Spanish Government permits the Bank of Spain to set its own price on American gold, which is taken at a figure considerably below its actual value. Several months ago the Board sought to establish relations between the Bank of Spain and the Federal Reserve Bank of New York, and by direction of the State Department the American

Ambassador at Madrid broached the subject to the Bank of Spain, but that institution declared its unwillingness to enter into the proposed arrangement. (See copy of cable sent by Department of State to American Ambassador at Madrid, and copy of the Ambassador's reply enclosed confidentially). The attitude of the Spanish banks, in which they appear to be sustained by their Government, has all along been so hostile to any reciprocal arrangement that it is evident that a Federal reserve bank agency would be permitted to do business in Spain only upon terms agreeable to the Spanish interests, if at all. The situation is further complicated by reason of the fact that there is cause to believe that some of our exports of gold may have been for German account. The order of the President of the United States dated September 7th, which became effective September 10th, a copy of which is enclosed herewith (Exhibit C), authorizes and empowers the Federal Reserve Board, subject to the approval of the Secretary of the Treasury, to pass upon all applications for exports from the United States or any of its territorial possessions, to any foreign country named in the proclamation, of any coin, bullion, or currency, and directs the Board that if, in its opinion, the exportation in question appears to be compatible with the public interest to permit it, otherwise to refuse it. Since the order has become effective the Board has received applications for the shipment of several million dollars of gold to Spain, all of which it has declined to grant, for the reason that the applications do not show that these shipments are essential for the public welfare, but appear, on the other hand, to be the result of arbitrage operations, or an attempt to transfer funds for foreign account. It will be interesting to note the effect of this policy, but it is certain that we will no longer be required to furnish the gold for the settlement of transactions with which we have no concern, and it seems probable that European nations will be obliged to settle their balances among themselves, or else that Spain may increase the list of articles upon which she has placed an embargo.

I enclose herewith copy of a press dispatch to the Journal of Commerce of New York (Exhibit D) which relates to an announcement made by the Department of Commerce, from which it appears that the Spanish Government has prohibited the exportation of olive oil. The Board is informed that the "Trading with the Enemy Bill" now pending in Congress, contains a provision giving the President of the United States the same control over imports that he now has over exports, and it seems probable that the importation of many articles for which we have substitutes or which can be produced in this country will be prohibited.

The whole foreign exchange situation is so unsettled at present, both from economic and political viewpoints, that the Board feels it would be unwise for the Federal reserve banks to establish agencies in countries like Spain and Sweden at the present time for the purchase and sale of bills of exchange. In the Federal Reserve Bulletin for

August 1917, page 582, and for September 1917, page 683, are tables which show that since measures have been taken to stabilize exchange in New York around the present rates, New York and London rates of exchange on neutral points have run practically a parallel course, dollar exchange rates in nearly all cases showing less depreciation than the corresponding sterling rates. (Copies of these bulletins are enclosed, Exhibits E and F). This proves that American currency is more highly regarded abroad than any other, including British.

Your letter was submitted to Mr. Albert Strauss, an exchange expert of international reputation, who is here in Washington as the adviser of the Secretary of the Treasury on foreign exchange matters, and I take pleasure in enclosing a letter from him (Exhibit G) in which he comments upon the points which you have raised. Your attention is asked particularly to that part of Mr. Strauss' letter, (page 4) where he points out that it is unlikely that upon the establishment of an agency in Spain, the daily or weekly demands for the purchase and sale of Spanish exchange would about balance each other; but that, owing to seasonal demands there would be involved a large investment in pesetas at one time, or the heavy borrowing of them at another. You will notice that he states that in normal times peseta exchange was regarded as unstable and dangerous, and that it is now especially so by reason of arbitrary governmental action which is liable to be changed at any time.

The Board has seen no evidences of any widespread demand that Federal reserve banks should be required to deal in foreign exchange.

Interior banks have, as a rule, connections of long standing through which they handle their foreign exchange transactions, and I cannot recall any request made by any bank for additional facilities. The Board has indeed, received a great many communications from a certain importer of olive oil who claims to handle about twenty per cent of the olive oil that is brought into this country; but it has not heard from other importers of olive oil, although it has received occasional letters from wholesale grocers throughout the country, all in practically identical language and which bear every evidence of having been inspired, asking that it establish "a foreign exchange bureau," although no suggestion has been made as to the functions of such a bureau. Mr. Strauss is, and has been for the past ten days, in daily communication with members of the Board and sits with its executive committee as the representative of the Treasury when applications for gold exports are considered. If the functions of "a foreign exchange bureau" are those of investigation and regulation, they are now being performed by this committee.

The Board is of the opinion that the subject of paramount importance just now is the conservation of our gold reserves, to which considerations of individual profit and convenience should be subordinated.

I am, Sir,

Very respectfully,

(Signed) W. P. G. Harding.

Governor.

EXHIBIT "A"

September 15, 1917.

Memorandum for Governor Harding:

Gold exports from the United States to Spain during the present calendar year are shown by the Bureau of Foreign Commerce as follows:

January, 1917	-	$4,444,463
February	"	3,616,827
March	"	4,266,566
April	"	4,400,300
May	"	21,010,802
June	"	15,983,400
July	"	20,327,950
August	"	14,815,700
Total	- - -	$88,866,008

Respectfully submitted,

(Signed) M. L. JACOBSON.

Statistician.

MLJ-McL

EXHIBIT "B"

CONFIDENTIAL.

Copy of cablegram sent by Department of State to American Ambassador at Madrid, Spain.

January 25, 1917.

At request of Governor of Federal Reserve Board communicate to Bank of Spain through Spanish government following: quote: Federal Reserve Board has suggested, in view of difficulty of sending gold to Spain and consequent derangement of foreign exchange market, that it might be helpful if Bank of Spain would consent to establish relations with New York Federal Reserve Bank, acting as its agency in Spain and New York Federal Reserve Bank opening reciprocal account here, offering to earmark gold, keeping it under joint custody and supervision with representative designated by Bank of Spain, until normal shipments are resumed. Unquote.

Copy of cablegram received by Department of State in reply to above from the American Ambassador at Madrid:

February 21, 1917.

Bank of Spain thanks Federal Reserve Board and regrets that it cannot accept offer.

EXECUTIVE ORDER.

REGULATIONS RELATING TO THE EXPORTATION OF COIN, BULLION & CURRENCY.

By virtue of the authority vested in me, I direct that the regulations orders, limitations, and exceptions prescribed in relation to the exportation of coin, bullion, and currency shall be administered by and under the authority of the Secretary of the Treasury; and upon the recommendation of the Secretary of the Treasury I hereby prescribe the following regulations in relation thereto:

1. Any individual, firm or corporation desiring to export from the United States or any of its territorial possessions to any foreign country named in the proclamation dated September 7, 1917, any coin, bullion, or currency, shall first file an application in triplicate with the Federal Reserve Bank of the district in which such individual, firm or corporation is located, such application to state under oath and in detal the nature of the transaction, the amount involved, the parties directly and indirectly interested and such other information as may be of assistance to the proper authorities in determining whether the exportation for which a license is desired will be compatible with the public interest.

2. Each Federal Reserve Bank shall keep a record copy of each application filed with it under the provisions of this regulation and shall forward the original application and a duplicate to the Federal Reserve Board at Washington together with such information or suggestions as it may believe proper in the circumstances and shall in addition make a formal recommendation as to whether or not in its opinion the exportation should be permitted.

3. The Federal Reserve Board, subject to the approval of the Secretary of the Treasury, is hereby authorized and empowered upon receipt of such application and the recommendation of the Federal Reserve Bank to make such ruling as it may deem proper in the circumstances and if in its opinion the exportation in question be compatible with the public interest, to permit said exportation to be made; otherwise to refuse it.

The White House,

September 7, 1917.

(Certain exports in Time of War Unlawful)

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS Congress has enacted, and the President has on the fifteenth day of June, 1917, approved alaw which contains the following provisions:

"Whenever during the present war the President shall find that the public safety shall so require, and shall make proclamation thereof, it shall be unlawful to export from or ship from or take out of the United States to any country named in such proclamation any article or articles mentioned in such proclamation, except atsuch time or times, and under such regulations and orders, and subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress: Provided, however, that no preference shall be given to the ports of one State over those of another.

"Any person who shall export, ship, or take out, or deliver or attempt to deliver for export, shipment, or taking out, any article in violation of this title, or of any regulation or order made hereunder, shall be fined not more than $10,000, or, if a natural person, imprisoned for not more than two years, or both; and any article so delivered or exported, shipped, or taken out, or so attempted to be so delivered or exported, shipped, or taken out, shall be seized and forfeited to the United States; and any officer, director, or agent of a corporation who participates in any such violation shall be liable to like fine or imprisonment, or both.

"Whenever there is reasonable cause to believe that any vessel, domestic or foreign, is about to carry out of the United States any article or articles in violation of the provisions of this title, the collector of customs for the distrist in which such vessel is located is hereby authorized and empowered, subject to review by the Secretary of Commerce, to refuse clearance to any such vessel, domestic or foreign, for which clearance is required by law, and by formal notice served upon the owners, master, or person or persons in command or charge of any domestic vessel for which clearance is not required by law, to forbid the departure of such vessel from the port, and it shall thereupon be unlawful for such vessel to depart. Whoever, in violation of any of the provisions of this section shall take, or attempt to take, or authorize the taking of any such vessel out of port or from the jurisdiction of the United States, shall be fined not more than $10,000 or imprisoned not more than two years, or both; and, in addition, such vessel, her tackle, apparel, furniture, equipment, and her forbidden cargo shall be forfeited to the United States."

2748

AND WHEREAS the President has heretofore by proclamation, under date of the twenty-seventh day of A ugust in the year One Thousand Nine Hundred and Seventeen, declared certain exports in time of war unlawful, and the President finds that the public safety requires that such proclamation be amended and supplemented in respect to the articles hereinafter mentioned:

NOW,THEREFORE, I, WOODROW WILSON, PRESIDENT OF THE UNITED STATES OF AMERICA, DO HEREBY PROCLAIM to all whom it may concern that the public safety requires that, except at such time or times, and under such regulations and orders, and subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress, the following articles, namely: coin bullion and currency: shall not, on and after the tenth day of September in the year One Thousand Nine Hundred and Seventeen, be exported from or shipped from or taken out of the United States or its territorial possessions to A lbania, Austria-Hungary, Belgium, Bulgaria, Denmark, her colonies, possessions or protectorates, Germany, her colonies, possessions or protectorates, Greece, Leichtenstein, Luxembourg, The Kingdom of the Netherlands, Norway, Spain, her colonies, possessions or protectorates, Sweden, Switzerland or Turkey, Abyssinia, Afghanistan, Argentina, Bolivia, Brazil, China, Chile, Columbia, Costa Rica, Cuba, Dominican Republic, Ecuador, Egypt, France, her colonies, possessions or protectorates, Guatamala, Haiti, Honduras, Italy, her colonies, possessions or protectorates, Great Britain, her colonies, possessions or protectorates, Japan, Liberia, Mexico, Monaco, Montenegro, Morocco, Nepal, Nicaragua, the colonies, possessions or protectorates of The Netherlands, Oman, Panama, Paraguay. Persia, Peru, Portugal, her colonies, possessions or protectorates, Roumania, Russia, Salvador, San Marino, Serbia, Siam, Uraguay, or Venezuela.

The regulations, orders, limitations and exceptions prescribed will be administered by and under the authority of the Secretary of the Treasury, from whom licenses in conformity with said regulations, orders, limitations and exceptions will issue.

Except as hereby amended and supplemented, the above mentioned proclamation under date of August 27, 1917, shall continue in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States of America to be affixed.

Done at the City of Washington, this seventh day of September in the year of our Lord One Thousand Nine Hundred and Seventeen and of the Independence of the United States of America the One hundred and Forty-second.

By the President,

Secretary of State.

EXHIBIT "D"

NO SPANISH OLIVE OIL EXPORTS

Royal Order Prohibits Shipments of All Classes

Washington, Sept. 12 (Special) -- Spain has imposed further restrictions on olive oil, according to an announcement made by the Department of Commerce today. The Department published the following cable from the American Consulate at Barcelona:

> "Spanish Government by royal order published September 7 prohibits exportation of all classes of olive oil, excepting that already billed at point of origin for railway transportation and that invoiced for maritime shipment, both exceptions conforming to export requirements of royal order reported in this consulate's cablegram of August 13".

(Journal of Commerce, Sept. 14, 1917, p. 2.)

EXHIBIT "G".

September 15, 1917.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board.

Dear Governor Harding:

I have read with great care your letter of September 5, to Senator Owen and his answer to you under date of the 7th, in regard to which you have asked me to express my views.

I think Senator Owen is entirely right in his contention that if we took steps to confine exchange operations between Spain and the United States to the settlement of commercial transactions between those two countries that the Spanish exchange in the United States, and as a consequence dollar exchange in Spain, would rule around normal; which is to say that so long as both countries interposed no obstacles to the free shipment of gold out of each, the exchange rate would fluctuate around the gold value of the peseta by a margin not exceeding in either direction more than the cost of the shipment of the gold. In fact, with the balance of trade between Spain and the United States running heavily in favor of the United States, it is altogether likely that the peseta would sell in the United States at less than the normal gold value of

Exhibit "G".

the peseta. Had these conditions obtained between Spain and the United States, it is altogether unlikely that Spain would have declined to receive American gold except at a discount, because no gold would have moved to Spain from the United States and there would have been no point in any such regulation.

We must not lose sight, however, of the important consequences that would follow from the steps necessary to bring about the above condition of affairs. These steps would involve the absolute prohibition of arbitrage in exchange. Such arbitrage is in effect the sale in New York of cash balances held in France and England, and the remittance to Spain of the proceeds of the sale of such foreign balances. While it is true that such transactions are undertaken by banks and bankers for the profit involved in the transaction, the transactions would not be possible except for the fact that the underlying transactions respond to a real need of the situation. These underlying facts are that we are at the present time paying to Spain in gold, debts due to that country by England and France. These payments are made by us out of the advances made by us to our Allies, and they are made in gold because of the fact that neither France nor England are permitting the export of gold at the present time. France, I believe, has an absolute prohibition on the export of gold; and England, without a formal prohibition, is preventing the export by the concerted action of its bankers and the influence of the Bank of England. I believe both France and England feel that they

Exhibit "G".

can not at present, with due regard to the safety of their own financial structures, part with gold, and yet they must pay for essential purchases made in Spain. I understand, though I have no direct knowledge of the subject, that their purchases are for materials absolutely needed for the support of their populations or for the prosecution of the war. The Spanish Government is unwilling to receive American gold and mint it into pesetas except at a discount of some six or seven per cent. This is a suspension of the free coinage of gold and amounts in effect to a change by the Spanish Government in the mint value of the peseta. This is, of course a hardship on persons owing money in Spain, where it appreciates the value of the coin in which they are obliged to make payment. Apart from the question of fairness in thus changing their standard of value, the position of the Spanish Government is probably wise, as the effect of this prohibition is to prevent, to a certain extent at least, an inflation and a consequent rise in domestic prices. I am told that the price of olive oil in Spain is now only twenty-five per cent higher than it was before the outbreak of the war. Such a rise, of course, is very moderate compared with the rise in commodity prices that has taken place during the last four years with us and in other countries that have suffered price inflation.

I see no remedy for this situation except such control of all operations in foreign exchange as will reduce our exchange relations with every country to the settlement of our direct trade balances with that country. It may be that the increasing complexities of inter-

Exhibit "G"

national intercourse may gradually force us to take such drastic action. In the meantime, however, there are certain other steps which might help this situation, such as an effort to make it profitable for the Spanish banks or Spanish Government to invest or to leave in the banks of this country the large credit balances that are arising here in their favor. I know that this whole subject is engaging the constant attention of your office and of yourself.

I do not think that Senator Owen's suggestion that the Federal reserve banks establish an agency in Spain would remedy the situation unless at the same time steps were taken to prevent arbitrage transactions through sterling and francs; and if such steps are taken I think that the effect which the Senator has in mind would be brought about without the establishment of an agency in Spain. Senator Owen assumes that with the establishment of an agency in Spain the daily or weekly demands for the purchase and sale of Spanish exchange would about balance each other. Without having myself any detailed knowledge of the subject, I believe it is more likely that there would in certain seasons of the year be a large demand to pay for certain imports and at other periods of the year a large supply for the purpose of collecting the proceeds of the sale of exports, and that there would be involved a large investment in pesetas at one time or heavy borrowing of them at another. Even with an agency in Spain, I doubt whether the Federal reserve bank would find it wise to carry heavy balances or to borrow large amounts. In normal

Exhibit "G".

times, before the war, peseta exchange was most unstable and dangerous, and it is so now where commercial conditions may be complicated by arbitrary Governmental action.

My understanding has always been that the provision in the Federal Reserve Act empowering the Federal Reserve Banks to deal in foreign exchange and establish foreign agencies, was for the purpose of permitting the Federal Reserve Banks to employ their funds in foreign markets with a view to their control of the discount rate and to put them in a position where through their holdings in foreign bills they might be able to minimize the movements of gold between New York and foreign markets. I do not understand that this provision is intended to put the Federal Reserve Banks into the exchange business in competition with private banks and bankers. As a matter of fact, there is ample competition in the exchange field. There is no business that operates normally on a smaller margin of profit. The margin of profit is so small that over ten years ago my firm stopped dealing in foreign exchange, as they did not think it worth while to continue. Of course, at the present time, the margin of profit is often very considerable, but this margin arises out of the unusual risks connected with the business, such as fluctuating insurance rates, interference with cables, (so that it is impossible

Exhibit "G"

to close transactions on both ends with any degree of certainty) and the arbitrary actions of Governments in restricting gold movements as well as changing mint regulations, so that the margin where large, represents in effect a speculation.

Yours very sincerely,

ALBERT STRAUSS.

FEDERAL RESERVE BOARD

WASHINGTON

X395

September 20, 1917.

Gentlemen:-

The Board has prepared rules governing the administration of the regulations relating to the exportation of gold coin and currency, as laid down in the President's order dated September 7, 1917. Copies will be sent you for distribution as soon as they are received from the printer. In the meanwhile the following excerpt is sent for your confidential information:

ADMINISTRATIVE PROCEDURE

METHOD OF MAKING APPLICATION.

Individuals, firms, and corporations desiring to obtain licenses for the exportation of coin, bullion, and currency, must file an application with the Federal reserve bank of the district in which the applicant resides, or where the transaction requiring the shipment originates. These applications must be made on a standard form which has been furnished to all Federal reserve banks.

EXPORTS OF GOLD.

It will be the general policy of the Board not to authorize the exportation of gold unless the shipment applied for is shown to be connected in a direct and definite way with a corresponding importation of merchandise for consumption in the United States, but in any case, authorization will be granted only where the exportation of gold in payment for such merchandise is found to be compatible with the public interest. In reaching its conclusions however, the Board will consider all attending circumstances in each particular case.

SHIPMENTS OF CANADIAN NOTES AND SILVER COIN.

Until further notice the Board will approve all applications for the exportation of Canadian notes and silver coin without limitation. The Treasury Department has instructed collectors of customs to pass such shipments into Canada when approved by the Federal reserve bank of the district from which the shipments are made. Continuous permits for shipments of Canadian silver coin and currency, without requiring an application in each case, may be granted by Federal reserve banks upon condition that each transaction will be reported to it without delay. The Federal reserve banks will transmit to the Board weekly reports of all applications of every kind passed upon by them, showing the amount of each shipment.

EXPORTS OF SILVER BULLION AND SILVER COIN OF FOREIGN MINTAGE.

Applications for the exportation of silver bullion and silver coin of foreign mintage will in general be approved by the Federal Reserve Board upon recommendation of the Federal reserve bank with which the application is filed.

UNITED STATES NOTES, NATIONAL BANK NOTES, SILVER COIN AND FEDERAL RESERVE NOTES.

Applications for the exportation of United States notes, national bank notes, silver coin and Federal reserve notes will as a rule be approved by the Federal Reserve Board, but each application must come before the Board for its determination before shipment is made.

TRAVELERS LEAVING THE COUNTRY.

Instructions have been issued by the Treasury Department to collectors of customs to permit travelers leaving the country to carry on their persons or in their baggage

(a) United States notes, national bank notes, silver certificates and Federal reserve notes not to exceed \$5,000 for each adult;

(b) American silver dollars and subsidiary silver coins not to exceed \$200 for each adult;

(c) Gold coin or gold certificates not to exceed \$200 for each adult.

Collectors of customs have been informed that in dealing with travelers they may act in accordance with these regulations, without communicating with the Federal Reserve Board or with the Federal Reserve Bank of their district.

GENERAL.

Shipments of coin or currency which appear to be or suspected of being for enemy account or for the benefit of the enemy, will not be permitted.

These regulations are issued subject to change without notice, and no application granted will be regarded as constituting a precedent.

Very truly yours,

Governor.

Federal Reserve Bank,

FEDERAL RESERVE BOARD

WASHINGTON

X-396.

September 20, 1917.

Dear Sir:

In connection with the regulations covering the exportation of coin, bullion, and currency from the United States, the Board desires that you request all national banks, state banks, trust companies, private banking firms, or other fiduciary institutions likely to have earmarked gold for foreign account, to give you a full statement of the gold which is held in custody by them, indicating under what stipulations it was received, with the assurance that the information furnished will be held in strict confidence. Please inform these institutions that the Board regards the earmarking of gold for foreign individuals, firms, corporations, or governments, as being tantamount to the exportation of gold, and that in the public interest it requests that no more gold be earmarked for foreign account except upon the approval of the Board. It must be understood, however, that any restrictions which may be placed upon the exportation or earmarking of gold must in no way affect the payment in gold whenever required, of any obligations payable in gold within the United States, whether due to domestic or foreign holders, excepting enemy holders, the regulations affecting only gold which is to be shipped outside of the United States or to be earmarked for foreign account, as stated above.

Gold which was already earmarked before the President's order became effective may be considered by the Board as exempt from its terms, subject, however, to the stipulations under which the gold was taken into custody.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

Dear Sir:

Replying to your letter of . I would state that the Federal Reserve Board is making a careful study of the foreign exchange situation but has not up to this time been able to find any way of overcoming certain obstacles which must be overcome before the desired results could be attained by the establishment of foreign agencies by Federal Reserve Banks. The whole matter is complicated by reason of our participation in the war, as we cannot longer consider the interests of the United States alone, but must consider the whole question from a partnership standpoint. Our foreign exchange transactions are not at present related entirely to our own imports and exports, but are affected also by the transactions of other nations with which we are associated in the war and by the loans which our Government is making to these nations.

Very truly yours

Governor.

FEDERAL RESERVE BOARD

X-399

WASHINGTON September 22, 1917.

Dear Sir:

The Board has already had some correspondence with Federal reserve banks on the subject of the gold which is held by member and nonmember banks throughout the country, and has pointed out the desirability of getting this gold into the vaults of the Federal reserve banks, several of which have taken energetic steps to accomplish this result by offering not only to pay the transfer charges on the gold, but in some cases to assume the loss on light weight coin. While the gold holdings of the Federal reserve banks have been greatly increased during the last six months, they still control less than one-half of the gold in the country, and the Board is anxious that their holdings be augmented still further. It realizes, however, that an unrestricted offer on the part of Federal reserve banks to receive at its face value all of the light weight gold, might entail upon the Federal reserve banks a very considerable loss.

The suggestion is made therefore, to those Federal reserve banks which have not already adopted this policy, that they make to the banks of their district a proposition about as follows:

(1) To pay transportation charges on United States gold coin delivered at their own counters or at the nearest sub-treasury;

(2) To pay transportation charges on United States gold coin and to receive it at the face value in all cases where the loss by reason of abrasion does not exceed an average of six-tenths of one per cent, with the

understanding that all coins showing a greater loss through abrasion or sweating, be returned to the sending banks.

It is believed that many of the banks remitting gold will be willing to stand any loss in excess of six-tenths of one per cent, in which case any light weight coin received from them could be sent to the nearest sub-treasury for condemnation and proper reimbursement. The experience of two of the Federal reserve banks which have freely accepted gold coin from their member banks has been that they have sustained only an insignificant loss. Before taking any action it might be advisable for the Federal reserve banks to communicate informally with the larger banks of their districts, with the view of ascertaining the probable loss on the gold which has been sent in.

An officer of one of the Federal reserve banks states that he has reason to believe that there is a bank in his district which has about $500,000 of gold on which there would be a loss of from ten to twelve thousand dollars. Even though this estimate be correct, the bank in question might be willing to stand the loss in excess of six-tenths of one per cent, or three thousand dollars. The Board has been advised by the Comptroller of the Currency that his office proposes in the future to give particular attention to light weight gold coin held by national banks.

It is suggested that any offers on the part of Federal reserve banks to receive gold at their own expense might be more effective if made for limited periods only. The Board requests that you bring this letter to the attention of your executive committee or of your board of directors and that you advise it of the policy which may be decided upon.

Very truly yours,

Federal Reserve Bank, Governor.

FEDERAL RESERVE BOARD

WASHINGTON

September 22, 1917.

Dear Mr.

The Treasury Department is retiring gold certificates in denominations smaller than $50., and the Treasurer of the United States has advised the Board that he is desirous of obtaining from time to time Federal reserve notes in five and ten dollar denominations (mostly tens) for use by the cashier of the Treasury in making ordinary payments. An opportunity is thus afforded of increasing the gold holdings of the Federal reserve banks by making this exchange of Federal reserve notes for gold, and the Board feels that all the Federal reserve banks should participate pro rata, in their proper proportion. There will be available eventually about $300,000,000 of ten and twenty dollar gold certificates which can be exchanged for Federal reserve notes in this way. The Board understands that these exchanges will be made at the rate of about $3,000,000 per week. So far, one million dollars each for districts one, two, three and four, have been exchanged. The Treasurer has not yet advised the Board of the amount of certificates that he will have available for exchange during the coming week, but the Board will advise you as soon as an allotment is made your bank. Upon receipt of the Board's advice a telegram as follows should be sent to the Board:

> Federal reserve bank has deposited $__________ as collateral for issue of Federal reserve notes. Please request Comptroller of the Currency to deliver to the Treasurer of the United States Federal reserve notes aggregating $________ in ____________ denominations, such delivery to be made upon deposit by Treasurer of the United States of $______ in gold settlement fund to credit of Federal Reserve Bank of
>
> Signed ________________
> Federal Reserve Agent.

Your bank can deposit with the Federal reserve agent coin, gold certificates or eligible commercial paper as may be most convenient.

Very truly yours,

Governor.

X-400

FOR RELEASE IN MORNING PAPERS THURSDAY, SEPTEMBER 27, 1917.

STATE BANK MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

Address by W. P. G. HARDING,

GOVERNOR OF THE FEDERAL RESERVE BOARD

Before the

STATE BANK SECTION AMERICAN BANKERS ASSOCIATION,

ATLANTIC CITY, N.J.,

Wednesday afternoon, September 26th.

The double entry principle is the foundation of the science of accounting. There must be an alignment of debits and credits, and on all balance sheets resources are grouped on one side and liabilities on the other. In considering the merits of any banking system we must observe this principle of debit and credit. The advantages and the drawbacks must all be taken into account, -- a balance brought down, and its amount and the side upon which it falls will determine the merits of the system.

The Federal Reserve Act is the fourth important banking law of wide application, which has been enacted by Congress. At the outset, bank charters were granted by the states and not by the general government. Centralized control of credits was recognized to be dangerous and was regarded as being contrary to the spirit of our institutions. Yet the need for a strong bank with extended powers of note issue and of discount, was felt so keenly, that as early as 1791, Congress granted a charter to a dominant banking institution owned in part by the government, known in history as the first Bank of the United States. This bank appears to have been wisely managed and it undoubtedly served a useful function. There is no evidence of any flagrant abuse of its powers, but it was unable to secure an extension of its charter and was obliged to go into liquidation at the end of twenty years.

The demand for a large bank of discount and issue however, continued to find expression, and five years later the second Bank of the United States was chartered by Act of Congress. The stormy career of this institution is familiar to all students of financial history; and while it afforded through its note issues, a satisfactory circulating medium, and was useful in many respects, its arbitrary control of credits and its participation in politics created so strong a prejudice against it in the public mind that upon the expiration of its charter, it too was unable to secure an extension, and after a few years additional of existence as a state bank it was finally forced into liquidation. In the ledger of public opinion the balance was found to be on the wrong side,--the evils connected with the bank exceeded the good. So strong were the prejudices which it aroused that no bank modeled upon similar lines has since been allowed to exist in this country and probably none will ever be.

For more than twenty-five years after the fall of the second Bank of the United States, the state institutions in this country had the financial field to themselves. Most of them were permitted to issue circulating notes under the laws of their respective states but these laws were not uniform, and in most cases were entirely inadequate for the protection of the note holder. State bank currency was local in its character, and when circulated away from its place of issue the discount upon it increased in a degree corresponding to the distance, and no financial authority has ever contended that the experience of this country with state bank notes was at all satisfactory.

In 1863 Congress legislated for the third time in a comprehensive way on the subject of banking, and the National Banking system was the result. One of the underlying principles of this Act was the diffusion of banking power --

the absolute autonomy of each bank chartered. "A national currency, with localized banking," was the theory of the system's sponsors. The law subjected the banks to wholesome restrictions and regulations, and required that their operations be supervised by a bureau chief of the Treasury Department, known as the Comptroller of the Currency. The national banks were authorized, upon the security of United States bonds, to issue circulating notes, which were free from the principal objections to state bank notes, in that adequate provision was made for their redemption, they were receivable at par in all parts of the United States , and their value was not affected by the insolvency of the issuing bank. A dual system of reserves was established for these banks, the law providing that part be kept in lawful money in the vaults of the banks and that part be kept with other banks approved as reserve agents.

Experience has shown that the national banking system was defective in three vital particulars:

(1) The currency provided by the banks while sound and stable, was absolutely inelastic; its volume did not depend upon the needs of trade, but was regulated rather by the price of the government bonds against which the national bank notes were issued.

(2) The pyramiding of reserves was another source of weakness. Banks in the larger cities acting as reserve agents for the country banks would have a plethora of funds at certain seasons of the year, while at other times, especially when crops were moving, their deposits would decrease

and they would be called upon to rediscount heavily for their country bank correspondents. There was no rediscount market in this country available to the larger banks, nor was there any way of making adequate additions to the volume of currency in times of stress.

(3) A third defect in the national banking system lay in the lack of coordination and cooperation. There were no means of compelling banks to stand together for the common welfare, to mobilize their resources; and in all of our financial crises the trouble was aggravated by the desire of frightened banks to build up their own reserves without regard for commercial needs, and without any thought for the general banking situation. The state banks and trust companies were affected in the same way as the national banks.

These defects in the banking system were painfully evident during the severe financial panics of 1873, 1893, and 1907; and while perhaps not entirely responsible for the weakness of our credit structure, they rendered it impossible to restore confidence, to provide for the requirement of business, or to minimize the effects of too drastic liquidation.

After the memorable panic of 1907, serious consideration was given to the subject of banking and currency reform, and the law which was approved on December 23, 1913, known as the Federal Reserve Act, the,result of an aroused public sentiment sensed by a few strong personalities, was the outcome. Instead of one central bank, provision was made for the division of the country into twelve districts and the establishment of a Federal Reserve bank in each. This law has been amended in certain important particulars which the experience of actual operation has shown to be desirable; and, without attempting to discuss the reasons for the changes which have been made, let us consider some features of the Act as it stands today.

The Federal Reserve banks are owned by the national and state banks which constitute their membership. Each member bank is required to subscribe an amount equal to six per cent of its own capital and surplus to stock of the Federal Reserve bank of its district. One-half of the amount subscribed must be paid in, the other half being subject to call. After all necessary expenses of a Federal reserve bank have been provided for, the stockholding banks are entitled to receive an annual dividend of six per cent on the paid-in capital stock, which dividend is cumulative. After dividend claims have been fully met all the net earnings must be paid to the United States as a franchise tax, except that one-half of the net earnings must be paid into a surplus fund until that fund amounts to forty per centum of the paid-in capital stock of the Federal reserve bank. Stock in a Federal reserve bank is not transferable, but upon the liquidation or retirement of a member bank, its stock must be surrendered to the Federal reserve bank for cancellation, and payment will be made to the retiring bank equal to its cash pain-in subscriptions on the shares of stock surrendered, plus one-half of one per centum per month from the period of the last dividend, provided the payment does not exceed the book value of the stock.

While profit is a minor consideration with the Federal reserve banks, their current earnings are such that they will before a great while be able to pay all accumulated dividends. Although carrying reserves of about 80 per cent against all deposit and note liabilities, the average net earnings of the twelve banks for the first eight months of the present year have been at the rate of 12.1 per cent per annum. The average net earnings for the month of August of the present year were at the rate of 17.3 per cent. The objection therefore, which was raided frequently during the first year of the operation of the Federal Reserve banks, that the stock would prove to be a dead investment, is no longer a valid one. Each Federal Reserve bank is an autonomous institution, with nine directors, six elected by the stockholding banks, and three appointed by the Federal Reserve Board. One of these three is chairman of the board and Federal Reserve agent. He is authorized under the law to appoint one or more assistants, subject to the approval of the Board. With this exception, all officers and employes of Federal reserve banks are chosen by their own directors, the Federal Reserve Board being given power to approve salaries and to make removals for cause.

The Federal Reserve banks do not come into competition for deposits with the commercial banks which compose their membership. They are not allowed to receive deposits from individuals, firms, corporations, or municipalities. While they may receive United States deposits, they are given no monopoly of such deposits. They receive deposits from their member banks and from such non-member banks as may desire to carry balances with them for exchange or collection purposes, and no interest is paid by Federal reserve banks on deposits.

A glance at the statements which have been issued by national banks during the past two years -- which show generally enormous gains in deposits -- will demonstrate the absurdity of the fears formerly expressed so often that the Federal Reserve banks would reduce the deposits of their member banks.

There is no occasion here for an extended review of the powers of the Federal reserve banks, or for a discussion in detail of rediscounts, open market operations, and note issues. It is now admitted by all, except a few irreconcilables, that the Federal Reserve banks do furnish an elastic currency, one capable of responding to the needs of the country by expanding in times of stress or of great commercial and industrial activity, and by contracting in periods of dullness, the limitations being the amount of gold obtainable for reserves against the notes outstanding and the eligible paper available as security for the notes. Even though there may be no reduction in the amount of Federal reserve notes outstanding, actual contraction may be effected by increasing the gold reserve held against them. The gold reserve against the Federal Reserve notes now outstanding is 81 per cent, although the normal reserve required by law is 40 per cent. The operations in which the banks can engage are clearly defined by law, and there is no centralization of credits. Discount rates are fixed by the Board of directors of each Federal Reserve bank, subject to the approval of the Federal Reserve Board, and applications for rediscounts of eligible paper are passed upon at each bank without reference to any other authority. One Federal Reserve bank may rediscount paper for another, either voluntarily, or by direction of the Federal Reserve Board upon the affirmative vote of five members. In this way we have a diffusion of credit but a concentration of resources.

All national banks were required by the law to become members and only a very few of them chose as an alternative to surrender their charters. The original Act provided for the admission of state banks as members, but during the first two years of the operation of the system few chose to exercise this privilege. The Act did not state in sufficient detail the terms and conditions for state bank membership, but left much to regulation by the Federal Reserve Board; and while the Board's interpretation of the section relating to state bank membership was satisfactory to officials of most of the state banks which contemplated becoming members, it was felt that the banks would be on safer ground if the terms were stated more clearly and definitely in the Act itself. The Act approved June 21, 1917, amended in several particulars the Federal Reserve law, and one of the most important amendments is that relating to the admission of state banks and trust companies. Section 9, as amended and reenacted provides that "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 privileges of member banks." So fully does this clause protect the charter powers of a state bank that the Attorney General of the United States has recently ruled that it exempts a state bank from the restrictions of Section 8 of the Clayton Act which relates to interlocking directors. Other clauses of Section 9 as amended provide that while state bank members shall 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 FederalReserve Board, in cases where the directors of Federal reserve banks shall approve the examinations made by state authorities, such examinations and reports may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board. This removes the objection that state banks are subject to double examinations.

Another objection frequently urged, was that the law made no provision for the retirement of a state bank from the Federal Reserve system unless it should be expelled for violation of some regulation. The Act as amended provides that "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 twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year."

Many state banks otherwise favorably inclined toward membership, have been deterred from making application because of the limitations upon their loans which would be imposed. The Act now provides that a state bank or trust company which becomes a member of the Federal reserve system, shall retain the full statutory rights which it enjoys under the laws of its own state, so that the question of excess loans is determined entirely by state law. But, in order to avoid giving state bank members an undue advantage over national banks, it is provided 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 bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section. 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 guaranty 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." Therefore, should a state bank member have in its portfolio large loans which would be excessive for a national bank, but which are permitted under the laws of its state, no objection can be raised from the standpoint of amount, by the Federal Reserve bank against such a loan; but in offering rediscounts to a Federal Reserve bank, the member bank should offer paper which comes within the 10 per cent limit.

Our country is now passing through one of the most critical periods of its existence. It is engaged in the most frightful and costly war of all history. Totally unprepared six months ago for a serious conflict, it has now in training a vast army, and within the span of a few months will have completed preparations for war on land and sea, beneath the sea, and in the air, which ordinarily would have required years. It is advancing enormous sums to other nations with which it is associated in this war. The amounts necessary for financing our undertakings and for taking care of our commitments will aggregate $18,000,000,000 for the first year, -- $1,500,000,000 a month, or $50,000,000 a day. Our actual expenditures since last April have far exceeded the total for the four years of the Civil war. In such circumstances our old banking system would have proved totally inadequate. It could not, in point of fact, have withstood the shock which we felt in 1914 when the war broke out between three great European powers on one side and two on the other. The Federal Reserve Act, even before the Federal Reserve banks were fully organized, was the means of carrying us safely through that crisis, for the Act extended for one year the life of the Aldrich-Vreeland notes and made their issue practicable. Revival of confidence and a return to normal conditions were coincident with the establishment of the Federal Reserve banks. Their operation has given to every element in this country, -- the national banks, the state banks, the manufacturers, the merchants, and the individual depositors, -- a sense of security which otherwise would have been totally lacking.

Within a few months four million subscribers have absorbed an issue of $2,000,000,000 of 3-1/2 per cent government bonds, the most gigantic financial operation this country has ever known. Yet there has been no financial stringency, no violent fluctuations in call money rates nor in discount rates; there has been no general calling of loans, no forced liquidation. At a crucial time during the month of June, the Federal Reserve banks discounted $663,196,000 of member banks' short time collateral notes and bankers' acceptances, and the money situation was kept completely under control. The country is now about to engage in a campaign for the sale of the second issue of United States Liberty bonds. The amount of the offering will be, at the very lowest, 50 per cent greater than the first. The crops of the country will be moving at the same time, and we should remember that before the establishment of the Federal Reserve banks money stringency during the crop moving period was a matter of annual recurrence. The twelve Federal Reserve banks are the fiscal agents of the government. Through the facilities afforded by them and by means of the organizations which they have effected, the Government of the United States expects to gather up the funds necessary for its support in the present crisis, and by reason of their knowledge of the ability of the Federal reserve banks to rediscount for them, the member banks look forward without fear to the impending demands upon them.

More than 7600 national banks are members of the Federal Reserve system, -- members perforce at first, but most of them now by choice, and of the 20,000 state banks and trust companies in the United States, of which perhaps eight or nine thousand are eligible for membership, how many are standing shoulder to shoulder with the national banks in sustaining these Federal Reserve banks which all agree are our financial bulwarks in the present emergency? Just eighty-four; but in this number are included many of the larger and more important state banks and trust companies.

The capital of the state bank and trust company members of the Federal Reserve system amounts to more than $61,000,000; their surplus to more than $62,000,000, and their total resources to more than $1,200,000,000, and new applications for membership are being received every day, from small banks as well as large. The following table shows the movement of state banks into the system has not been confined to localities, but that their membership has extended to all Federal Reserve districts except the third. The banking laws of Pennsylvania formerly prohibited the stock ownership which is necessary for the admission of a bank, but they have very recently been amended in this respect:

STATE MEMBER BANKS.

DISTRICTS	NUMBER BANKS	CAPITAL	SURPLUS	TOTAL RESOURCES.
Boston	7	$ 10,300,000	$10,275,000	$232,528,229
New York	5	5,600,000	8,246,165	199,490,595
Cleveland	3	4,700,000	4,700,000	112,078,100
Richmond	8	1,740,700	412,900	8,572,391
Atlanta	6	2,405,000	2, 309,750	33,219,162
Chicago	24	20,485,000	18, 647,000	393,981,964
St. Louis	6	10,750,000	14,500,000	149,087,326
Minneapolis	7	1,825,000	543,500	13,919,808
Kansas City	7	2,855,000	2,310,000	63,975,595
Dallas	10	835,000	155,650	9,117,321
San Francisco	1	50,000	100,000	1,493,790
TOTALS	84	$61,545,700	$62,199,965	$1,217,464,272

I am confident that in a few weeks more the resources of the state member banks and trust companies will amount to more than $2,000,000,000, and I cannot but feel that if the state banks and trust companies of America will give earnest consideration to the contingencies ahead of us, motives of self-interest, as well as a patriotic desire to cooperate will determine them to apply for membership, and that in time the number of state bank members will be nearer eighty-four hundred than eighty-four.

In making up your balance sheet on the Federal Reserve system, in grouping the assets and liabilities of membership, ask yourselves these questions:- Are the Federal Reserve banks worth while? Would you care to have them abolished ? If they are worth sustaining, should they be supported almost entirely by one class of banks, or should all unite in upbuilding them? Will their strength be augmented, and the financial welfare of the country further safeguarded, by your membership? Ask those state banks which are already members whether their charter powers have been hampered or curtailed by their membership; whether the regulations of the Federal Reserve Board have interfered with their business or methods of doing business; whether the Federal reserve banks have been arbitrary in their dealings; ask them if they have had difficulty in getting from the Federal reserve banks any accommodations to which they were entitled, or if they have had no occasion to ask for accommodation, what the knowledge is worth that the accommodation can be had when wanted. The answer to these questions I have no doubt must be placed on the asset side. On the liability side of your balance sheet make this entry:-- loss of interest on reserve balances carried, -- and there is another entry which may appear on both sides of the sheet, -- the effect of the Federal Reserve collection system, for some of the banks will object to the loss of earnings occasioned by remitting for checks at par to the Federal Reserve bank. Others, and a constantly growing number, will make this entry on the asset side because of the facility which the Federal Reserve bank offers for the collection of their own outside items. And make this extension on the asset side:- Every dollar of reserves carried with the Federal Reserve banks adds to their power to maintain sound and healthy banking conditions, to respond to any demands which may be made upon them, and to help our country win its fight for liberty and a safe and lasting peace. Then add up the figures, - strike a balance, and your applications for membership will follow!

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

September 22, 1917.

Dear Mr.

The Treasury Department is retiring gold certificates in denominations smaller than $50., and the Treasurer of the United States has advised the Board that he is desirous of obtaining from time to time Federal reserve notes in five and ten dollar denominations (mostly tens) for use by the cashier of the Treasury in making ordinary payments. An opportunity is thus afforded of increasing the gold holdings of the Federal reserve banks by making this exchange of Federal reserve notes for gold, and the Board feels that all the Federal reserve banks should participate pro rata, in their proper proportion. There will be available eventually about $300,000,000 of ten and twenty dollar gold certificates which can be exchanged for Federal reserve notes in this way. The Board understands that these exchanges will be made at the rate of about $3,000,000 per week. So far, one million dollars each for districts one, two, three and four, have been exchanged. The Treasurer has not yet advised the Board of the amount of certificates that he will have available for exchange during the coming week, but the Board will advise you as soon as an allotment is made your bank. Upon receipt of the Board's advice a telegram as follows should be sent to the Board:

> Federal reserve bank has deposited $___________ as collateral for issue of Federal reserve notes. Please request Comptroller of the Currency to deliver to the Treasurer of the United States Federal reserve notes aggregating $________ in _____________ denominations, such delivery to be made upon deposit by Treasurer of the United States of $______ in gold settlement fund to credit of Federal Reserve Bank of
>
> Signed __________________
> Federal Reserve Agent.

Your bank can deposit with the Federal reserve agent coin, gold certificates or eligible commercial paper as may be most convenient.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

September 24, 1917.

Federal Reserve Agent,

Dear Sir:

I am sending you today copies of the new regulations just issued by the Federal Reserve Board, with the approval of the Secretary of the Treasury, regarding the shipment of coin, bullion, and currency.

You will note that in the regulations it is stated that action has been taken by the Treasury Department with reference to money to be carried by outgoing travelers. I am advised that these instructions have not yet been issued in fact, and you are, therefore, requested to hold the copies of the general regulations now mailed to you in confidence until such time as they are released by telegraph.

It is the opinion of the Board that it will hardly be worth while to mail these regulations to all member banks, particularly as they will be reprinted in the forthcoming number of the Federal Reserve Bulletin. You will, therefore, use your own judgment in distribution, and in the event that you have need for more copies, please advise the Board.

Yours very truly,

Secretary.

X-404

FEDERAL RESERVE BOARD

WASHINGTON

September 25, 1917.

Dear Sir:

I am sending you herewith, for your information, a copy of a letter which I wrote to Mr. Wills under date of September 21st on the subject of branches with modified and limited powers. It is likely that we shall develop something along these lines to meet the situation at Cincinnati and Pittsburgh; and I feel sure there are other cities in the country where such branches would be entirely adequate and far more economical than a so-called "full fledged" branch. I see no reason why a branch of this kind could not be operated successfully for ten to twelve thousand dollars per year, not including the cost of operating the Transit Department which should be practically self-sustaining through the assessment of a service charge plus a fair contribution by city banks, if the city and country clearing house operations are merged with those of the Federal Reserve Bank Transit Department.

Yours very truly

FEDERAL RESERVE BOARD

WASHINGTON

September 21, 1917.

Mr. D. C. Wills,
Federal Reserve Agent,
Cleveland, Ohio.

My dear Mr. Wills:

Referring to letter and conversation I have had with both you and Mr. Fancher in regard to branches at Cincinnati and Pittsburgh. I had a very pleasant chat with Mr. Rowe, who was here to attend a meeting of the Advisory Council. As might have been expected, Mr. Rowe takes a broad and unselfish view of the matter. He recognizes that it is not only the local interests of Cincinnati which should be considered, but the interests of the entire district; and he was quite willing to admit that if it was to cost fifty or sixty thousand dollars to operate a full fledged branch and he could be shown that the facilities which the community needed could be provided by an agency (let us call it a branch with limited powers) for a much lower figure, he was perfectly willing that it should be given a trial. I told him I felt quite sure the Board would go further than that and say that if after six months' trial such an agency was not found to answer the requirements we would concede that a full fledged branch should be established.

As you know, however, I believe that a branch with, say three directors including your agent, could perform practically all necessary functions, such for example, as acting as a collection agency in lieu of the local and country clearing house, and secondly, would be prepared to meet the currency demands under a system of concurrent orders approved by the home bank. Thus, commercial paper sent to Cleveland by Monday night's train could be approved and the currency released through the agent on Tuesday forenoon, or in case of even greater emergency the agent at Cincinnati could describe to the home bank the character of the paper offered to him and obtain authority by wire for rediscounting it. With the safeguards which could be thrown around these operations, I feel sure that such an arrangement could be made safe and effective, and far less expensive than a full sized branch. Without going into elaborate detail, it is of course understood that your representative, who would be the local manager, would be a man of the caliber that you would put in charge if you had a full fledged branch. The essential difference between the branch described and that heretofore considered, rests in the most modest scale of organization, and directly limited powers, because the branch would be near enough to be in close communication with the home bank. Not only can a supply of Federal reserve notes be held in the local subtreasury to be released by telegraphic orders from Washington, but we might go further and provide that an emergency stock could be held in a suitable safety deposit box under such dual or triple control as might be approved.

If such a branch should take over the transit or clearing functions for Southern Ohio and Eastern Kentucky it would be handled under such directions as your bank may give; and if the local banks should turn over the city and country clearing functions to it they should, as was done in Boston, make some direct contribution to support the facilities substituted for the existing clearing house.

I have talked this matter over with Governor Harding and he believes that it would be perfectly feasible to work out such an arrangement, so as to be satisfactory not only in Cincinnati but at several other points, for example, Pittsburgh, Detroit, and Birmingham. The argument is made, for instance, in the case of Pittsburgh and Birmingham, that being very large pay-roll centers the banks are not justified in running down low on reserves, and while banks in Federal reserve cities can safely take full advantage of the reduced reserves, those in larger pay-roll cities away from the Federal reserve cities, can not safely do so.

The more we study the subject the more clearly do we see that there are two things in which banks in important cities away from the Federal reserve cities are interested:

First, A liberal supply of Federal reserve notes which can be released quickly in an emergency; and

Second, In some cases at least, a collection agency to operate as a local and country clearing house.

If the officers of your bank can work out this problem in a satisfactory way in Cincinnati, you will have performed an important service, not only at that point, but you will be effecting a solution of the problem for a number of other points. There are perhaps ten or fifteen cities in the United States which are justified in having such branches of limited power, but which are not justified in incurring the expense of full fledged branches. It is not a sufficient argument to say that the local banks agree to furnish enough paper for rediscount to support a branch. What we are concerned with is to render the necessary service at a minimum of cost.

Very truly yours,

(Signed) F. A. DELANO.

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-405.

DIVISION OF REPORTS AND STATISTICS

September 25, 1917.

Dear Sir:

With reference to inquiries from certain banks as to whether any changes are contemplated in the 1918 editions of Forms 38 and F. R. A. - 5, there are enclosed herewith copies of the two forms with changes proposed by our Statistical Division. We shall be under obligation, if you will have these forms examined and advise us of further changes that might be made with advantage. In case you wish us to order a supply of these forms, please state also how many copies are desired for your own and your branches' use for the coming year.

As soon as all replies to this letter are received we shall send our order to the Government Printing Office. It will probably take from four to five weeks to have the order filled and inasmuch as some banks have but few copies of these forms left, your early advice in the matter will be appreciated.

In this connection, it is also suggested that your accounting and auditing departments give us their early views regarding desirable changes in the other statistical forms, especially Form 34.

Respectfully,

Assistant Secretary.

Federal Reserve Agent,

FEDERAL RESERVE BOARD

WASHINGTON

X-408

September 25, 1917.

My dear Mr. Burke:

Referring to our conversation this morning I wish to say that the Board has received assurances from the Federal Reserve Bank of Cleveland that it is anxious to carry out the Board's wishes with reference to the establishment of a branch in Pittsburgh, but it will probably be necessary to establish a branch also at Cincinnati, and it is felt that if two branches are established in the fourth district, with an independent territory assigned to each, the business of the Federal Reserve Bank of Cleveland will be greatly curtailed, and the unity which is essential for the conduct of large financial operations, to a great degree destroyed. In addition, the expense is a factor which must be considered. Our estimates are that it will cost not less than $50,000 a year to operate a branch. For two branches this would amount to $100,000, which would be a very severe drain upon the income of the Federal Reserve Bank of Cleveland. The Board recognizes however, and we believe that the Federal Reserve Bank of Cleveland agrees, that it is important that the banks of Pittsburgh, - a great industrial center and one of vital interest to the Government during war times especially - should be able to conduct their business with absolute assurance of safety.

The Board has now under consideration a tentative plan which it desires to discuss a little later with the directors of the Federal Reserve Bank at Cleveland, for the establishment of a branch at Pittsburgh to be operated under bylaws which will not provide for the division of the fourth Federal reserve district into any specific territory for each branch or for the carrying of reserves at any place other than the Federal Reserve Bank of Cleveland. The plan is to give the branch at Pittsburgh full powers, except that of making daily rediscounts; to carry an adequate supply of Federal reserve notes in Pittsburgh, in the clearing house vaults or in some way satisfactory to the banks of Pittsburgh and to the Federal Reserve Bank of Cleveland, and to provide that in cases of emergency discounts may be made in Pittsburgh so that these notes may be released immediately to the banks without risking any delays in transportation. At the same time it is suggested that the branch bank operate a transit department and that all banks in Pittsburgh as well as those in other portions of the district may send their checks for collection to this branch. For instance, banks in Youngstown, could send to the headquarters bank in Cleveland such checks as would naturally go to Cleveland for collection and could send to Pittsburgh the checks which would naturally go to that point. Items in process of collection are not available as reserves, so it makes no difference either to the banks or to the Federal Reserve Bank where the float is carried, but as soon as the items are collected they would be placed to the credit of the member banks and the headquarters bank at Cleveland advised. The Cleveland bank could require the Pittsburgh branch to make remittances from time to time of the balances which have been actually collected. It seems to the Board that the operation of a branch along these lines would be a comparatively simple matter and the expense involved would not be nearly so great as would be the case if we attempted to assign banks to a separate territory and to give the branch the privilege of making daily rediscounts, which would require a more elaborate machinery. At the same time, the benefits to Pittsburgh will be just as great, for the banks would feel secure in knowing that they had within immediate reach in case of need a supply of notes equal, at least, to the amount of reserves which they are carrying in Cleveland, and the associated banks of Pittsburgh would no doubt be able to dispense with many clerks now employed in their transit departments as they could send most of their items to the branch bank. In addition, they could make their own local transactions by transfers of credits on the books of the branch bank. The Board would suggest however, in view of the saving that would be made by the associated banks of Pittsburgh, that they consider contributing for the first year or two, until the branch was shown to be self-sustaining, say, 50% of their saving in clerk hire to the support of the branch bank, assuming that the associated banks of Pittsburgh would save $30,000 a year by conducting the bulk of their transit operations through the branch bank, could they not afford to contribute one-half of this, or say, $15,000 a year to the expense account of the branch.

As I told you this morning, I can arrange to be in Pittsburgh on Friday, the 5th of October, and it is possible Mr. Delano, who is my colleague on the committee which is considering the establishment of branches, will be able to meet me there on that date. If agreeable, we would like very much to have a conference with the banking interests of Pittsburgh at that time, with the view of talking the situation over with them and of ascertaining just what arrangements can be made for the proper location and management of a branch. We would of course, expect to ask Mr. Wills, Federal Reserve agent at Cleveland, to meet us there at the same time. Please let me know if it would be agreeable to the Pittsburgh bankers to discuss these matters with Mr. Delano and myself on the date indicated.

Very truly yours,

(Signed) W. P. G. Harding.

Governor.

Hon. James Francis Burke,
Pittsburgh, Pa.

2805

X-409

FEDERAL RESERVE BOARD

WASHINGTON

September 26, 1917.

Dear Sir:

I sent you yesterday a copy of a letter which I had written to Mr. Wills, Chairman of the Board of the Federal Reserve Bank of Cleveland, in respect to the establishment of branches with limited powers.

Governor Harding has written a letter to Mr. James Francis Burke of Pittsburgh, who represents the clearing house banks of that city, in which he states the plan in his own words.

Mr. Burke has been at Washington several times to urge the establishment of a branch at Pittsburgh, but has expressed himself as entirely agreeable to the plan outlined by Governor Harding.

Yours very truly,

Chairman, Committee on Clearing.

Inclosure.

2806

X-415.

Washington, D C.
October 1, 1917.

MEMORANDA.

1.
Arrange for the design and inscription to appear on the War Savings Certificate large stamps. Four different seasonal stamps in four colors.

2
Arrange for the design and inscription to appear upon the War Savings Certificate small stamps, only one denomination, of 25¢.

3.
Arrange for the design and description of the series of 1918 certificate with spaces for 20 of the large adhesive stamps, described in (1).

4.
Arrange for the design and inscription to appear on a small savings card, capable of taking 16 of the savings stamps of the 25¢ denomination described in (2).

5.
Arrange for the design and inscription to appear on an envelope which will take either the small savings card (for the 25¢ stamps) or the regular War Savings Certificate described in (1). This envelope should be of neat design, but should carry upon its face or on the back the simple and essential rules to be followed by every individual investor in the savings fund.

6.
Arrange to print enough of 1, 2, 3, 4, and 5 before December first, 1917, to have 20 million separate pieces of each distributed in different post offices all over the United States approximately in proportion to population. The monthly quantity required thereafter will probably not exceed one half the above quantity.

October 2, 1917.

SUBJECT: Right of the Federal Reserve Board to grant to national bank, in New York permission to act as trustee, executor, administrator, and registrar of stocks and bonds.

My dear Governor:

The Federal Reserve Board has heretofore declined to grant to national banks in New York permission to exercise any of the powers enumerated in Section 11 (k) of the Federal Reserve Act except the right to act as registrar of stocks and bonds.

Section 11 (k) authorizes the Federal Reserve Board -

> "To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe".

In acting upon applications filed under authority of this section, the policy of the Board has been to refuse the application of any bank which is located in a state the laws of which expressly or by necessary implication prohibit a national bank from exercising any of the powers enumerated in the statute.

Section 223 of the New York Banking Laws provides as follows:

> "No corporation other than a trust company organized under the laws of this State shall have or exercise in this State the power to receive deposits of money, securities or other personal property from any person or corporation in trust, or have or exercise in this State any of the powers specified in subdivisions one, four, five, six, seven and eight of section one hundred eighty-five of this article (viz. to act as fiscal or transfer agent, as trustee under any corporate mortgage, as trustee or agent for married women, as guardian, receiver or trustee of the estate of any

"minor and as depositary of any moneys paid into court, to act under court appointment as trustee guardian, receiver or committee of the estate of a lunatic, etc , or as receiver of any person in insolvency or as executor or trustee under a will or as administrator, or to act as trustee of any estate), nor have or maintain an office in this state for the transaction of, or transact, directly or indirectly, any such or similar business, except that a federal reserve bank may exercise the powers conferred by subdivision one of such section (fiscal or transfer agent) if authorized so to do by the laws of the United States and any domestic corporation legally exercising any of the powers conferred by such subdivision at the time this act takes effect may continue to exercise such powers, and a trust company incorporated in another state may be appointed and may accept appointment and may act as executor of, or trustee under, the last will and testament of any deceased person in this state, provided trust companies of this state are permitted to act as such executor or trustee in the state where such foreign corporation has his domicile * * * * * * * * * ".

It is because of this statute that the Federal Reserve Board has declined to grant to national banks the right to exercise any of the powers specified in Section 11 (k) except the power to act as registrar of stocks and bonds. This action of the Board was predicated upon the assumption (1) that Section 11 (k) vested in the States the right to determine by appropriate legislation whether or not national banks should exercise such powers, and (2) that it was the intention of the legislature of New York to prohibit all corporations (including national banks) other than trust companies organized under the laws of New York, from exercising such powers.

At the time that the Board adopted the policy above referred to the language of Section 11 (k) had not been construed by the courts. Since then it has been construed by the Supreme Courts of Illinois and Michigan and by the United States Supreme Court. In the case of Grant Fellows, Attorney General, vs. the First National Bank of Bay City, Michigan, the Supreme Court of Michigan held that since no statute of Michigan prohibited national banks from exercising trust powers the laws of that State would not be contravened by the exercise by a national bank of such powers but that the Act of Congress giving national banks this right was unconstitutional and void. This case was appealed to the United States Supreme Court which held that the Michigan Court had erred in holding that Section 11 (k) was unconstitutional, and the judgment of the lower court was reversed.

In discussing the opinion of the Michigan Supreme Court the United States Supreme Court, through Mr. Chief Justice White, said:

"In view of the express ruling that the enjoyment of the powers in question by the national bank would not be in contravention of the state law, it follows that the reference of the court below to the state authority over the particular subjects which the statute deals with must have proceed erroneous assumption that because a particular function was subject to be regulated by the state law, therefore Congress was without power to give a national bank the right to carry on such functions. But if this be what the statement signifies, the conflict between it and the rule settled in McCulloch v. Maryland and Osborn v. Bank, is manifest, What those cases established was that although a business was of a private nature and subject to state regulation, if it was of such a character as to cause it to be incidental to the successful discharge by a bank chartered by Congress of its public functions, it was competent for Congress to give the bank the power to exercise such private business in cooperation with or as part of its public authority. Manifestly this excluded the power of the State in such case, although it might possess in a general sense authority to regulate such business, to use that authority to prohibit such business from being united by Congress with the banking function, since to do so would be but the exertion of state authority to prohibit Congress from exercising a power which under the Constitution it had a right to exercise. From this it must also follow that even although a business be of such a character that it is not inherently considered susceptible of being included by Congress in the powers conferred on national banks, that rule would cease to apply if by state law state banking corporations, trust companies, or others which by reason of their business are rivals or quasi-rivals of national banks are permitted to carry on such business This must be since the state may not by legislation create a condition as to a particular business which would bring about actual or potential competition with the business of national banks and at the same time "deny the power of Congress to meet such created condition by legislation appropriate to avoid the injury which otherwise would be suffered by the national agency. Of course as the general subject of regulating the character of business just referred to is peculiarly within state administrative control, state regulations for the conduct of such business if not discriminatory or so unreasonable as to justify the conclusion that they necessarily would so operate, would be controlling upon banks chartered by Congress when they came in virtue of authority conferred upon them by Congress to exert such particular powers. And these considerations clearly were in the legislative mind when it enacted the statute in question. This result would seem to be plain when it is observed (a) that the statute authorizes the exertion of the particular functions by national banks when not in contravention of the state law, that is, where the right to perform them is expressly given by the state law or what is equivalent is deducible from the state law because that law has given the functions to state banks or corporations whose business in a greater or less degree rivals that of national banks, thus engendering from the state law itself an implication of authority in Congress to do as to national banks that which the state law has done as to other corporations; and (b) that the statute subjects the right to exert the particular functions which it confers on national banks to the administrative authority of the Reserve Board giving besides to that Board power to adopt rules regulating the exercise of the functions conferred, thus affording the means of coordinating the functions when permitted to be discharged by national banks with the reasonable and non-discriminating provisions of state law regulating their exercise as to state corporations,- the whole to the end that harmony and the concordant exercise of the national and state power might result".

It therefore, becomes necessary for the Federal Reserve Board to reconsider, in the light of this decision of the United States Supreme Court the question whether national banks in New York should be granted the powers specified in Section 11 (k).

It will be observed that while the Court recognizes the right of a State to regulate the conduct of trust business, it holds that such regulations must not be "discriminatory or so unreasonable as to justify the conclusion that they necessarily would so operate".

Upon reconsideration of the question of the right of the Federal Reserve Board to grant permits to national banks in New York to exercise trust powers, the Board must not, in view of this decision, assume that Section 11 (k) vests in the States the unqualified right to determine by appropriate legislation whether or not a national bank may exercise such powers. The power of the State to enact such legislation is clearly subject under the opinion of the United States Supreme Court, to the qualification that such legislation must not be discriminatory against national banks. The court expressly holds that a "state may not by legislation create a condition as to a particular business which would bring about actual or potential competition with the business of national banks and at the same time deny the power of Congress to meet such created condition by legislation appropriate to avoid the injury which otherwise would be suffered by the national agency."

It is manifest, therefore, that in determining whether the exercise of trust powers by national banks will contravene State laws, the Board must consider whether the State law is one which discriminates against national banks.

The United States Supreme Court has in terms prescribed the rule by which such laws must be tested. In discussing Section 11 (k) the Court says -

> "the statute authorizes the exertion of the particular functions by national banks when not in contravention of the state law, that is, where the right to perform them is expressly given by the state law, or what is equivalent is deducible from the state law because that law has given the functions to state banks or corporations whose business in a greater or less degree rivals that of national banks, thus engendering from the state law itself an implication of authority in Congress to do as to national banks that which the state law has done as to other corporations".

Applying this test to Section 223 of the New York Banking Laws it is apparent that the legislature of New York has granted to trust companies organized under the laws of New York the right to exercise these powers and it is only necessary for the Board to consider whether such trust companies come into actual or potential competition with national banks. If the Board concludes that such companies are "rivals or quasi-rivals of national banks", it must interpret Section 223 of the New York Banking Laws as permitting national banks to exercise these powers. In other words, it must construe that part of Section 223 which provides that "no corporation other than a trust company organized under the laws of this state shall have or exercise in this state the power to receive deposits of money, securities or other personal property from any person or corporation in trust etc " as relating to corporations other than national banks

In view of the fact that the records before the Board are sufficient to show that trust companies organized under the laws of New York compete with national banks in commercial deposits and loans, and in many other activities engaged in by national banks, it is respectfully recommended that no application of a national bank located and doing business in New York for permission to exercise the power of trustee, executor or administrator be refused by the Board on the ground that the exercise of such powers will contravene the laws of New York

Respectfully,

M C Elliott,

Counsel

Hon W P G Harding,
Governor

EX-OFFICIO MEMBERS
WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD
WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

X 419

October 5, 1917.

Dear Sir:

As you are aware, the Federal Reserve Board has lately authorized sundry shipments of gold into Mexico, acting in each case upon a specific application for a given amount, the exportation to occur within a designated period. In addition, however, to the action taken, I am instructed to say that the Board is willing to consider applications for the exportation of the equivalent in gold of any gold that may be imported into the United States during the same period, in ore or unrefined products.

Yours very truly,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X 420

October 5, 1917.

Dear Sirs:

The Board wishes again to bring to the attention of the Federal Reserve banks the desirability of their arranging the proportions of gold and commercial paper held by the Federal Reserve agent in such a way as to keep the lawful money reserve against deposit liabilities and the gold reserve against Federal Reserve notes approximately equal, and your cooperation in carrying out this policy is earnestly requested. Details appear to be simple if Federal Reserve banks will compute the total reserve against net deposit and Federal Reserve note liabilities combined, and then make the necessary adjustment. The figures as now given by the various banks are entirely misleading and are calculated to produce a harmful impression; as an illustration, the total reserves against net deposit and Federal Reserve note liabilities combined for all the banks on September 28th were 77.1%; the reserve against net deposits was 74.5%; while the gold reserve against Federal Reserve notes in actual circulation was 81.1%. To illustrate the point more clearly, reference is made to the statement of the Federal Reserve Bank of Richmond of September 28th, which showed reserve against net deposits of 83.8%; against Federal Reserve notes 57.4%; while its reserve against the combined liabilities was 73.1%. The Federal Reserve Bank of Atlanta on the same date showed a reserve against deposits of 44.5%; against Federal Reserve notes 94.5%, and its reserve against the combined liabilities was 73.9%.

The public, which does not see the combined reserve percentages, but only the separate reserve percentages against each item, is not properly informed by such statements. The true index to the banks' position is the total reserve against combined deposit and note liabilities, and the Board believes that the two separate reserve percentages should be equalized as nearly as possible.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-425

October 10, 1917.

Dear Sir:

The Treasury Department is retiring gold certificates in denominations smaller than $50, and the Treasurer of the United States has advised the Board that he is desirous of obtaining from time to time Federal Reserve notes in five, ten, and twenty dollar denominations, for use by the cashier of the Treasury in making ordinary payments. An opportunity is thus afforded of increasing the gold holdings of the Federal Reserve banks by making this exchange of Federal Reserve notes for gold, and the Board feels that all the Federal Reserve banks should participate in their proper proportion. There will be available eventually about $300,000,000 of ten and twenty dollar gold certificates which can be exchanged for Federal Reserve notes in this way. The Board understands that these exchanges will now be made at the rate of $6,000,000 per week, or $2,000,000 every other day, 10% of the amount in notes of the five dollar denomination, 50% in tens, and 40% in twenties.

If your bank is willing to take a part in these exchanges, please telegraph the Board to that effect and the Board will advise you in like manner when and as the Treasurer is ready to make exchanges with your bank. Upon receipt of such advice from the Board, a telegram should be sent to it as follows:

Federal reserve bank has deposited $_____________ as collateral for issue of Federal reserve notes. Please request Comptroller of the Currency to deliver to the Treasurer of the United States Federal reserve notes aggregating $____________________, $__________________in fives, $____________________in tens and $____________________ in twenties, such delivery to be made upon deposit by Treasurer of the United States of $____________________ in gold settlement fund to credit of Federal Reserve Bank of

Signed__________________________.
Federal Reserve Agent.

Your bank can deposit with the Federal reserve agent coin, gold certificates or eligible commercial paper as may be most convenient.

Very truly yours,

Governor.

Governor, Federal Reserve Bank,

FEDERAL RESERVE BOARD

WASHINGTON

X-426

October 10, 1917.

Dear Sir:

In order to facilitate the redemption of unfit currency shipped to the Treasurer of the United States by various member and non-member banks, and in order to provide a means for concentrating the gold supply by eliminating as far as possible the issue of gold certificates in exchange for unfit currency presented for redemption, the Treasury Department and the Federal Reserve Board have agreed upon the following plan:

(1) The Treasurer, upon receipt of unfit currency for redemption, will place to the credit of the appropriate Federal reserve bank in the gold settlement fund an equivalent amount of gold or gold certificates and will advise the Federal reserve bank of the amount of that credit stating for whose account the deposit is made, and will also advise the member or nonmember bank for which the redemption is made to that effect. In certain cases the Treasurer, instead of making the credit through the gold settlement fund, may ship currency direct to the Federal reserve bank for the credit of the bank desiring the redemption.

(2) The Federal reserve bank shall advise the member or nonmember bank for which the redemption is made that its account has been credited with the appropriate amount and that it stands subject to its order. If the creditor bank desires currency and not merely a book credit, the Federal reserve bank will make the shipment at the expense of the creditor bank, deducting from the amount of the shipment all charges involved, in the same manner now employed by the Treasury Department in making such shipments.

The Board understands that this plan is not intended to, and does not revoke or supersede existing Treasury regulations relating to the redemption of unfit currency; but in view of the fact that it will tend to shorten or even eliminate many shipments of currency, it is earnestly hoped that all banks will cooperate in its development., The Treasury Department will make redemptions in the manner outlined herein unless a bank presenting currency for redemption specifically states that it desires the shipment to be made direct from the Treasury Department in the same manner as at present.

cc No change can be made in the matter of deposits by national banks for reimbursement of their 5% redemption fund unless and until the Treasury Department decides to issue new regulations on that subject.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-428.

Your letter of   in reference to foreign exchange addressed to the Secretary of the Treasury, has been referred to this office for reply.

Foreign exchange transactions are affected just now by several complications growing out of the war. Transactions with France and England, with which countries we are associated in the war, must be taken into account, so that it is no longer possible to handle the foreign exchange situation from a purely American standpoint. The embargoes in force in various countries and in the United States complicate the matter still further, and in view of the limitations which have been placed upon exportations of gold from this country by the President's order of September 7th, it is difficult to see how the Federal Reserve Board can do anything at this time to ease the situation in foreign exchange.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-429.

Your letter of   in reference to foreign exchange addressed to the Secretary of the Treasury, has been referred to this office for reply.

Foreign exchange transactions are affected just now by several complications growing out of the war. Transactions with France and England, with which countries we are associated in the war, must be taken into account, so that it is no longer possible to handle the foreign exchange situation from a purely American standpoint. The embargoes in force in various countries and in the United States complicate the matter still further, and in view of the limitations which have been placed upon exportations of gold from this country by the President's order of September 7th, it is difficult to see how the Federal Reserve Board can do anything at this time to ease the situation in foreign exchange.

Your letter does not state just how the present situation affects you, and the Board would be pleased to have you state in specific terms any complaint that you wish to make.

Very truly yours,

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-431

October 15, 1917.

Dear Sir:

The Board is sending you a number of printed circulars which contain a statement by the President of the United States, upon the opportunity which is now afforded the nonmember state banks and trust companies to render distinct public service by becoming members of the Federal Reserve System.

You were requested a few days ago to prepare a list of the state banks and trust companies in your district which are eligible for membership and the Board asks now that you have these circulars addressed properly to each institution in your district which appears prima facie to be eligible.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-432

October 16, 1917.

Dear Sir:

Attention is called to the notice in the front of the Federal Reserve Bulletin for October as to the publication of a second edition of the Index-Digest of the Federal Reserve Act and Amendments. As it is necessary to know about how many copies will be desired in each district before a complete order for printing is given, you are requested to forward to the Board immediately all orders for the book as fast as received by you.

Announcement will shortly be made as to when the publication will be ready for distribution.

Very truly yours,

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

October 16, 1917.

Dear Sir:

The Federal Reserve Board is about to begin the preparation of its annual report for the year 1917, to which reports from the Federal Reserve Agents will be added as a supplement. It is desirable that the reports of the Federal Reserve Agents be received in Washington not later than December 20, as minor alterations or additions covering developments or operations for the last ten days of the year, together with such changes in statistics as may be necessary, may be made either by mail or telegraph at any time not later than January 7. It is preferable that no entirely new matter be sent in after December 20, and that changes and additions be transmitted by mail rather than by telegraph wherever practicable. It is believed that this end can be accomplished by providing in the first draft of the report dummy or skeleton tables which will be completed when actual figures for the full operations of the year are available. The general lines of the reports for 1916 are satisfactory, although in some individual cases special suggestions will be made with the view of obtaining a standardization and harmony to a greater degree than was practicable in the reports of last year when the plan of uniform treatment was first attempted.

It will be necessary however to add in the reports for 1917, a new section relating to the operation of the banks as fiscal agents of the Government, which will treat of their functions in connection with the flotation of Treasury certificates of indebtedness, transfers for Treasury account, and of their organization for receiving subscriptions in payment for the United States Liberty Loans. It is desired that the treatment of this subject be careful, moderate, and uniform in all the districts. The following outline of points to be covered in this section is suggested:

(a) History of Liberty Loan organization; salient dates and names, for record purposes;

(b) Compilations showing total amount of bonds subscribed for in district; total number of subscribers; and as far as practicable, the distribution among individuals, corporations, member and nonmember banks;

(c) Amount of Treasury certificates of indebtedness which were subscribed for through the Federal Reserve Bank;

(d) Extent of Federal Reserve Bank's ownership of Treasury certificates and Government bonds; and loans made by Federal Reserve Banks upon United States bonds or Treasury certificates as collateral;

(e) Statement of expenditures in the conduct of Liberty Loan operations; number of new employes engaged in the bond departments; salaries, and the extent of the bank's reimbursement by the Treasury Department for the outlay.

(f) General discussion of conditions growing out of the loans and the effect upon the banking institutions, industries, and commerce of the district. Exceptional care should be taken in writing this part of the report. No special praise or thanks should be extended to particular individuals mentioned by name, nor should there be included in the report any suggestions relating to legislation or changes in administration. These may of course be made by letter to the Board, but should not be incorporated in the material for publication. The treatment throughout should be objective and historical, and accompanied by as little expression of opinion as possible.

It is also suggested that there be another new section dealing with the attitude of state banks and trust companies. In this section there should be a reference to the number and character of institutions in your district eligible for membership; the number which have become members or which have applied for membership; a discussion of the signs of interest in the matter of membership which have been manifested by others, with some analysis of your local situation as it may be affected by the ultimate position taken by the banks which are remaining out of the system.

Special attention may be directed to the question of earnings, showing how they have been affected by the unusual activities of the year, together with a forecast of the future reserve position and earning power of your bank.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

October 17, 1917.
X 436

Dear Sir:

Under separate cover there are forwarded to you a few copies of form 104 for reporting transactions under the second Liberty Loan. The regular supply will go forward tomorrow or on Friday.

It is requested that you continue to report all transactions under the first Liberty Loan on form 101. This will necessitate two daily reports to the Board for the present, but it is thought that much less trouble will be experienced if all transactions under the two issues are kept separate from each other.

With regard to the second subdivision on form 104 for reporting U. S. Certificate of Indebtedness transactions it is requested that all balances under the respective accounts now reported on form 101 be transferred to the new form 104 and all operations under certificates now outstanding, as well as under all future certificate allotments, be reported on the new form.

In this connection may I ask that liability item 5 "U. S. Treasury Certificates of Indebtedness - Allotted" show total amounts of Certificates allotted less amounts redeemed by the U. S. Treasurer and that corresponding asset items Nos. 5 and 6 show amounts deposited under the several issues of Certificates of Indebtedness still outstanding and not yet redeemed. Accordingly, sum of asset items 5 and 6 should equal sum of liability items 5 and 6. Whenever an issue is redeemed you will reduce asset item 5 by the total receipts deposited from the respective issue; similarly, in case of such redemption, amounts of liability items 5 and 6 should be reduced by the amounts of the allotment and interest on the respective issue.

Reports on the new form (104) should be made out and forwarded beginning with Monday, October 22.

Respectfully,

Acting Assistant Secretary.

Federal Reserve Agent,

FEDERAL RESERVE BOARD

WASHINGTON

X-437.

October 17, 1917.

Dear Sir:

Applicants for permission to export coin, bullion and currency, who wish to make shipment by mail, should explicitly so state in their applications, in order that proper notice may be issued to the Postmaster located at the point at which shipment will be effected.

Very respectfully,

Secretary.

2827

FEDERAL RESERVE BOARD

WASHINGTON

X-438.

October 5, 1917.

My dear Governor:

You have asked that consideration be given to the following questions:

(1) Whether a Federal Reserve bank acting as fiscal agent for the Government is subject to the general supervision of the Federal Reserve Board.

(2) Should its expenses as fiscal agent be shown in reports to the Board as part of the expenses of the bank, and should sums paid to the Federal Reserve bank by the Government for the performance of such services be included in its reports as part of the earnings of the Federal reserve bank.

Section 15 of the Federal Reserve Act provides in part that Federal reserve banks -

"when required by the Secretary of the Treasury, shall act as fiscal agents of the United States".

Section 11 provides in part that the Federal Reserve Board shall be authorized and empowered -

"(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary".

****

(j) To exercise general supervision over said Federal reserve banks".

In acting as fiscal agent for the Government a Federal reserve bank is performing one of the functions for which it was created, and while it is acting in the capacity of agent for the Government and as such is subject to the directions of the Secretary of the Treasury, it is, nevertheless, under the general supervision of the Federal Reserve Board.

When the Secretary selects a Federal reserve bank as fiscal agent it is, of course, within his province to specify the duties that the bank will be called upon to perform and the powers it will be expected to exercise on behalf of the United States Government in the conduct of its fiscal affairs.

When the bank undertakes, however, to perform those duties and to exercise those powers, it is subject to the supervision of the Board, and while the Board's regulations should be designed to carry out, and not to defeat, the purposes of the Act, and should, therefore, not restrict the proper performance of any duties that the Government through the Secretary may require, the Board should by regulation impose any safeguards it deems necessary and proper which are consistent with the purposes of the Act.

In this view it would clearly have the right to require any reports it may deem necessary showing the activities of the bank as fiscal agent, it may and should require an examination of the fiscal agent's books, and may approve or disapprove salaries of employees engaged in this particular work of the bank in the same manner that it approves or disapproves the salaries of other employees.

Since it is conceivable that the estate of a Federal reserve bank might become liable on account of some illegal transaction engaged in as fiscal agent, it is, of course, necessary that the Board should know that the services rendered as fiscal agent are being performed in strict accordance with the provisions of law.

In the opinion of this office it would also be entirely consistent with the purposes of the Act for the Board to require such banks to show all expenses incurred in acting as fiscal agent as part of the expenses of the bank, and to show all sums paid by the Government for the performance of such services as part of the earnings of such banks.

Respectfully,

(Signed) M. C. ELLIOTT.

Counsel.

Hon. W. P. G. Harding,
Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-440

October 19, 1917.

(CONFIDENTIAL)

Dear Sir:

Enquiry has been made concerning the desirability of acceptance by Federal Reserve Banks of Russian bonds. In response to such enquiries, substantially the following answer is being given to Federal Reserve Banks:

Concerning the acceptance of Russian bonds as collateral for special government deposits, the view here is that it would not be desirable to discriminate against these bonds as such and that Federal Reserve Banks should deal with the matter using their discretion and protecting themselves by adopting the following policy. As to all securities, except United States Government bonds, no one bank or trust company should be permitted to secure its deposits by more than a reasonable amount of any one security, particularly in the case of securities which are not selling on a conservative interest basis, the object being to have the collateral pledged by each depositary well diversified. This will enable the Federal Reserve Banks to deal with the problem cautiously.

This is intended for your confidential use.

Yours very truly,

Governor.

2986

FEDERAL RESERVE BOARD

WASHINGTON

X-443

October 19, 1917.

Dear Sir:

With the view of ascertaining in some detail the expenses of the Federal Reserve Banks and branches caused by the Fiscal Agent operations you are requested to report for the month of October and each month thereafter amounts of salaries in your Fiscal Agent Department under the several heads shown on Form 97 and such other specific items of monthly expense in that Department as can be conveniently stated, also amounts received from the Government during each month in reimbursement of said expenses. Cumulative figures are desired of Fiscal Agent Department expenses and reimbursements since the opening by your institution of a special Fiscal Agent expense account.

Respectfully,

Secretary.

X-4

FEDERAL RESERVE BOARD

WASHINGTON

October 20, 1917.

Dear Sir:

From inquiries received at this office it appears that the officers of some nonmember State banks and trust companies are under the misapprehension that such banks and trust companies becoming members of the Federal Reserve System are subject to the limitations imposed by Section 5200 Revised Statutes which limit the total liabilities to a national bank of any one person, firm or corporation to an amount not to exceed ten per cent of the capital and surplus of the lending bank.

Where this misapprehension exists attention should be called to the fact that under Section 9 of the Federal Reserve Act as amended, State banks and trust companies becoming members of the Federal Reserve System are not subject to the limitations of Section 5200 but are subject only to such limitations as are imposed by State laws. Such banks may, therefore, make loans to the same person, firm or corporation in any amounts permitted by the State laws. Loans to one person in excess of ten per cent are, however, not eligible for rediscount with a Federal Reserve Bank.

The provision of Section 9 of the Federal Reserve Act bearing on this point is as follows:

> "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 and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section."

Respectfully,

Governor.

P R E S S   S T A T E M E N T

October 20, 1917.

The Federal Reserve Board today made public a statement showing the number of state institutions admitted to the Federal Reserve System from October 1 to October 19, and lists of state institutions whose applications for membership are in hand, as follows:

STATE BANKS ADMITTED DURING OCTOBER.

	Capital	Surplus	Total Resources
Canal Bank & Trust Co. New Orleans, La.	$ 2,000,000	$ 500,000	$ 21,210,371
Spokane & Eastern Tr. Co. Spokane, Wash.	1,000,000	200,000	20,078,866
Chicago Savings Bk. & Tr.Co. Chicago, Ill.	1,000,000	200,000	12,733,891
Union Bank of Pike Summitt, Miss.	25,000	4,000	165,516
Guaranty Trust Co. New York, N. Y.	25,000,000	25,000,000	613,535,033
Sioux Falls Saving Bank Sioux Falls, S. D.	200,000	23,000	3,852,236
First Savings & Trust Co. of Whitman County, Colfax, Wash.	50,000	15,000	369,711
Bank of Williston, Williston, N. D.	50,000	. ...	113,071
Live Stock State Bank, North Portland, Ore.	100,000	10,000	872,846
Genesee Exchange Bank, Genesee, Idaho.	25,000	12,500	482,091
Lafayette South Side Bank, St. Louis, Mo.	800,000	400,000	12,604,870
Central Trust Co. New York, N. Y.	5,000,000	15,000,000	214,715,020
Bankers Trust Co. New York, N. Y.	11,250,000	11,250,000	327,011,784
TOTALS	$46,500,000	$52,614,500	$1,227,745,306

One hundred and two State institutions are now members of the system, having a total capital of $108,855,700, total surplus of $115,282,465, and total resources of $2,454,996,995.

LIST OF APPLICANTS FOR ADMISSION TO MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM RECEIVED FROM OR AUTHORIZED BY THE BOARDS OF DIRECTORS OF THE FOLLOWING STATE BANKS AND TRUST COMPANIES.

DISTRICT NO. 1 - BOSTON.

Applications received from:

Newton Trust Co.,	Newton, Mass.
Industrial Trust Co.,	Providence, R.I.
Worcester Bank & Trust Co.,	Worcester, Mass.
Metropolitan Trust Co.,	Boston, Mass

DISTRIST NO 2. - NEW YORK.

Applications received from:

New York Trust Co.,	New York, N. Y.
Metropolitan Bank,	New York, N. Y.
Pacific Bank,	New York, N. Y.
Metropolitan Trust Co.,	New York, N. Y.
Buffalo Trust Co.,	Buffalo, N. Y.
Manufacturers Trust Co.,	Brooklyn, N. Y.
Franklin Trust Co.,	Brooklyn, N. Y.

Applications have been authorized by the Boards of Directors of the following banks:

Brooklyn Trust Co.,	Brooklyn, N. Y.
Peoples Trust Co.,	Brooklyn, N. Y.
Equitable Trust Co.,	New York, N. Y.
Bank of ~~North~~ America	New York, N. Y.
W. R. Grace & Sompany's Bank	New York, N. Y
Mercantile Trust ~~Co.~~& Deposit Co.	New York, N. Y.
Utica Trust & Deposit Co.,	Utica, N. Y.

DISTRICT NO. 3. - PHILADELPHIA.

Application has been received from:

Girard Trust Co.,	Philadelphia, Pa.

Applications authorized by Boards of Directors of the following banks:

Williams Valley Trust Co.,	Williamsport, Pa.
Commercial Trust Co., Philadelphia, Pa.	
Dime Deposit Bank,	Wilkesbarre, Pa.

DISTRICT NO. 4. - CLEVELAND.

APPLICATIONS RECEIVED FROM:

Lawrence Savings & Trust Co.	Newcastle, Pa.

Applications authorized by Boards of Directors of the following banks:,

Exchange Bank, of Kentucky	Mt. Sterling, Ky.
Hillsboro Bank & Savings Co.	Hillsboro, O.
Citizens Trust & Savings Bank	Columbus, O.

DISTRICT NO. 5. - RICHMOND.

Applidations authorized by the Boards of Directors of the

Maryland Trust Co.	Baltimore, Md.
Baltimore Trust Co.	Baltimore, Md.
Baltimore Commercial Bank,	Baltimore, Md.

DISTRICT NO. 6. - ATLANTA.

Applications authorized by the Boards of Directors of the following banks:

Mation Central Bank	Marion, Ala.

DISTRICT NO. 7. - CHICAGO.

Applications received from:

St. Clair County Savings Bank,	Port Huron, Mich.
Citizens Bank,	Clinton, Wis.
Dansard & Sons State Bank,	Monroe, Mich.
Citizens Commercial & Savings Bank,	Flint, Mich.
Eaton Co. Savings Bank,	Charlotte, Mich.
Lapoor Savings Bank,	Lapoor, Mich.
Austin State Bank,	Chicago, Ills.
Grand Rapids Savings Bank	Grand Rapids, Mich.

Applications authorized by the Boards of Directors of the following banks.

Kent State Bank,	Grand Rapids, Mich.
First Trust & Savings Bank,	Chicago, Ills.
Union Bank	Jackson, Mich.
Detroit Savings Bank,	Detroit, Mich.
Central Savings Bank,	Detroit, Mich.
Highland Park State Bank,	Highland Park, Mich.
Dime Savings Bank	Detroit, Mich.
Wayne Co. & Home Savings Bank,	Detroit, Mich.
Peninsular State Bank,	Detroit, Mich.
Michigan State Bank,	Detroit, Mich.
Lansing State Savings Bank,	Lansing, Mich.
Genessee Co. Savings Bank,	Flint, Mich.
Citizens Bank,	Clinton, Wis.
St. Clair, Co. Savings Bank,	Port Huron, Mich.

DISTRICT NO. 8, ST. LOUIS.
Applications received from

German American Bank,	St. Louis, Mo.
Franklin Bank,	St. Louis, Mo.
Paoli State Bank,	Paoli, Indiana.

Application executed by the Board of Directors of the
Union and Planters Bank & Trust Co., Memphis, Tenn.

DISTRICT NO. 12 - SAN FRANCISCO.
Applications received from:

Lumbermans Bank,	Hoquiam, Wash.
Bank of Rosalia,	Rosalia, Wash.

THE AMERICAN BANKERS ASSOCIATION

Los Angeles, Calif.
October 9, 1917.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

I have just returned from Atlantic City, where I attended the convention of the American Bankers' Association. I am the Vice President of the Clearing House Section of the Association.

One of the questions that the Section is very much interested in is the question of the examination of banks by examiners employed by Clearing House Associations.

The employing of special examiners by Clearing House Associations, as you know, was first inaugurated in Chicago about ten years ago and as a result of the failure of the banks known as the Walsh banks, The Chicago Clearing House banks, in order to save a situation, and fearing the possible result of allowing the Walsh banks to close their doors during such a critical period in the banking world as was 1907, took the Walsh banks over and liquidated them. It was found that the banks were in and had remained in a condition that should have been regarded as untenable. To avoid further experiences along the same line, the Clearing House Association of Chicago employed an examiner of its own, and at the cost and expense of its member banks, to make regular examinations of all banks in the city of Chicago enjoying the privileges of the Clearing House.

The plan inaugurated by the Chicago Association has proven so satisfactory that it has been followed by Clearing House Associations in other cities adopting the plan, until now there are nineteen cities that have Clearing House examiners. There would undoubtedly have been many more, had it not been for the feeling of uncertainty that existed as to what was to be the future policy of the Government in regard to examinations under the Federal Reserve System. No determined effort has been made during the past two years to get Clearing Houses in other cities to adopt the plan, awaiting any plan for examination that might develop with the Federal Reserve Board or banks, and to avoid too many examinations.

The Clearing House Associations that have employed examiners are well pleased with the result, and are very loath to abandon the system, at the same time they feel they are not justified in incurring too much expense for examinations. They feel that under the Clearing House Examiner they have the advantage of the local coloring that the Clearing House Examiner has to a far greater degree than can be had by a Federal Examiner who covers a much larger territory, and are also in a position to act more promptly on information received from the Examiner than would be possible if the information were to come from a Federal Examiner.

The whole question was a matter of discussion at a meeting of the Executive Committee of the Clearing House Section, held in Atlantic City. It was the consensus of opinion that our efforts to extend the Clearing House Examination System should depend very largely on the attitude of the Federal Reserve Board and Banks toward it. If it is to be the policy of the Federal Reserve Banks to employ examiners to examine all member banks, in addition to the examinations now made by the Comptroller's office, it may, and probably will, cause the banks in Clearing House Cities to feel that to maintain in addition a Clearing House Examiner, thus providing for three separate examinations, instead of for two as at present, will entail an unwarrantable burden of expense.

If the Federal Reserve Banks would accept the examinatons made by Clearing House Examiners, except of course where need for special examinations was indicated, it would justify our efforts to extend the system and perpetuate it. In the matter of examination, both the Federal Reserve Banks and the Clearing Houses are working to the same end, viz- to see that the banks are conducting their business in a proper and safe manner and obeying the law.

Another advantage we feel we have under the clearing house system of examinations isthat not only the banks, members of the Clearing House Association, but all other banks, National or State, that clear through member banks, are regularly examined and are under the espionage of the Clearing House Examiner. While, if the plan were to be discontinued, the Federal Reserve Banks would only examine member banks and other banks would be left under State examiners alone.

I was appointed as a committee of one to present the matter to the Federal Reserve Board through you and ascertain the attitude and wishes of the Board on the question of Clearing House Examiner service.

If the Federal Reserve Banks would be allowed to, and would, accept the reports of examinations made by Clearing House Examiners, in cities where Clearing House Examiners are empl6yed, an effort would be made to extend the system to other cities. If, on the other hand, such reports would not be acceptable to, and accepted by the Federal Reserve Banks, and to maintain Clearing House Examiners would only result in duplication of effort and increased expense, it might be deemed best not to mak any effort to extend the system and might tend to discourage Clearing House Associations now maintaining examiners and cause them to discontinue doing so.

An expression as to the attitude of the Federal Reserve Board on the question will be very greatly appreciated by the Executive Committee, as it will be by

Yours respectfully

STODDARD JESS

Vice President.

FEDERAL RESERVE BOARD

WASHINGTON

X449

October 20, 1917.

Dear Sir:

I enclose herewith a letter from Mr. Stoddard Jess, of Los Angeles, California, who is Vice President of the Clearing House Section of the American Bankers Association, with the request that you advise me of the views of your directors and your executive committee on the subject. The Board is aware of the very heavy additional work which is now imposed upon the Federal Reserve banks in the bond selling campaign and in the discharge of their duties as fiscal agents, and is inclined to the opinion that while the suggestions of Mr. Jess might be carried out at some future time, the banks might desire to defer undertaking the new functions suggested until the end of the war, or at least until a larger number of state banks have come into the system.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-451

October 22, 1917.

Dear Sir:

You are requested to furnish the Federal Reserve Board at your earliest convenience with the data asked for on the enclosed form concerning your holdings of gold, gold certificates and gold order certificates.

Your particular attention is called to subheads under caption "Gold Certificates" requiring segregation of gold certificates of the larger denominations ($50 and over) from certificates of the smaller denominations ($20 and less). These data are desired to ascertain in conjunction with the Treasury Department the proper distribution of gold and gold certificates held by the Treasury and each of the Subtreasuries for redeeming gold order certificates outstanding and held by Federal Reserve Banks in the respective localities, also to make sure of the sufficiency of gold reserve held in vault by the Reserve Banks and Agents to meet eventual demands on the banks for redemption of Federal Reserve Notes.

Very truly yours,

Secretary.

Preliminary Draft of

Regulations to be issued under authority

of Trading With the Enemy Act.

* * *

The accompanying draft of regulations to be issued under authority of the Trading With the Enemy Act has been prepared by direction of the office of the Secretary of the Treasury by Counsel for the Federal Reserve Board merely as a tentative form for the consideration of the office of the Secretary and of the Federal Reserve Board.

To expedite preparation of revised draft please indicate such alterations, additions or eliminations as you think should be made and return one copy with your suggestions to Counsel for the Federal Reserve Board.

* * *

REGULATIONS GOVERNING THE EXPORT OF COIN, BULLION AND CURRENCY, TRANSACTIONS IN FOREIGN EXCHANGE, AND TRANSFERS OF FOREIGN CREDITS.

EXECUTIVE ORDER.

By virtue of the authority vested in me, I hereby prescribe as a supplement to the regulations contained in Executive Order, dated October 15, 1917, the following regulations in relation to transactions in foreign exchange, export or ear-markings of gold or silver coin, or bullion, or currency, transfers of credits in any form (other than credits relating solely to transactions to be executed wholly within the United States) ad transfers or evidences of indebtedness or of the ownership of property between the United States and any foreign country, whether an enemy, ally of an enemy, or otherwise, or between persons of one or more foreign countries by any person within the United States.

I hereby revoke any regulations heretofore prescribed by me in so far as they may be inconsistent with the regulations herein contained.

DEFINITIONS.

The term person as used in these regulations shall be held to include individuals, firms, partnerships, corporations, and all associations of persons.

The term dealer shall be held to include any person engaged in the business of buying, selling or dealing in foreign exchange.

The term foreign exchange shall be held to include checks, drafts, bills of exchange, cable transfers, or any other form of negotiable or assignable instrument or order used to transfer credit or to order the payment of funds in any foreign country, insular possession or dependency of the United States, or other territory not included within the geographical limits of the Continental United States.

The term customer shall be held to include any person other than a dealer who is resident or domiciled in the United States, regardless of nationality, and who seeks to purchase or acquire foreign exchange or to arrange for the transfer of funds or of credits, or for the establishment of a credit in any form outside of the Continental United States.

The term registration certificate shall be held to mean certificate authorizing a dealer to engage in foreign exchange transactions not prohibited by law.

The term special license shall be held to mean a license or permit issued to an applicant authorizing such applicant to export gold or silver bullion or currency, or to engage in a particular foreign exchange transaction otherwise prohibited by law.

The term general license shall be held to mean a license or permit issued to an applicant authorizing such applicant to export gold or silver bullion to certain designated countries or to engage in certain classes of foreign exchange transactions for a fixed period of time or until such license is revoked.

EXPORTATION OF COIN, BULLION OR CURRENCY.

Any person desiring to export from the United States or any of its territorial possessions to any foreign country named in the proclamation dated Setpember seventh, nineteen hundred and seventeen, any coin, bullion, or currency, shall first file an application in triplicate with the Federal reserve bank of the district in which such person is located for a special or general license. Applications filed must contain statements under oath and showing in detail the nature of the transaction, the amount involved, the parties directly and indirectly interested, and such other information as may be of assistance to the proper authorities in determining whether the exportation for which a license is desired will be compatible with the public interest. All such applications should be made on the standard form prescribed by the Federal Reserve Board.

Each Federal reserve bank shall keep a record copy of each application filed with it under the provisions of this regulation and shall forward the original application and a duplicate to the Federal Reserve Board at Washington together with such information or suggestions as it may believe proper in the circumstances and shall in addition make a formal recommendation as to whether or not in its opinion the exportation should be permitted.

The Federal Reserve Board, subject to the approval of the Secretary of the Treasury, is hereby authorized and empowered upon receipt of such application and the recommendation of the Federal reserve bank to make such ruling as it may deem proper in the circumstances and if in its opinion the exportation in question be compatible with the public interest, to permit said exportation to be made; otherwise to refuse it.

FOREIGN EXCHANGE TRANSACTIONS

REGISTRATION CERTIFICATES.

Every dealer in foreign exchange shall within ______ days from this date, file with the Federal reserve bank of the district in which such dealer is located, an application for a registration certificate.

Such application shall be in form approved by the Federal Reserve Board and shall show (a) the character of the business engaged in, (b) whether or not any enemy or ally of an enemy of the United States, has any interest directly or indirectly in such business, (c) any additional information that may be required by the Federal Reserve Board.

The Federal Reserve bank, with the approval of the Federal Reserve Board, may issue to such applicant a registration certificate in form approved by the Federal Reserve Board, entitling the holder to engage in foreign exchange transactions not prohibited by law. Such certificate may be revoked at any time by direction of the Secretary of the Treasury or the Federal Reserve Board.

LICENSES.

Any person desiring to deal in any foreign exchange transaction and having reason to believe that such transaction may involve the payment of funds to or the establishment of credits in favor of any enemy or ally of an enemy, within the meaning of the act of October 6, 1917, shall file with the Federal reserve bank an application for a special or general license to consummate this transaction. Such application shall be in form approved by the Federal Reserve Board and shall contain a full and complete statement, under oath, of all facts known to the applicant which may assist or enable the Board to determine whether such transaction may be permitted without prejudice to the interests of the United States. The Board may grant the license applied for if, upon investigation, it is satisfied that such a grant will be compatible with the best interests of the United States.

BOOKS AND RECORDS.

All dealers in foreign exchange shall keep a record in books kept for that purpose, of all exchange purchased or sold by such dealers, in such manner as to show -

1. The name, address and business of the customer buying and selling such exchange;

2. The drawer, drawee, payee, date and amount of all exchange items bought and sold;

3. The purpose for which such exchange is bought or sold by the dealer;

4. A statement to be furnished to the dealer by the customer of his purpose in purchasing or selling exchange, with full details of any transaction for the liquidation of, or in connection with which such purchase or sale is made;

5. Any other information which in the opinion of the Federal Reserve Board may be necessary to enable it to determine whether the transaction engaged in involves any violation of the laws of the United States or regulations made pursuant thereto;

EXAMINATION :

All books and records of dealers in foreign exchange shall be open to inspection by the Secretary of the Treasury, the Federal Reserve Board, the Federal Reserve Bank issuing the registration certificate or such person or persons as may be designated by the Federal Reserve Board, with the approval of the Secretary of the Treasury.

SPECIAL REPORTS:

When required by the Secretary of the Treasury, the Federal Reserve Board or the Federal Reserve Bank issuing the registration certificate, each dealer in foreign exchange shall make a report on forms approved by the Federal Reserve Board of any and all transactions in foreign exchange engaged in by said dealer and shall produce the original or transcript of any books or records that may be called for.

GENERAL REPORTS:

Every person resident or domiciled in the United States shall, without previous request for such information, make a full report to the nearest Federal Reserve Bank of all facts in connection with any transaction engaged in with any foreign Government, or with any person resident or domiciled outside the United States, whenever such transaction involves or may involve, -

(a) The payment to or receipt from any such Government or person of any money;
(b) The delivery to or receipt from such Government or person of any securities;
(c) The establishment of any foreign credits for or on behalf of such Government or person;
(d) The purchase or sale of any security for, to, or on account of such Government or person;

(e) The book transfer of cash or security to or from the account of any such Government or person;

(f) The transfer or assignment of claims or evidences of indebtedness to or from any such Government or person.

SUSPENSION OF FOREIGN EXCHANGE TRANSACTIONS AND TRANSACTIONS INVOLVING THE EXPORTATION OF COIN BULLION OR CURRENCY.

Whenever the Secretary of the Treasury shall have reasonable cause to believe that the consummation of any transaction in foreign exchange or the export of any coin, bullion, or currency may result in a violation of the laws of the United States or regulations made pursuant thereto, he may give notice to the parties in interest to suspend such transaction for a period of ninety days pending an investigation and any person or persons designated by him shall for the purpose of investigation, be authorized to subpoena and examine witnesses under oath and to require the production of any books of account, contracts, letters, or other papers in connection with the transaction under investigation which are in the custody or control of the person examined.

GENERAL STATUTORY PROVISIONS.

An act to punish acts of interference with the foreign relations, the neutrality, and the foreign commerce of the United States, to punish espionage, and better to enforce the criminal laws of the United States, and for other purposes, approved June 15, 1917.

TITLE VII.

Section 1. Whenever during the present war the President shall find that the public safety shall so require, and shall make proclamation thereof, it shall be unlawful to export from or ship from or take out of the United States to any country named in such proclamation any article or articles mentioned in such proclamation, except at such time or times, and under such regulations and orders, and subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress: PROVIDED, HOWEVER, That no preference shall be given to the ports of one State over those of another.

Trading with the enemy act, approved October 6, 1917.

Section 2. That the word "enemy" as used herein, shall be deemed to mean, for the purpose of such trading and of this Act, -

(a) Any individual, partnership, or other body of individuals, of any nationality, resident within the territory (including that occupied by the military and naval forces) of any nation with which the United States is at war, or resident outside the United States and doing business within such territory, and any corporation incorporated within such territory of any nation with which the United States is at war or incorporated within any country other than the United States and doing business within such territory.

(b) The Government of any nation with which the United States is at war, or any political or municipal subdivision thereof, or any officer, official, agent, or agency thereof.

(c) Such other individuals, or body or class of individuals as may be natives, citizens, or subjects of any nation with which the United States is at war, other than citizens of the United States, wherever resident or wherever doing business, as the President, if he shall find the safety of the United States or the successful prosecution of the war shall so require, may, by proclamation, include within the term "enemy".

The words "ally of enemy", as used herein, shall be deemed to mean, -

(a) Any individual, partnership, or other body of individuals, of any nationality, resident within the territory (including that occupied by the military and naval forces) of any nation which is an ally of a nation with which the United States is at war, or resident outside the United States and doing business within such territory, and any corporation incorporated within such territory of such ally nation, or incorporated within any country other than the United States and doing business within such territory.

(b) The Government of any nation which is an ally of an nation with which the United States is at war, or any political or municipal subdivision of such ally nation, or any officer, official, agent, or agency thereof.

(c) Such other individuals, or body or class of individuals, as may be natives, citizens, or subjects of any nation which is an ally of a nation with which the United States is at war, other than citizens of the United States, wherever resident or wherever doing business, as the President, if he shall find the safety of the United States or the successful prosecution of the war shall so require, may, by proclamation, include within the term "ally of enemy".

Section 5 (b) That the President may investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, export or ear-markings of gold or silver coin or bullion or currency, transfers of credit in any form (other than credits relating solely to transactions to be executed wholly within the United States), and transfers of evidences of indebtedness or of the ownership of property between the United States and any foreign country, whether enemy, ally of enemy or otherwise, or between residents of one or more foreign countries, by any person within the United States; and he may require any such person engaged in any such transaction to furnish, under oath, complete information relative thereto, including the production of any books of account, contracts, letters or other papers, in connection therewith in the custody or control of such person, either before or after such transaction is completed.

H. Parker Willis, Esq.,
Secretary, Federal Reserve Board.

Sir:

In consideration of the payment to me of the sum of

Dollars ($) per month, I hereby undertake and agree to perform such services for the Federal Reserve Board as may be assigned to me. It is understood that this contract may be terminated on the first or fifteenth day of any month upon ten days prior notice by either party thereto.

Respectfully,

____

The foregoing proposal or agreement is hereby accepted.

FEDERAL RESERVE BOARD.

By____________________________

FEDERAL RESERVE BOARD

WASHINGTON

DIVISION OF REPORTS AND STATISTICS

X459

Dear Sir:

You have already been advised that the Federal Reserve Board desires certain information included in your annual report, with regard to the amount of Treasury Certificates of Indebtedness which have been allotted to subscribers through the Federal Reserve bank. It is now desired to add to this data as to how the distribution was effected in each district, giving for each issue the number of subscribers that took $25,000 and less; how many took between $25,000 and $50,000; how many took between $50,000 and $100,000, etc.

Will you kindly include information on this point with the other matter already asked for, using the following classification:

Amount allotted to subscriber:	Number of subscribers in each group:	Total amounts alloted to each group.
$25,000 and less		
Over $25,000 to $50,000		
" $50,000 to $100,000		
" $100,000 to $250,000		
" $250,000 to $500,000		
" $500,000 to $1,000,000		
Total.........		

Very truly yours,

Secretary.

X463

BY-LAWS

__________ BRANCH BANK

FEDERAL RESERVE BANK OF ______________

ARTICLE I.

Section I. By permission of the Federal Reserve Board, in accordance with the provisions of the Federal Reserve Act, the Federal Reserve Bank of ________________, by resolution of its Board of Directors duly adopted on the ____ day of _____ 191 , has established a branch bank in the city of ___________, State of ________, within the Federal Reserve District served by said Federal Reserve Bank of __________, and has designated and assigned to said branch bank all banks which now are, or may hereafter become, member banks within that portion of the State of ___________ comprised in Federal Reserve District No. ___ and within the Counties of ____ ____ ____ in the State of _____, in said Federal Reserve District, as member banks of branch bank so established.

Section 2. The name of this bank, shall be ______________ Branch Federal Reserve Bank of ____________; and its place of business shall be in the city of ___________, State of _________________.

Section 3. The reserve deposits of member banks assigned to said branch bank shall be maintained with the Federal Reserve Bank of _________ and payments and repayments on account of the increase or decrease in the capital stock of the Federal Reserve Bank of _________ has provided by law shall be made to said Federal Reserve Bank of ________________.

Section 4. Nothing contained herein shall be construed in any manner to abridge or modify the rights and powers of the Federal Reserve Bank of _________ to direct and control the operations of said ____________ Branch Bank; or to curtail the use by said Federal Reserve Bank of __________, whenever, in its judgment, it may be deemed necessary, of any and all funds received by said __________ Branch Bank.

Section 5. The said _________ Branch Bank shall be authorized and required to maintain a department for the clearing and collection of checks and drafts payable upon presentation, and also maturing notes and bills, and a department for the receipt and payment of money as authorized by law in respect of a Federal Reserve Bank, under such conditions and restrictions as may be from time to time provided by the Federal Reserve Bank of _____________, or under the direction of the Federal Reserve Board.

ARTICLE II.

Section 1: NUMBER AND QUORUM: The number of directors shall be <u>five</u>, of whom the manager shall be one. A majority of the directors shall constitute a quorum for the transaction of business, but less than a majority may adjourn from time to time until a quorum is in attendance.

Section 2. VACANCIES: Vacancies in the membership of the Board shall be filled and successors selected in the manner provided by law.

Section 3. MEETINGS: There shall be a regular meeting of the Board on the Thursday next preceding the first Friday of each month at 10 o'clock, * A.M., or if that day be a holiday, on the first succeeding full business day. The manager shall be empowered to call a special meeting at any time, or shall do so upon the request of the head office or the written request of any two directors. Notice of said meeting if by mail, shall be mailed at least one day prior to date of meeting; and if given by telegraph or telephone, at least two hours before the time of meeting.

* Suggested, subject to determination.

Section 4: POWERS: (a) The Board of Directors shall supervise the operation of the branck bank under direction and control of the Federal Reserve Bank of________, subject to such regulations as the Federal Reserve Board may prescribe.

(b) Branch bank may clear and collect checks and receive for collection maturing notes and bills for member and depositing non-member banks in all parts of the________Federal Reserve District and for all Federal Reserve Banks.

In order to facilitate crediting of proceeds of eligible collateral notes and rediscounts for such member banks as may be convenienced thereby, the head office may from time authorize the branch to receive such paper from said member bank for credit, upon terms and conditions to be prescribed by the head office.

Section 5: Directors when present at directors' meetings shall receive a compensation of_______dollars per day for each day the Board is in session, and an allowance to cover actual necessary expenses incident to attendance at regular or special meetings of the Board.

Section 6: The Head Office shall fix the compensation of officers, clerks and employes of the Branch Bank, subject to the approval of the Federal Reserve Board.

Section 7: All expenditures of the Branch Bank shall be subject to the approval of the Head Office.

Section 8: ORDER OF BUSINESS: The following shall be the order of business at each meeting of the Board:
(1) Reading and disposition of minutes of the last regular meeting.
(2) Report of the manager, including information concerning banking and business conditions in the Branch Bank territory, as well as detailed summary of all business transacted since last regular meeting and statement of present condition, the latter to include:

(a) Statements concerning clearing operations.
(b) All official correspondence received from the Head Office.

(3) Report of Committees.
(4) Unfinished business.
(5) Approval of reports and recommendations to Head Office.
(6) New Business.

ARTICLE III

OFFICERS.

Section 1: The officers, who shall be chosen by the Board of Directors of the Head Office, shall be a manager, who shall be one of the directors of the Branch Bank, and a cashier. They shall hold office during the pleasure of the Head Office.

Section 2: MANAGER: The Manager shall preside at all directors' meetings and shall have general charge of the Branch and shall be officially designated as "Manager, ... Branch Bank". The Manager shall, jointly with the cashier, have charge of all moneys received or paid out on account of the Branch Bank and shall sign all checks for the payment of money. He shall have custody of all moneys, investments and collateral held by the Branch Bank, subject to such rules as the Board may adopt as to their safety. In all cases where duties of subordinate officers of the Branch Bank are not specifically prescribed by the by-laws or the Board of Directors of the Branch Bank or the Head office, they shall be the duties prescribed by and the instructions of the Manager.

Section 3: ACTING MANAGER: In the absence or disability of the Manager, the Head Office may appoint an Acting Manager, who shall exercise the powers and discharge the duties of the manager; and for such services shall receive a compensation to be fixed by the Head Office.

Section 4: CASHIER: The Cashier shall have/such joint custody of all moneys, investments and collaterals as may be delegated to him by the Manager, subject to such rules as the Board may adopt as to their safety. He shall countersign all checks for the payment of money signed by the Manager. He shall keep the minutes of all Board meetings and all committees of the Board and perform such other duties as may be assigned to him by the Manager, subject to the approval of the Board of Directors.

Section 5: ACTING CASHIER: In the absence or disability of the cashier, the Board of Directors of the Branch bank may appoint an Acting Cashier, who shall exercise the powers and perform the duties of the cashier and shall receive a compensation to be fixed by the Head Office.

ARTICLE IV

COUNSEL.

Section 1: The General Counsel of the Head Office shall act as counsel for the Branch Bank, and shall represent the Branch Bank in such matters as may be assigned to him and shall approve all legal documents; and said general counsel may appoint a local . . . . . attorney as associate counsel, with a retainer to be approved by the Head Office.

ARTICLE V.

AUDITOR.

Section 1: The Auditor of the Head Office shall act as Auditor of the Branch Bank.

ARTICLE VI

BUSINESS HOURS.

Section 1: The Bank shall be open for business from 9:00 a. m. to 2:00 p. m., on each day except Saturdays and Sundays or days or parts of days established as legal holidays. On Saturdays the bank shall open at 9:00 a. m., and close at 12:00 noon.

ARTICLE IX

AMENDMENTS.

These by-laws may be amended at any regular director's meeting by a majority vote of the entire Board of the Head Office, subject to the approval of the Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

X-465

October 31, 1917.

Dear Sir:

The Board is in receipt of a request for the designation of a code word to be used by Federal Reserve Banks in advising other Federal Reserve Banks of Federal Reserve transfer drafts, the body of which will coincide with Form X-96, attached to circular letter X-102, dated April 25, 1917.

The word CULP is designated for this purpose.

Very truly yours,

Secretary.

X-466

FEDERAL RESERVE BOARD

WASHINGTON

November 1, 1917.

Gentlemen:

In connection with applications for the exportation of coin, bullion, and currency, I inclose herewith a form of bond. The Board suggests that the execution of this bond be required of applicants in those cases in which there is any uncertainty on your part as to the responsibility of such applicant, or where you desire additional assurance that the purposes for which the application is granted will be fulfilled.

Very truly yours,

Secretary.

Inclosure.

X-439

Released for publication in the evening papers of Saturday, November 3rd, 1917.

* * * * * *

"WAR FINANCE AND INFLATION"

Address of A. C Miller,

Member, Federal Reserve Board,

before the

National Conference on Financing the War

of the American Academy of Political and Social Science

Philadelphia,

Saturday morning, November 3rd, 1917,

at 10 o'clock.

"The beginning of wisdom in the financing of this war" said Mr. Miller "is the full appreciation of the fact that the ultimate term in our finance must be, not dollars but what dollars will buy. If the war goes on, it will become clearer and clearer that this war is an economic endurance contest and that victory will lie with the nations which are best able to resist the processes of economic disintegration. Indeed this war will not end until all the power of America is developed to its highest pitch of efficiency and then delivered as fighting-power and gun-power at the far-flung battle fronts of Europe. Every man, woman, or child, capable of doing anything, must regard themselves as part of the great fighting machine whose purpose is to transmute the productive power, the saving power, and the will power of the people at home into gun-power at the front. The winning of this war presents a problem of economic and financial strategy as well as of military strategy. Indeed our economic and financial strategy must work hand in hand with our military strategy if we are to make ourselves most effective in coordinating our own activities and those of the other nations forming the grand alliance, into one great whole so as to bring the war to an early and successful termination."

Continuing Mr. Miller said "Many are the contributions that time and circumstance will show America must make toward the successful prosecution of the war. But perhaps none will in the end prove more important than that of supplying leadership and mastery in coordinating the activities of herself and her associates along the larger lines of economic and military strategy."

Turning to the more immediate aspects of the financing of the war Mr. Miller called attention to the financial and economic principles that were laid down by the President in his War Message and later expanded in his Proclamation of April 15, on war economics. "All that this or any conference on finance can do" said Mr. Miller "is to translate the President's principles into details of financial administration and organization." The President called upon Congress and the country to 'exert all its power and employ all its resources to bring the Government of the German Empire to terms and end the war'. He pointed out what this would involve in the way of financial and economic preparation in these statements:

> 'It will involve, of course, the granting of adequate credits to the Government, sustained, I hope, so far as they can equitably be sustained by the present generation, by well-conceived taxation.'

> 'I say sustained so far as may be equitable by taxation, because it seems to me that it would be most unwise to base

the credits which will now be necessary, entirely on money borrowed. It is our duty, I most respectfully urge, to protect our people, so far as we may, against the very serious hardships and evils which would be likely to arise out of the inflation which would be produced by vast loans.'

It will involve the organization and mobilization of all the material resources of the country to supply the materials of war and serve the incidental needs of the nation in the most abundant and yet the most economical way possible.'

This is the time for America to correct her unpardonable fault of wastefulness and extravagance. Let every man and every woman assume the duty of careful, provident use and expenditure as a public duty, as a dictate of patriotism which no one can now expect ever to be excused or forgiven for ignoring'."

"The interpretation I place upon the President's reference to the relation of loans and taxation in the financing of our war, suggests the following rule - that taxation should be carried to the point where the remainder of the needed income of the Government can safely be provided out of the proceeds of loans, that is be provided without producing inflation of credit and prices. The clear inference I draw is that sound finance requires that the limits of taxation must be extended as borrowing reaches the limits of inflation."

"Briefly summarizing the economical and financial principles contained in the President's observations, I would state them as follows:

(1) well-conceived taxation;

(2) avoidance of inflation;

(3) strict economy through saving;

(4) organization and mobilization of all the country's economic resources."

"I beg you to observe that the President has pointed out the necessity of mobilizing, not a part of the country's economic resources, not so much as could be conveniently spared from private use, but '<u>all</u> the economic resources'."

Mr. Miller stated his opinion that it would require all of the economic resources of the country to bring the war to a speedy and victorious conclusion. In confirmation of this view, he stated some underlying facts bearing upon the economic costs of the war in terms of the man-power which it would require. "I have it on competent authority" said Mr. Miller "that it takes the labor of four men, working in industries of one kind or another producing military and other needed supplies, to maintain one soldier at the front. This means that an American army of one million men will require the output of four million men, working in factory, field, and foundry. If we should need to maintain an army of two million men at the front, eight million men will be needed, working at home to maintain, provision and equip them. I also have it on competent authority that the munitions, provisions and other maintenance that the armies and civilian populations of our Allies in Europe must have from us, will require the output of more than ten million laborers working in this country. If we accept as approximately accurate, the estimates of our present available labor supply as amounting to thirty million workers, the magnitude of the economic problems with which we are confronted is suggested by the requirement that one-half or more of our existing labor supply must, during the period of the war, be devoted to the producing of materials and supplies to be consumed by our own and the armies of our Allies and the civilian populations of the nations in Europe which are dependent on us for part of their necessary keep. This means that the civilian population of our own country will have to rearrange its mode of living so as to be able to get along with the products of the remaining labor power of the country - that is, about one-half of what has been customary - unless happily the labor forces of the country can be effectively recruited and augmented by the introduction of men and women who are not now to be reckoned among the productive classes of the community. In brief, as a nation more of us must work, and all of us must do more work and then consume less in order that we may have the requisite margin of disposable goods for the use of our army and our Allies. We can do this if we will, and it is doubtful whether we can win the war, or at any rate win it in short order, unless we raise our will power to a point where we compel ourselves to do it."

Turning to the subject of the money side of the war, Mr. Miller called attention to the nineteen billions, which Congress has authorized to be spent or advanced to our Allies for the fiscal year ending June 1918. "Never has any nation, either in this or any war, undertaken so vast an obligation in the same period of time. We are undertaking to spend in a single year almost two and a half times as much as any of the leading belligerents of Europe have spent since the beginning of the war."

"Can we manage this vast expenditure? What have we got to offset it in the way of the requisite financial resources? It must be clear to anyone who gives any serious attention to the financing of the war that the expenditures of the Government must come out of the income of the community. The limits within which any part of the burden of war costs can be shifted to posterity, are so narrow, especially for a country in our position with no countries from which it can borrow, that we must regard the whole burden as one that has got to be assumed and paid for as we go along, out of the product of the nations current industries - that is, out of its income.

Unfortunately, no official and authoritative estimate of the nation's present income has been made. Some widely used estimates at the beginning of the war placed the annual money income of the nation at forty billions or thereabouts. Such information and inquiry as I have been able to make, however, leads me to believe that this is an under-statement of the actual situtation. It is my present opinion that the current annual product of the country's business and industry or its current annual industrial and business income reaches to not less than fifty billions of dollars. How much of this stupendous amount may properly be regarded as surplus income - that is to say over and above what the people of the country must spend in order to keep themselves in a state of health, strength, and cheer - is a matter upon which opinions would probably differ. Our annual savings fund at the beginning of the war was variously estimated at from four to six billions of dollars - that means that out of the income of the country at that time, some four to six billions was not consumed by the owners of the income but was invested in extensions of industry - in other words, was an addition to the financial and industrial capital of the country. I do not offer it as anything more than my conjecture, but I am of the opinion that the momentous increase in the money income of the country in the past two years owing to the intensified demands for our products and uniformly high prices, has possibly increased the potential savings fund of the country by as much as ten billions of dollars - in other words that the country as a whole may be in a position to lay aside three dollars now for each one dollar that was laid aside or saved two or three years ago. This means that the annual actual and potential savings or investment fund of the country taken together may amount to as much as fifteen billions of dollars.

The war taxes which were imposed by the recent session of Congress, contemplated the raising of some two and a half billions, though there is some reason for believing that the yield of these taxes may considerably outrun the estimates. Obviously the Government can not borrow that which it takes by taxation. Current income is the source out of which both tax revenue and loan revenue is derived. If three billions are taken out of the annual surplus income of the country, which I have estimated as possibly fifteen billions, then it would appear that twelve billions could be raised by loans.

The authorized expenditures for the year, however, ran close to twenty billions and leave us with the problem of how the additional five billions or thereabouts are to be obtained.

To my mind, two extremely important considerations are presented by this situation; (1) can the vast sums which it is proposed to raise from loans be raised without causing an inflation of credit and prices, and (2) is it at all possible that the war should be carried on as an 'extra' - that is to say, that "business can be as usual" during the period of the war. No one who looks beneath the surface appearances to the hard and inexorable economic realities, can for a moment maintain the position that the war can be carried as an 'extra'. We can not carry this war as an extra and business can not be as usual during the period of the war if we mean to win."

"I can not believe", said Mr. Miller "that those who are sponsoring the doctrine of "business as usual" can appreciate the economic significance of the doctrine. This war, as the President told Congress and the people with rare prevision, will involve the 'organization and mobilization of all the material resources of the country to supply the materials of war'. The man who knowingly preaches the doctrine of "business as usual" at this time is, therefore, proposing that private advantage should be set against or ahead of public necessity. At this crisis in the Nation's life, every business, no matter what it's nature, is affected with a public interest and the public has the right, indeed owes it to itself, to determine within what limits that business shall be circumscribed in the interest of the war, or to what extent it shall be helped and fostered in the same interest. The American business system is on trial in this war. No one doubts its technical proficiency and it should not allow anyone in its ranks to raise a question regarding its competency to exercise vision and imagination seeing clearly what must be done by the nation in the way of change in our business and economic organization during the war, thus proving that it has the courage to make whatever individual sacrifices in the way of restraining private advantage that may be entailed. If it fails in rising to the occasion through cowardice, weakness or selfishness, it will have gone a long way toward sounding its death-knell and surrendering to other agencies the right of leadership in the great processes of economic re-construction which must take place at the close of the war.

Mr. Miller next took up the discussion of the question - Do Government loans cause inflation?

"Inflation from Government borrowing", said Mr. Miller, results when the Government undertakes to borrow faster than the people are willing or able to save. The loans of the Government must then be forced upon the banks, the banks pay for the loans with their credit, and thus there ensues an expansion of banking credit and currency. The inevitable effect on commodity prices is to raise them. It needs no extended argument in this day in America to demonstrate that banking credit in any of its forms is purchasing power, exerting the same effect on prices when used in payment for goods or purchases, as any other form of purchasing media. When purchasing media are produced faster than goods are produced - in brief, when the supply of currency and credit in its increase outruns the supply of purchasable goods - the prices of goods must rise. Whether such a condition is properly to be described by the invidious word inflation, the fact remains that the rise of prices of purchasable goods in such a situation is closely connected with the increased supply of purchasing media. Moreover, when the increase of purchasing media in the community, occasioned by the expansion of banking credit, follows upon the investment of banking credit in Government loans, the conclusion is irresistible that the expansion of credit and its resulting consequences, viz. - increased commodity prices are induced by bank lendings to the Government.

The process by which Government loans produce inflation is disclosed in the financial history of all the great European belligerents. All of these Governments, notably Germany, have made extensive use of banking credit in the flotation of their loans. Not only the great central banks, but the banks generally in the several European Governments, have been put under pressure to invest their credits largely in the purchase of Government securities. The London Economist characterizes the situation thus produced as 'financing forced on the banks by the Government'. An examination of the changes of condition of the banks of Great Britain, exclusive of the Bank of England, shows what the process has been. Their deposit liabilities, that is to say their checking accounts, have increased from 1913 to 1916 about 408 million pounds Sterling an increase of from 30 to 40 per cent. Their bills discounted on the other side of the statement show only a negligible increase, an increase of 7.7 million pounds Sterling. Their investments on the other hand, show an increase from 211 million pounds Sterling to 437 million pounds Sterling, an increase of over 225 million pounds Sterling, or 107 per cent. In view of all the circumstances and known facts, it may be said that the increase is made up chiefly, if not almost entirely of Government obligations, such as Treasury Bills, Exchequer Bonds, etc. In brief the expansion of banking credit in England is clearly disclosed by these figures to have been occasioned for the most part by the expansion of bank investments in Government obligations. A similar process has been at work in the other countries of Europe. The expansion of banking credit in France and Germany, however, has been mainly in the form of bank notes, rather than in bank deposits. Note circulation in France was increased from 1289.9 million dollars in August, 1914, to 4170 millions in October 1914, an increase for the period of over 223 per cent. The circulation of the Reichsbank of Germany has risen from 693 million dollars in August 1914, to 2,285 millions in October 1917, an increase of 230 per cent in the course of a little more than 3 years.

This increase in the note circulation of the great central banks of France and Germany has been occasioned largely by investments of credit in the obligations of their Government, and seem clearly to indicate that Government borrowings from banks have been a very great factor in the expansion of their note circulation. Doubtless other causes have contributed to the ~~larg~~ loan expansion of bank liabilities in Europe, but no one cause has been a greater factor than the investment of bank credit in Government loans.

Whether a similar result is to be expected here in connection with our greater Government borrowings, and if so how soon, will largely depend upon whether all the people who have income enough to save will save, or whether they can be or will be made to save enough out of their incomes to absorb such loans of the Government as may be put out in excess of the current savings fund of the nation.

The obligations of a Government, such as the United States, when considered purely from an investment point of view, are unquestionably the most eligible sort of investment.

A commercial bank in a country like ours, making daily use of mobile banking credits is not to be likened to an investment institution in the ordinary sense of the word. Its capital is but a small part of its investment power. It invests its credit butthe safe investment of credit necessarily restricts its choice of securities to those which are of unquestionable liquid character. The objection to considerable investments by banks of their credit in investment secutities, such as Government bonds, arises not out of any question as to the quality and solidity of such securities, but rather because of their lack of liquidity. The history of modern banking has demonstrated over and over again that a distinction must be made between security and liquidity, or value and availibility in determing the kind of investments fitted for banks which deal in their credit. There are many forms of investment paper which from the point of security leave nothing to be desired, but which are unsuitable as a basis for the creation of a great body of curreçny or of banking credit.

The doctrine set forth in the famous English Bullion report, which came in the midst of the controversies growing out of the management of the Bank of England's circulation during the Napoleonic Wars, whose truth has been attested by the experience of every modern nation, is that two things are necessary to protect banking currency and banking credit against the danger of undue expansion. One of these is the maintenance of adequate reserves; the other is the maintenance of adequate liquidity of investments. By liquid investments, is meant bank paper which liquidates itself in short periods of time out of the proceeds of the transactions which have given rise to the paper. That is to say, paper which grows out of transactions in trade and industry connected with the production or distribution of goods, which as they come to maturity in the normal movements of trade and industry supply the funds out of which the borrowings of credit at banks can and will be repaid. Self-liquidating paper being, therefore, paper which is connected with productive operations in industry, that is to say, operations which result in an increase in the supply of salable goods, it follows that the same transaction, which giving rise to an increase in the supply of purchasing media by the expansion of the bank's credit, also gives rise to an increase in the supply of purchasable goods, - in brief, the two go pari passu.

But when a bank invests its credit in the purchase of Government bonds which are issued for the purposes of war, - in brief for operations that result in the consumption and destruction and, therefore, the diminution of goods, - we have a condition in which there has been an addition to the volume of outstanding banking credit and purchasing media with nothing to offset it on the shelves of the shopkeeper, or the ware-houses of manufacturers. In brief, transactions in credit of this sort are not connected with operations affecting the production of goods. In war time Governments borrow not for the purpose of producing goods, but for the purpose of getting possession of goods already produced, or being produced, whose production is otherwise financed.

There is much misconception with regard to the meaning of 'bank resources' and the significance of increases of banking resources. From the point of view of the lending bank, an obligation of the solvent debtor is a resource; from an economic point of view, however, only that is a resource which in its existing state, either is or is in the process of becoming a usable good. When, therefore, banks are investing their credit extensively in Government securities, there may be a very great increase in the banking resources of the country, without any increase in the country's actual and economic resources.

Since prices, that is to say commodity prices, depend upon the ratio of purchasing power to purchasable resources in the shape of consumable goods, it follows that an increase of bank resources not offset somewhere by an increase of economic resources, must and will lead to a rise of prices.

It can hardly be doubted, in view of the known facts, that the great increase of prices which is being experienced throughout the belligerent countries of Europe is, in a large measure, due to multiplication of means of purchase and payment, by their banking systems, more rapidly than the multiplication of the goods available for purchase. For can it be doubted that a considerable part of the rise of prices, that we have experienced in our own country since the beginning of the European War, has been largely induced by the great body of new banking credit created, which has outrun in its expansion the productive output of the Country. Moreover, the rise has continued since our entry into the war. The index figures for wholesale prices show that while wholesale prices in April 1917 were 74 per cent higher than in July 1914, they were 89% higher in July 1917. Doubtless if later figures were available they would show that the forward march of prices continues. The rise of prices therefor in this country is slight when compared with what it has been in the countries of Europe. The price index compiled by the London Economist shows an increase up to September 1917 of 120 per cent, as compared with July 1914. Causes, not dissimilar, have been operating to produce the rise in those countries. It is estimated that bank deposit credits in the United States since our entry into the war, have increased from about 30.7 billions to 34 billions, an increase of three billions three hundred millions. The increase in loans and investments for the same period is $3,500,000,000. I am forced to think in view of these facts that inflation is already at work in the country, and that in this matter of inflation we are confronted by a condition and not a theory. If we examine the condition of the Federal Reserve Banks for the same interval of time, we get some light upon one of the factors that has sustained the expansion of banking credit. Between the 6th of April and the 26th of October, Federal Reserve Banks have increased their holdings of bills discounted and purchased by the amount of $475,000,000.00. When you recall that the Reserve banks are bankers banks, and that, therefore, investments of the Reserve Banks in discounted or purchased bills shown on the books of the Reserve banks as reserve credits, appear on the books of the member banks as reserves it is at once evident that the $475,000,000 increase in Reserve bank investments at a ratie of $1.00 of reserve credit extended by a Reserve bank to $7.00 of credit loaned by the member bank to its customers would raise the bank deposits of commercial banks by about $3,300,000,000 for the same period of time. If this rise continues, it is not unreasonable to expect that before long the Reserve System will be made into a great engine of banking inflation. Its possibilities in this direction are vast. The twelve banks composing the Federal Reserve System have an aggregate capacity of credit expansion of about two billion dollars. If we assume that one dollar of Reserve bank credit increased seven fold when transmuted into credit of a member bank extended to its customers, it is clear as a proposition of bookkeeping arithmetic that the Federal Reserve banks and member banks of the Federal Reserve System have an additional credit capacity of some fourteen millions of dollars. The question which I believe the Country must soon face is whether it will be -: the part of financial prudence for us to finance our Government loans by an expansion of banking credit with accompanying inflation or whether it will be better to pursue the course of converting the potential savings fund of the nation into an actual savings fund of sufficient magnitude to absorb the loans of the Government.

This survey establishes the following conclusions:

(1) The ultimate terms of our war financing must be, not money, but what money will buy.

(2) Vast as our proposed expenditures and advances are, there is reason to believe that they can be met without the use of any doubtful or wasteful expedients of finance; for there is reason to believe that our annual income may amount to as much as fifty billions a year and be capable of yielding a saving fund which can be appropriated by the Government through its

loans and taxation to the amount of fifteen billions of dollars.

(3) The war cannot be carried as an extra and business cannot be as usual.

(4) Any attempt to carry the war as an extra would pave the way for an abuse of loans and a certain inflation of credit and prices which in the end would increase the probable cost of the war by as much as twenty-five per cent, through the enhanced prices which the Government would have to pay for all supplies purchased.

(5) Government bond-issues, to be safe, must be bottomed upon real savings. Intensive and discriminated savings and methods of promoting thrift are necessary ingredients in any effective program of war finance.

(6) A similar necessity exists for the effective mobilization of the industrial power of the country. The right of way must be given to industries thatare tributary to the war needs of the Government. Priority of industry is therefore definitely indicated as an essential part of a good financial policy.

(7) Working to the same end, is priorty of credits, the different industries of the country having priority upon the fluid credit of the Federal Reserve System in the order of their importance (embargo of credit to non-essential enterprises) Such a priority is consistent with the spirit of the Federal Reserve Act which in one of its most fundamental clauses directs that rates "shall be fixed with a view of accomodating commerce and business". War now being the nation's business, it would be proper for the Federal Reserve Board and Banks to fix discounts rates with a view of

accomodating commerce and business to the degree in which it contributes to war production.

(8) The need of a well informed economic strategy for the purpose of co-ordinating the industrial activities of the United States and those of our Allies so as to weld the population of all these countries into one great whole as a fighting machine, through the conversion of the needed raw materials and manufactured supplies into gun powder at the front. This is a war of blood and iron.

FEDERAL RESERVE BOARD

WASHINGTON

X-463

DIVISION OF REPORTS AND STATISTICS

November 1, 1917.

Dear Sir:

With reference to inquiries from several Federal Reserve banks as to proper description on Form 104 of certain transactions in connection with the loan operations of the Government, it is suggested that the following changes and additions be made in the form:

Under liability item 9 "U. S. Treasury Certificates of Indebtedness received from Treasury Department" add a new liability item as follows. "Reserve Bank temporary receipts issued". This new item should be used as an offsetting account against asset item "Reserve Bank temporary receipts delivered to subscribers". These two items will be gradually extinguished, as the outstanding certificates are returned for cancellation.

After item 9 on the asset side "U. S. Treasury Certificates of Indebtedness -" add the words "on hand". This is intended for the use of those banks which have issued their own receipts to some of their customers and are holding the Certificates of Indebtedness in their own vaults.

With reference to the second block of the form it is requested that liability item 5 "U. S. Treasury Certificates of Indebtedness - Allotted" show the gross amount of Certificates beginning with the issue of August 9.

This modifies somewhat our previous instruction of October 17, that this account show total amounts of certificates allotted less amounts redeemed by the United States Treasurer.

Yours Very Truly,

Secretary.

Federal Reserve Agent,

Duplicate to preceding letter of Nov. 1, 1917.

Stencil X-468

KNOW ALL MEN BY THESE PRESENTS:

That we ______________________________, of ________________________

__________________________ as principal, and ________________________

____

____

____

as suret__, are held and firmly bound unto the UNITED STATES OF AMERICA in the full and just sum of ______________________________ ____________________ dollars ($________________) lawful money of the United States; for which payment, well and truly to be made we bind ourselves, jointly and severally, our joint and several heirs, executors, and administrators, successors and assigns, firmly by these presents.

Sealed with our seals, and dated this ______________ day of ________________, in the year one thousand nine hundred and ______.

The condition of the above obligation is such, That whereas under authority of an Act of Congress approved ____________________ __________, 1917, the said ____ has filed an application with the Secretary of the Treasury, through the Federal Reserve Board, for a license to export the sum of $____________________________ in gold to ____________________ __________________________ to be used for the following purposes:

____

____

____

WHEREAS, upon the recommendation of the Federal Reserve Board, the Secretary of the Treasury has authorized the issuance of such license, upon the condition, however, that the applicant shall file with the Federal Reserve Board a bond running to the United States in the penal sum of $____________________ executed by the applicant as principal and by a surety approved by the Federal Reserve Board and conditioned upon the submission to the Federal Reserve Board within ninety days from date of satisfactory evidence that said gold has been used for the purposes above enumerated in the application.

NOW, THEREFORE, if the said __________________________ ________________ shall, within ninety days from date, furnish to the Federal Reserve Board through the Federal Reserve Bank satisfactory evidence that the gold exported under the license referred to has been used for the purposes indicated in the application and above set forth and for no other purposes, such evidence to be in the following form, to wit:

____

_________________________ ___________________________

Then this bond shall be void and of none effect, otherwise it shall remain in full force and effect.

Signed, sealed and delivered in
the presence of -

__________________________)

__________________________) __________________________

SUGGESTED TOPICS FOR DISCUSSION BY

THE FEDERAL ADVISORY COUNCIL, NOVEMBER 19, 1917.

1. DISCOUNTS AND INVESTMENTS:

1. Should member banks make a practice of discounting their own acceptances.

2. Suspension of commodity rates and reasons therefor.

3. Is it desirable and necessary that preferential rates be established for customers' paper running not longer than ninety days, which is secured entirely by United States bonds or Treasury certificates.

4. General discussion of assistance to banks and savings banks especially in carrying investments in railroad and corporate bonds.

   (a) What means, if any, are there of affording adequate relief under the present law.

   (b) Should the Federal Reserve Act be amended so as to permit the rediscount by Federal Reserve Banks of notes secured by bonds of railroad or industrial corporations.

   (c) Discussion of an alternative plan.

II. CAPITAL AND RESERVE REQUIREMENTS.

1. Should the Federal Reserve Act be amended so as to allow state banks which were in existence on November 16, 1914, to become members of the Federal Reserve System, although their capital be less than national bank requirements.

2. Should the Board be given authority to exempt from the reserve requirements imposed upon banks in reserve and central reserve cities, banks not located in the business centers whose business is largely local, and which do not receive accounts from other banks.

(Note) - The Board has received numerous requests that it ask Congress to modify the existing law in the manner above indicated, but so far has reached no conclusion in the matter. What would the Council advise?

III. GOLD EMBARGO:

(Note) - The Board has been charged with the duty of advising the Treasury in matters relating to foreign exchange, and to exportations of gold, and it would like to have the opinion of the Council in the following matters:

1. To what extent, and for what purposes should gold be released for shipment to other countries.

2. Should the stabilization of sterling exchange by purchases of sterling bills in this country be continued.

3. Effect of the stabilization of sterling upon dollar exchange.

4. Should any attempt be made to stabilize dollar exchange in countries of continental Europe, such as Sweden, Holland, Switzerland, and Spain.

5. Should an effort be made to bring the dollar back to its parity in South American countries.

6. Exchange relations with Canada.

   Should unrestricted shipments of gold to Canada be permitted, or if limited what arrangements can be made to continue normal trade relations with Canada and to facilitate the movement of Canadian crops.

IV. TREASURY CERTIFICATES OF INDEBTEDNESS:

1. What means should be availed to secure a more general distribution of Treasury certificates of indebtedness.

TOPICS FOR DISCUSSION AT THE CONFERENCE WITH

GOVERNORS OF FEDERAL RESERVE BANKS, NOVEMBER 8, 1917.

I. RELATIONS WITH TREASURY AND FISCAL AGENCY MATTERS:

1. Liberty Loan Bonds.

(a) Report of experiences in each district.

(b) Brief outline of organization and suggestions for the next campaign.

(c) Member banks as depositaries for proceeds of loan.

2. Treasury Certificates of Indebtedness.

(a) Extent of participation in each district.

(b) Suggested plans for underwriting future issues of these certificates and necessity of efforts to secure more general distribution of them.

(c) War savings certificates and stamps.

3. **Payment of coupons by Federal Reserve banks.**

II. CONCENTRATION AND CONSERVATION OF GOLD:

1. More effective cooperation by subtreasuries.

(a) Steps to be taken for providing them with currency other than gold certificates, in exchange for gold coin and certificates, in order that subtreasuries may make their payments in other forms of currency.

2. Board's circular letter (X-426) October 10th with reference to the redemption of unfit currency.

3. Light weight gold coin.

(a) Board's circular letter (X-399) September 22, 1917

4. Gold embargo.

   (a) Its effect upon foreign exchanges.

   (b) To what extent should gold be released for shipment to other countries; and for what purposes.

   (c) To what extent are the regulations being evaded.

   (d) Facilities in each district for passing intelligently upon applications.

III. <u>DISCOUNTS AND INVESTMENTS:</u>

1. Importance of member banks refraining from discounting their own acceptances.

2. Suspension of commodity rates and reasons therefor.

3. Member banks' fifteen-day collateral notes secured

   (a) By eligible paper

   (b) By United States Bonds and Treasury Certificates

4. Stamp tax on notes secured by United States bonds.

5. Advance in discount rates.

   (a) Whether desirable or necessary, and should preferential rates be established for rediscounts running not longer than ninety days, secured by United States bonds and Treasury certificates.

IV. <u>BRANCHES OF FEDERAL RESERVE BANKS:</u>

1. Reports on existing branches.

2. Discussion of new type of branch agreed upon in the Cleveland district and considered in other districts.

V. CHECK CLEARING AND COLLECTION TRANSFERS AND EXCHANGE.

1. Discussion of the development of clearance of checks through Federal Reserve Banks.

   (a) Are any modifications in the per item charge desirable.

   (b) Should there be daily settlements in the Gold Clearing Fund.

2. Should time allowance schedule be readjusted to prevent accumulation of float.

3. Limit to which Federal Reserve Banks should invest their funds in float.

   (a) What statistics necessary for keeping this item under close supervision.

4. Use of Federal Reserve transfer checks.

   (a) Charges on transfers of this kind in moderate amounts; charges on large transfers by mail and by telegraph.

VI. REPORTS, EXAMINATIONS, AND STATISTICS:

1. Equalization of reserves against notes and deposits.

   (a) Proper method of effecting same.

2. Weekly reports by all member banks in the larger cities and discussion thereon.

   (a) Uniform cards to be used by all Federal Reserve Banks for these reports.

   (b) Importance of these statistics which the Board proposes to publish henceforth.

3. Reports and examinations of member state banks and trust companies.

4. Extent to which clearing house examinations may be merged with Federal Reserve examinations. (Mr. Broderick's memorandum on this subject).

5. Importance of devising proper system of tabulation of member state bank and trust company reports in each district. Should these reports at present be limited to banks in the larger cities?

6. Form of report which must be made to Federal Reserve Banks by member state banks and trust companies three times a year.

   (Date of these calls to correspond with three of the Comptroller's calls for national banks.)

7. Circulars to member banks issued by Federal reserve agents and by governors of Federal Reserve Banks.

   (a) The Board should have for its files copies of all circulars sent out by the Federal Reserve agents and by the Federal Reserve Banks, and in cases where circulars are issued by banks two copies should be given to the Federal Reserve agent, one for his files and one for transmittal to the Federal Reserve Board.

8. Railroad and corporate bonds held by member and nonmember banks, especially by savings banks.

   (a) General discussion of this situation, with suggestions as to means, if any, of affording relief.

VII. <u>CAPITAL AND RESERVE REQUIREMENTS:</u>

1. Should the Federal Reserve Act be amended so as to allow state banks which were in existence on November 16, 1914, to become members of the Federal Reserve System, although their capital be less than national bank requirements.

2. Should the Board be given authority to exempt from the reserve requirements imposed upon banks in reserve and central reserve cities, banks not located in the business centers whose business is largely local, and which do not receive accounts from other banks.

VIII. STATE BANK MEMBERSHIP:

1. American Bankers Association committee to promote membership.

2. Names of friendly state bankers to go on committee in each state.

IX. DIVIDENDS:

1. Policy to be pursued in view of decline in market value of bonds held.

X. NOTE ISSUES:

1. Should additional order be entered for printing of notes.

2. Discussion as to pledge of commercial paper with Federal Reserve agent, and endorsement back to bank by him of such paper for collection.

FEDERAL RESERVE BOARD
WASHINGTON

Memorandum:

In re - Clearing House Examinations.

In nineteen cities members of the Clearing House Association and nonmembers with clearing privileges are subject to examination by the Clearing House Examiner, usually once each year. The examination is thorough, particular attention being paid to the loans, discounts and credits of the bank. After each examination a copy of the examiners report is delivered to the bank for the information of the directors. In case an unsatisfactory condition is disclosed, the report is called to the attention of the Clearing House Committee.

Clearing House Examinations have proven very effective in the elimination of unsatisfactory assets and the correction of unsound tendencies in institutions under criticism. While no disciplinary power is vested in the Clearing House Committee, still it was in a position to recommend the discontinuance of clearing privileges which in itself would be a public notice of unsatisfactory condition.

In Spokane the Clearing House Examinations are now being made under the supervision of the Federal Reserve Branch, the manager being the Clearing House Examiner. In Portland, it is apparently the intention to have the examinations under the supervision of the Portland Branch of the Reserve Bank. The Clearing House Association at Seattle is desirous of having the local branch undertake the examination of Clearing House member banks in that city.

In view of the fact that Reserve Banks or Branches are located in at least two-thirds of the cities where Clearing House examinations are now conducted, and further that a majority of the Clearing House members in those cities are members of or maintain clearing balances with the Reserve Bank, it is quite likely that the question of the Reserve Bank undertaking the supervision of the Clearing House Examinations is likely to be suggested to the Board in the near future for consideration.

If the Clearing House Examinations are to be undertaken by the Reserve Banks with the approval of the Federal Reserve Board, it should be definitely understood that the responsibility for such examinations shall be vested solely in the Federal Reserve Bank and not in the Clearing House Committee. Dual control or supervision will prove very unsatisfactory. In the appointment of examiners, while it would be well to consider the suggestions of the Clearing House Association, still the Reserve Banks, subject to the approval of the Reserve Board, should appoint the examiners and have the supervision of all examinations.

With reference to the expense of maintaining the examining department, there seems to be no reason why the present joint fee system should not be continued if agreeable to the Clearing House Banks, otherwise the cost of examination should be assessed upon the bank examined, as provided for in the Federal Reserve Act. The Reserve Bank should be free to assign men in the examining division to other duties or assign them to make examinations of institutions in other cities. Reports of examinations should be filed with the Federal Reserve Bank and if an unsatisfactory condition is disclosed, the matter should be handled by the Reserve Bank officials and not the Clearing House Committee. National Banks are now examined efficiently twice each year. If a further investigation is to be made, it should be limited to loans, credits, and investments, unless a complete examination is requested by the bank under examination.

Unless it is possible to make an arrangement as outlined above, the Clearing House examinations should not be undertaken by the Reserve Banks. The Reserve Banks should have in its files information as to the condition of all state banks and of banks maintaining clearing accounts with it. For that reason in the event of the examinations not being undertaken by the Reserve Bank, it would be well to arrange a system of cooperation with the Clearing House Associations whereby copies of reports of examinations should be given to the Reserve Bank for its files. Under such a plan it would be possible and desirable to designate a local Clearing House Examiner to act as Special Federal Reserve Examiner in the examination of State Member Banks and State Banks maintaining clearing accounts with the Reserve Banks, so that examinations made by him might be accepted in lieu of special examinations made by examiners of the Board or of the Federal Reserve Bank. This is desirable particularly in instances where it has not been possible to make satisfactory arrangements with the State Banking Commisioners, or where the report of the Clearing House examination would be preferable to that of the State Banking Commissioner.

Reserve Banks should have definite data as to condition, before permitting a nonmember bank to open a clearing account for the reason that the public is likely to assume that the Reserve Bank is satisfied with financial condition of such nonmember bank.

Respectfully submitted,

(Signed) J. A. BRODERICK.

FEDERAL RESERVE BOARD

WASHINGTON

X-476

November 6, 1917.

Dear Sir:-

For some weeks past the Board has been making an analysis of the items constituting the "float" and has ascertained in the case of each Federal Reserve bank the percentage that this float bears to total earning assets and to deposits. Reference is made to the table attached hereto, from which it will be seen that these percentages are by no means uniform, but that there are wide variations. In some instances the amount of the float is entirely out of proportion to what it should be and it should be remembered that investments in float weaken the loaning power of the Federal Reserve bank because it is a nominal or unavailable asset which cannot be used as security for the issue of Federal Reserve notes. However, the present figures cannot fairly be used as a basis for definite conclusions, because of the abnormally large transfers which are now being made for government account; and normal conditions are naturally obscured or affected by the loan subscriptions now in process of settlement. But the Board proposes to continue its analysis, which will, in the course of time, show more clearly the real conditions at each bank. The attached sheet is sent you for the purpose of directing the attention of your officers and executive committee to the problems involved, and with the request that careful consideration be given to the best methods of reducing the bank's investment in float. The Board wishes to be advised at your early convenience as to the interest rates adopted by your bank in dealing with transfers, purchases of checks or bills for collection and similar items which constitute float. In the opinion of the Board this rate of interest should approximate the fifteen day interest rate, and in cases where the bank is inclined to invest too large a proportion of its funds in float, it might be even higher.

Very truly yours,

Governor.

Chairman,
Federal Reserve Bank,

RATIO OF "FLOAT" OF EACH FEDERAL RESERVE BANK TO EARNING ASSETS AND DEPOSITS
OCTOBER 12, OCTOBER 19, AND NOVEMBER 2, 1917.

FEDERAL RESERVE BANK		BLOT Clearing House Exchanges	BAIT Transfers	All other	Total uncollected Items Dr.	Total collected Items Cr.	Total "Float"	Ratio of "Float" to total earning assets	Ratio of "Float" to Govt. and bank deposits
Boston,	October 12	514	385	14,909	15,808	13,785	2,023	4.9	2.6
	October 19	1,181	3,050	18,698	22,929	21,433	1,496	3.9	1.9
	November 2	882	2,190	14,111	17,183	12,494	4,689	12.1	5.5
New York,	October 12	90,395	. ...	41,523	131,918	35,198	96,720	41.7	15.6
	October 19	14,647	. ...	47,696	62,343	43,597	18,746	8.6	3.3
	November 2	36,722	. ...	44,278	81,000	49,351	31,649	8.8	4.5
Philadelphia,	October 12	3,601	. ...	27,080	30,681	26,139	4,542	14.9	6.0
	October 19	7,850	. ...	33,420	41,270	32,663	8,607	30.7	11.8
	November 2	2,547	. ...	31,817	34,364	29,072	5,292	16.4	6.6
Cleveland,	October 12	650	750	13,433	14,833	12,470	2,363	5.2	2.2
	October 19	1,267	720	17,268	19,255	15,790	3,465	8.3	3.7
	November 2	818	1,142	15,777	17,737	13,680	4,057	7.5	3.7
Richmond,	October 12	484	. ...	15,959	16,443	13,952	2,491	11.3	6.2
	October 19	1,679	. ...	21,261	22,940	15,494	7,446	37.0	18.2
	November 2	2,751	. ...	17,365	20,116	14,692	5,424	25.1	9.7
Atlanta,	October 12,	815	. ...	13,096	13,911	8,890	5,021	26.4	16.0
	October 19,	1,825	. ...	19,634	21,459	11,432	10,027	46.6	29.5
	November 2,	2,519	. ...	14,986	17,505	8,885	8,620	32.6	23.1

2899

Chicago,	October 12,	2,725	15,628	17,054	35,407	19,861	15,546	21.2	9.1
	October 19,	591	21,678	22,684	44,953	23,511	21,442	30.2	12.2
	November 2,	737	21,937	19,353	42,027	19,330	22,697	22.2	12.6
St. Louis,	October 12,	126	1,790	15,354	17,270	17,793	523	.	.
	October 19,	325	4,366	15,088	19,779	13,650	6,129	24.6	11.3
	November 2,	385	3,155	15,544	19,084	14,129	4,955	16.0	9.0
Minneapolis,	October 12,	479	3,202	4,627	8,308	4,445	3,863	28.1	9.0
	October 19,	...	7,395	6,337	13,732	4,587	9,145	60.6	20.6
	November 2,	...	5,749	8,946	14,695	4,516	10,179	49.3	17.8
Kansas City,	October 12,	26	5,568	8,744	14,338	9,840	4,498	13.7	6.4
	October 19,	194	6,632	12,348	19,174	11,715	7,459	22.4	9.9
	November 2,	71	5,269	10,762	16,102	10,027	6,075	12.4	8.0
Dallas,	October 12,	9	5,488	7,056	12,553	5,019	7,534	35.0	19.1
	October 19,	90	13,505	8,426	22,021	6,192	15,829	67.7	36.8
	November 2,	103	9,632	9,809	19,544	5,664	13,880	55.9	26.4
San Francisco,	October 12,	692	2,720	6,323	9,735	6,433	3,302	13.0	4.7
	October 19,	2,804	9,585	10,058	22,447	9,984	12,463	49.5	16.3
	November 2,	1,464	6,893	10,187	18,544	9,971	8,573	26.7	9.8
TOTAL	October 12,	100,516	35,531	185,158	321,205	173,825	147,380	25.3	10.6
	October 19,	32,453	66,931	232,918	332,302	210,048	122,254	21.8	9.1
	November 2,	48,999	55,967	212,935	317,901	191,811	126,090	16.0	8.0

0062

F E D E R A L R E S E R V E B O A R D
WASHINGTON

In re - Interest charge. Transfer Drafts Bought and Sold.

Reserve banks receive from member banks for deferred credit bank (transfer) drafts, at face value. If immediate availability is desired the drafts are purchased at the so-called market rate; and credit is given upon the books of the reserve bank. If purchased from a nonmember bank which does not maintain a clearing account with the reserve bank payment is made by cashiers check.

In the purchase of transfer drafts, the reserve bank is investing a portion of its available funds, the discount is the interest return upon the funds so invested. As a general rule the so-called market rate is based upon the 2% interest received on daily balance maintained by the drawing bank with its out of town bank correspondent. A second element is the cost of shipping currency which acts as an automatic check upon the discount or premium on transfer drafts. In Dallas for instance at certain periods of the year, a premium is paid for transfer drafts on New York and Chicago, the demand apparently being greater than the supply.

Transfer draft transactions have been a source of considerable profit to a number of the reserve banks, but an analysis will show that the rate of return upon the average sum invested has been extremely low. For instance in San Francisco, prior to the adoption of the new schedule of charges, a large amount was invested in transfer drafts at 20 cents discount. As it takes at least 5 days to collect New York items, this figure was equivalent to an interest charge of about $1\frac{3}{4}$% per annum. It was more profitable for a bank to sell drafts against its uncollected items in transit at this rate and so replenish its reserves rather than to discount its promissory note. It was preferable for a member bank to sell part of its float rather than a telegraphic transfer. Under the new schedule, the rate for the present will be 10 cents per day per \$1,000, equivalent to 3-5/8% per annum. This rate will be raised if the volume offered seriously affects available funds necessary to meet the discount demands of member banks.

General Comment

In the opinion of the undersigned the reserve bank must be prepared at all times to purchase both telegraphic and mail transfers and transfer drafts from its members, as this is one of the principal means a bank has of replenishing its reserve with the Federal reserve bank. However, the rate of interest charged on mail transfers and transfer drafts should be sufficiently high to encourage the use of discount facilities.. The purchase of a transfer draft is an extension of credit without security and for that reason, it would be well to adopt the principle of limiting the purchases from any one bank to a sum equal to the collected or reserve balances carried by such bank with the Federal reserve bank.

In the past heavy purchases were made of non-member banks. In the future it would be well to make no purchases from any non-member bank unless such bank carries a clearing account with the reserve bank, the outstanding uncollected drafts so purchased not to exceed at any one time the collected or reserve balance carried with the reserve bank.

J. A. BRODERICK.

November 1, 1917.

October 31, 1917.

AVERAGE AMOUNT OF TRANSFERS HELD BY THE FEDERAL RESERVE BANKS; EARNINGS AND RATE OF EARNINGS THEREON FOR THE MONTH OF SEPTEMBER, 1917.

M I N N E A P O L I S

Total of daily holdings for the month, as shown on Form 34	Daily average holdings for the month	Earnings for the month	Annual rate of earnings
$109,719,624.26	$3,657,320.81	$7,129.00	2.37%

D A L L A S

136,533,472.74	4,551,115.76	2,453.05	.658%

C H I C A G O

320,591,833.75	10,686,394.46	12,969.55	1.48%

S T. L O U I S

46,868,543.41	1,562,251.45	3,782.27	2.94%

K A N S A S C I T Y. (only)

114,779,474.88	3,825,982.50	1,637.03	.521%

S A N F R A N C I S C O

206,535,000.00	6,884,500.00	6,877.00	1.22%

FEDERAL RESERVE BOARD
WASHINGTON

Memorandum for the Board:

In re - Weekly Reports of Condition of Member Banks.

It is respectfully recommended that the Board consider the advisability of having member banks doing business in the cities listed in the attached memorandum, furnish weekly reports of material items as follows:

1. United States Securities owned.
2. Loans secured by United States bonds and certificates.
3. All other loans and investments.
4. Cash in vault.
5. Net Deposits:
   (a) Demand
   (b) Time
6. Reserve with Federal Reserve Bank.

These reports would be received from banks doing business in 82 cities, the number of banks reporting would probably be between 550 and 600. It is intended that the figures be reported to the local Federal Reserve Bank at the close of business Friday of each week and that a summary be made and telegraphed to the Reserve Board for publication at the time of the issuance of the weekly statement on the following Saturday. The point may be raised that the clearing house figures published weekly in a number of cities give the information which the suggested report calls for. That is partly true, but figures are published in but few cities. What is desired is a composite picture of current banking conditions in the principal cities of all of the Federal Reserve districts; figures which will be available within one week of the day of report and which will by a weekly comparison of material items, give a good index to the trend of business in the country. After the plan has been in operation say three or four months, it might be deemed advisable to extend it so as to include all member banks, but in such a case, a monthly report from member banks outside of the cities referred to will suffice.

Respectfully submitted,

J. A. BRODERICK

There is attached hereto

1. List of cities.
2. Copy of suggested report.
3. Sundry other forms suggested for use in compilation of the figures.

November 3, 1917.

WEEKLY REPORT OF MEMBER BANKS.

Federal Reserve Bank of ______________________

Statement of Condition of ______________ Bank of __________

as shown by books at the close of business ____________ 191 .
(Thousands only)

1. United States Securities owned $

2. Loans secured by U. S. Bonds
and certificates.

3. All other loans and Investments.

4. Reserve with Reserve Bank.

5. Cash in vault.

6. DEPOSITS Net

Demand Deposits *
Time Deposits
Total Deposits

* i. e. Net amounts on which reserve is computed

I certify that the above statement is correct.

____
Cashier.

NOTE. This report is to be signed by an officer of the Member Bank, and forwarded to the Head office of the Federal Reserve Bank after the close of business on Friday of each week. (Report in thousands)

WEEKLY REPORTS SHOULD BE REQUIRED OF BANKS DOING BUSINESS IN CITIES LISTED BELOW:

District.	RESERVE CITIES.	OTHER LARGE CITIES.
No. 1	Boston, Mass	Hartford, Conn. Providence, R. I. New Haven, Conn. Springfield, Mass.
No. 2	New York, N. Y. Brooklyn, N. Y. Albany, N. Y. Buffalo, N. Y. (Jan. 1,1918)	Newark, N. J. Rochester, N. Y. Syracuse, N. Y. Jersey City, N. J. Bridgeport, Conn.
No. 3.	Philadelphia, Pa.	Scranton, Pa. Camden, N. J. Wilmington, Del.
No. 4.	Cleveland, O. Pittsburgh, Pa. Cincinnati, O. Columbus, O. Toledo, O. (Jan. 1,1918)	Erie, Pa. Canton, O. Youngstown, O. Dayton, O.
No. 5.	Richmond, Va. Baltimore, Md. Washington, D. C. Charleston, S. C.	
No. 6.	Atlanta, Ga. New Orleans, La. Nashville, Tenn. Chattanooga, Tenn. Birmingham, Ala. Savannah, Ga.	Jacksonville, Fla. Knoxville, Tenn.
No. 7.	Chicago, Ills. Detroit, Mich. Milwaukee, Wis. Indianapolis, Ind. Des Moines, Ind. Sioux City, Iowa. Cedar Rapids, Iowa. Dubuque, Iowa. Grand Rapids, Mich. (Jan. 1,1918) Peoria, Ills. (Jan. 1,1918)	Joliet, Ills.

District	RESERVE CITIES	OTHER LARGE CITIES.
No. 8.	St. Louis, Mo. Louisville, Ky. Memphis, Tenn. (Jan. 1, 1918)	Evansville, Ind.
No. 9.	Minneapolis, Minn. St. Paul, Minn.	Duluth, Minn.
No. 10.	Kansas City, Mo. Omaha, Nebraska. Denver, Colo. St. Joseph, Mo. Lincoln, Nebr. Kansas City, Kansas. Topeka, Kansas. Wichita, Kansas. Pueblo, Colo. Muskoge, Okla. Oklahoma City, Okla.	Tulsa, Okla.
No. 11	Dallas, Texas. Houston, Texas. Ft. Worth, Texas. San Antonio, Texas. Waco, Texas. Galveston, Texas.	
No. 12.	San Francisco, Cal. Los Angeles, Cal. Portland, Oregon. Seattle, Washington. Spokane, Washington. Tacoma, Washington. Salt Lake City, Utah. Ogden, Utah. Oakland, Cal. (Jan.1,1918)	

FEDERAL RESERVE BOARD

X-482

WASHINGTON

Dear Sir:

Your letter of addressed to the Secretary of the Treasury in reference to foreign exchange has been referred to this office for reply.

In the opinion of the Board the conditions of which you complain are due not so much to the depreciation of American gold in foreign countries as to the decline in the value of dollar exchange in those countries; which decline, however, has been less than the drop in francs and sterling exchange in the same countries.

It should be borne in mind that the transfer to the United States of large amounts held to the credit of foreign drawers in neutral countries with the banks of the nations which are associated with us in this war, such as France and England, has resulted in an accumulation of funds and credits in this country subject to the order of foreign drawers, which far exceeds the credits available for American banks in the leading neutral countries. This situation might be relieved to a certain extent by reducing to the minimum our imports of goods from these neutral countries, and it could be entirely relieved,

(1) By the shipment of goods in sufficient volume to neutral countries, which goods, however, are badly needed here at home, as well as by our allies; and

(2) By the shipment of gold in sufficient amounts to offset foreign credits here;

Provided the shipments of goods and gold were in sufficient volume to cover not only our own purchases in foreign countries, but also the adverse trade balance of the countries allied with us.

The embargo which was declared in the President's proclamation of September 7th is designed to make available for our own purposes and for our allies, a maximum amount of food stuffs, munitions, and supplies, and to prevent these commodities from falling into enemy hands; and the embargo on gold shipments is likewise designed to prevent any depletion of our gold reserves in the United States, which must be built up as a basis for our constantly expanding volume of loans and credits, as well as to prevent this gold from finding its way through neutrals into enemy hands, thereby strengthening the financial structure of the nations with which we are at war.

The Board has no doubt that your organization approves of the object of the President's embargo proclamation. It is obvious that foreign exchange cannot be created out of nothing, but that it is the result of trade which, for the best interest of our own and of the other countries involved, is now being controlled and directed as above outlined. In these circumstances the mere creation of a Federal reserve exchange bureau could not bring about any change, and could not possibly remedy conditions as they now exist.

It appears to the Board that your organization, in adopting the resolutions which you sent to the Secretary of the Treasury, was not fully informed of all the facts bearing upon the present situation.

Very truly yours,

Governor.

BY-LAWS ______________________
BRANCH BANK OF FEDERAL RESERVE BANK OF ______________.

Pending the promulgation by the Federal Reserve Board of rules and regulations, under authority of Section 3, governing the operations of branch banks, the following by-laws have been adopted by the Federal Reserve Bank of ______________ with the approval of the Federal Reserve Board.

ARTICLE I.

Section 1 - Name and Place of Business.

This branch shall have its principal place of business in the city of ______________________ State of ______________, and shall be known as the ________________________ branch of the Federal Reserve Bank of ____________________.

Section 2 - Functions.

Under the direction of the Federal Reserve Bank, hereinafter referred to as the head office, its functions shall be:

(1) To receive from any member bank within the collection zone assigned to it under Section 3, Article I, of these by-laws, and from the United States, for credit with the head office, deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts payable upon presentation, and for collection, maturing notes and bills.

(2) When tendered by such member banks within its zone as may elect to deal directly with the branch, to receive applications for rediscount under authority of Section 13 of the Federal Reserve Act, and to transmit such applications to the head office with the recommendation

of the local board or of the discount committee selected by the local board.

(3) To pay checks drawn against the head office by member banks within its collection zone out of funds deposited with the branch by the head office for that purpose.

(4) To act as a clearing house for member banks within its zone and such nonmember banks as may qualify as clearing members.

(5) To provide for the custody of unissued Federal reserve notes under appropriate safeguards and to deliver Federal reserve notes when authorized to do so by the head office to member banks within its collection zone.

(6) To receive from any member banks or Federal reserve banks for collection and remittance, or for collection and credit with the head office, or with any other Federal reserve banks through the head office, items drawn against any bank within its collection zone.

(7) To receive from any nonmember bank or trust company within its collection zone solely for the purpose of exchange or collection, 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 nonmember bank or trust company maintains with the head office a balance sufficient to offset the items in transit held for its account by the head office and its branches.

Section 3.

Theccollection zone for ____________________ branch shall be known as the __________________________ zone, and shall include the following cities:

____

____

____

____

Section 4. - Reports.

The ________________ branch shall make a daily report to the head office on forms to be prescribed showing -

(a) Amounts received on deposit for credit with the head office.
(b) Checks paid for the head office.
(c) Discounts recommended.
(d) Items received for collection and forwarded, and for which credit should be given by the head office at the expiration of the time allowed in collection schedule.

Section 5. - Reserve Account.

The balance appearing to the credit of a member bank on the books of the head office shall constitute its reserve, but member banks depositing with the branch may charge the Federal reserve bank with all items on day of deposit unless drawn against banks for which allowance is provided in collection schedule, in which case such banks may take credit at the expiration of such time allowance. Member banks may likewise take credit for the proceeds of discounts recommended by the local board on the date that the local board or its discount committee recommends the granting of such discounts, provided, the notes, drafts, or bills of exchange offered for re discount, or the note of the applying bank secured by eligible collateral, have been actually received by the branch. The head office reserves the right to return through the branch any items which may be determined to be ineligible or which, for any reason the head office is unwilling to accept, in which case items so returned will be charged to the reserve account of the bank receiving credit therefor.

11/16/17

ARTICLE II.

Section 1: NUMBER AND QUORUM: The number of directors shall be five of whom the manager shall be one. A majority of the directors shall constitute a quorum for the transaction of business, but less than a majority may adjourn from time to time until a quorum is in attendance.

Section 2: VACANCIES: Vacancies in the membership of the Board shall be filled and successors selected in the manner provided by law.

Section 3: MEETINGS: There shall be a regular meeting of the Board on the Tuesday next preceding the first Friday of each month at 10 o'clock A. M., or if that day be a holiday, on the first succeeding full business day. The manager shall be empowered to call a special meeting at any time, or shall do so upon the request of the Federal Reserve Bank of , or the written request of any two directors. Notice of said meeting if any by mail, shall be mailed at least one day prior to date of meeting and if given by telegraph or telephone, at least two hours before the time of meeting.

Section 4: POWERS: (a) The Board of Directors shall supervise the operation of the branch under direction and control of the Federal Reserve Bank of , subject to such regulations as the Federal Reserve Board may prescribe and shall exercise the functions prescribed in Article I, Section 2, of these By-Laws.

Section 5: Directors when present at directors' meetings shall receive a compensation of ________ dollars per day for each day the Board is in session, and an allowance to cover actual necessary expenses incident to attendance at regular or special meetings of the Board.

Section 6: The directors of the Federal Reserve Bank of shall fix the compensation of officers, clerks and employes of the Branch, subject to the approval of the Federal Reserve Board.

Section 7: All expenditures of the Branch shall be subject to the approval of the directors of the Federal Reserve Bank of

Section 8: ORDER OF BUSINESS: The following shall be the order of business at each meeting of the Board of Directors of the Branch.

(1) Reading and disposition of minutes of the last last regular meeting.

(2) Report of the manager, including information concerning banking and business conditions in the Branch territory, as well as detailed summary of all business transacted since last regular meeting and statement of present condition, the latter to include:

(a) Statements concerning clearing operations.
(b) All official correspondence received from the Federal Reserve Bank of '

(3) Reports of committees.
(4) Unfinished business.
(5) Approval of reports and recommendations to Federal Reserve Bank of '
(6) New Business.

ARTICLE III.

OFFICERS.

Section 1: The officers, who shall be chosen by the Board of Directors of the Federal Reserve Bank of , shall be manager, who shall be one of the directors of the Branch, and a cashier. They shall hold office during the pleasure of the directors of the Federal Reserve Bank of

Section 2: MANAGER: The manager, shall preside at all directors' meetings and shall have general charge of the Branch and shall be officially designated as "Manager, Branch". The Manager shall, jointly with the cashier have charge of all moneys received or paid out on account of the Branch, and shall sign all checks for the payment of money, as may be authorized by the Federal Reserve Bank of . He shall have custody of all moneys, investments and collaterals held by the Branch, subject to such rules as the Board may adopt as to their safety. In all cases where duties of subordinate officers of the Branch are not specifically prescribed by the by-laws or the Board of Directors of the Branch or the Federal Reserve Bank of they shall be the duties prescribed by and the instructions of the Manager.

Section 3: ACTING MANAGER: In the absence or disability of the Manager, the Federal Reserve Bank of may appoint an Acting Manager, who shall exercise the powers and discharge the duties of the manager; and for such services he shall receive a compensation to be fixed by the Federal Reserve Bank of

Section 4: CASHIER: The Cashier shall have such joint custody of all moneys, investments and collaterals as may be delegated to him by the Manager, subject to such rules as the Board may adopt as to their safety. He shall countersign all checks for the payment of money signed by the Manager. He shall keep the minutes of the Board meetings and of all committees of the Board and perform such other duties as may be assigned to him by the Manager, subject to the approval of the Board of Directors.

Section 5: ACTING CASHIER: In the absence or disability of the cashier, the Board of Directors of the Branch may appoint an Acting Cashier, who shall exercise the powers and perform the duties of the cashier and shall receive a compensation to be fixed by the Federal Reserve Bank of

ARTICLE IV.

COUNSEL

Section 1. The General Counsel of the Federal Reserve Bank of shall act as counsel for the Branch, and shall represent the Branch in such matters as may be assigned to him and shall approve all legal documents; and said general counsel may appoint a local attorney as associate counsel, with a retainer to be approved by the Federal Reserve Bank of

ARTICLE V.

AUDITOR

Section 1. The Auditor of the Federal Reserve Bank of shall act as Auditor of the Branch.

ARTICLE VI.

BUSINESS HOURS

Section 1. The Bank shall be open for business from 9:00 A.M. to 2:30 P. M., on each day except Saturdays and Sundays or days or parts of days established as legal holidays. On Saturdays the bank shall open at 9:00 A. M. and close at 12:00 noon

ARTICLE VII.

AMENDMENTS.

These by-laws may be amended at any regular directors' meeting by a majority vote of the entire Board, subject to the approval of the Federal Reserve Board.

BY-LAWS ________ ________________

BRANCH BANK OF FEDERAL RESERVE BANK OF ____________

Pending the promulgation by the Federal Reserve Board of rules and regulations, under the provisions of Section 3 of the Federal Reserve Act governing the operations of branch banks, the following by-laws are hereby adopted by the ________ Branch of the Federal Reserve Bank of ____________, and approved by the Federal Reserve Bank of ____________, under authority of the Federal Reserve Board:

ARTICLE I

Section 1 - Name and Place of Business.

This branch shall have its principal place of business in the city of __________, State of _________, and shall be known as the __________ Branch of the Federal Reserve Bank of __________.

Section 2 - Branch Territory.

The territory apportioned to said __________ Branch shall be that part of the State of __________ comprised in the ______ Federal Reserve District and the Counties of ____________________________ ________________________, in the State of _________, within said Federal Reserve District.

Section 3 - Powers and Functions.

Subject to such rules and regulations as the Federal Reserve Board may prescribe, and under the direction of the Federal Reserve Bank of ____________, the powers and functions of this Branch Bank shall be as follows:

(a) To receive from member banks, and from non-member banks and trust companies, deposits and to make payments of money for and in behalf of the Federal Reserve Bank of __________ to the same extent and in the same manner as now or hereafter authorized by law in respect of a Federal Reserve Bank;

(b) To maintain and operate a department or departments for the clearing and collection of checks and drafts payable upon presentation, and also for the collection of maturing notes and bills, for the account of said Federal Reserve Bank of __________, as fully as may be from time to time authorized by law for Federal Reserve Banks;

(c) To receive from member banks within said Branch Bank territory applications for discount of eligible notes, drafts, bills of exchange and acceptances, and promissory notes for periods not exceeding fifteen days secured by satisfactory collateral, and offers for sale of cable transfers, bankers' acceptances and bills of exchange eligible for purchase by a Federal Reserve Bank, in accordance with law, and to transmit such applications, promissory notes and offers, with recommendations, to the Federal Reserve Bank of __________ for final action and credit or other disposition as may be desired by the applying member banks; provided, that nothing herein contained shall be construed as to abridge or modify the rights and powers of member banks to deal directly with the Federal Reserve Bank of __________ with reference to all relations of member banks with their Federal Reserve Bank.

(d) To perform such other duties and services as may be specifically required of it by the Federal Reserve Bank of __________ or the Federal Reserve Agent for said District.

Section 4 - Reports.

The said __________ Branch shall make daily reports of operations to the Federal Reserve Bank of __________ on forms to be prescribed showing - -

(a) Amounts received on deposit for credit with the head office.
(b) Checks paid for the head office.
(c) Discounts recommended.
(d) Items received for collection and forwarded, and for which credit should be given by the head office at the expiration of the time allowed in collection schedule.

and shall also make such other reports as may be required by the Federal Reserve Bank of ________ or the Federal Reserve Board.

Section 5 - Reserve Account

The balance appearing to the credit of a member bank on the books of the head office shall constitute its reserve, but member banks depositing with the branch may charge the Federal Reserve Bank with all items on day of deposit unless drawn against banks for which allowance is provided in collection schedule, in which case such banks may take credit at the expiration of such time allowance. Member banks may likewise take credit for the proceeds of discounts recommended by the local board on the date that the local board or its discount committee recommends the granting of such discounts, provided, the notes, drafts, or bills of exchange offered for rediscount, or the note of the applying bank secured by eligible collateral, have been actually received by the Branch. The head office reserves the right to return through the Branch any items which may be determined to be ineligible or which, for any reason the head office is unwilling to accept, in which case items so returned will be charged to the reserve account of the bank receiving credit therefor.

ARTICLE II.

Section 1: NUMBER AND QUORUM: The number of directors shall be five of whom the manager shall be one. A majority of the directors shall constitute a quorum for the transaction of business, but less than a majority may adjourn from time to time until a quorum is in attendance.

Section 2: VACANCIES: Vacancies in the membership of the Board shall be filled and successors selected in the manner provided by law,

Section 3: MEETINGS: There shall be a regular meeting of the Board on the Tuesday next preceding the first Friday of each month at 10 o'clock A. M., or if that day be a holiday, on the first succeeding full business day. The manager shall be empowered to call a special meeting at any time, or shall do so upon the request of the Federal Reserve Bank of __________ or the written request of any two directors. Notice of said meeting if sent by mail, shall be mailed at least one day prior to date of meeting and if given by telegraph or telephone, at least two hours before the time of meeting.

Section 4: POWERS: (a) The Board of Directors shall supervise the operation of the branch under direction and control of the Federal Reserve Bank of __________ subject to such regulations as the Federal Reserve Board may prescribe and shall exercise the functions prescribed in Article I, Section 2, of these by-laws.

Section 5: Directors when present at directors' meetings shall receive a compensation of _________dollars per day for each day the Board is in session, and an allowance to cover actual necessary expenses incident to attendance at regular or special meetings of the Board.

Section 6: The directors of the Federal Reserve Bank of _________ shall fix the compensation of officers, clerks and employes of the Branch, subject to the approval of the Federal Reserve Board.

Section 7: All expenditures of the Branch shall be subject to the approval of the directors of the Federal Reserve Bank of ______________.

Section 8: ORDER OF BUSINESS: The following shall be the order of business at each meeting of the Board of Directors of the Branch.

(1) Reading and disposition of minutes of the last last regular meeting.

(2) Report of the manager, including information concerning banking and business conditions in the Branch territory, as well as detailed summary of all business transacted since last regular meeting and statement of present condition, the latter to include:

(a) Statements concerning clearing operations.
(b) All official correspondence received from the Federal Reserve Bank of

(3) Reports of committees.
(4) Unfinished business.
(5) Approval of reports and recommendations to Federal Reserve Bank of
(6) New Business.

ARTICLE III.

OFFICERS.

Section 1: The officers, who shall be chosen by the Board of Directors of the Federal Reserve Bank of ..., shall be a manager, who shall be one of the directors of the Branch, and a cashier. They shall hold office during the pleasure of the directors of the Federal Reserve Bank of

Section 2: MANAGER: The manager, shall preside at all directors' meetings and shall have general charge of the Branch and shall be officially designated as "Manager, Branch". The Manager shall, jointly with the cashier have charge of all moneys received or paid out on account of the Branch, and shall sign all checks for the payment of money, as may be authorized by the Federal Reserve Bank of He shall have custody of all moneys, investments and collaterals held by the Branch, subject to such rules as the Board may adopt as to their safety. In all cases where duties of subordinate officers of the Branch are not specifically prescribed by the by-laws or the Board of Directors of the Branch or the Federal Reserve Bank of .. they shall be the duties prescribed by and the instructions of the Manager.

Section 3: ACTING MANAGER: In the absence or disability of the Manager, the Federal Reserve Bank of - may appoint an Acting Manager, who shall exercise the powers and discharge the duties of the manager; and for such services he shall receive a compensation to be fixed by the Federal Reserve Bank of

Section 4: CASHIER: The Cashier shall have such joint custody of all moneys, investments and collaterals as may be delegated to him by the Manager, subject to such rules as the Board may adopt as to their safety. He shall countersign all checks for the payment of money signed by the Manager. He shall keep the minutes of the Board meetings and of all committees of the Board and perform such other duties as may be assigned to him by the Manager, subject to the approval of the Board of Directors.

Section 5: ACTING CASHIER: In the absence or disability of the cashier, the Board of Directors of the Branch may appoint an Acting Cashier, who shall exercise the powers and perform the duties of the cashier and shall receive a compensation to be fixed by the Federal Reserve Bank of

ARTICLE IV.

COUNSEL

Section 1. The General Counsel of the Federal Reserve Bank of shall act as counsel for the Branch, and shall represent the Branch in such matters as may be assigned to him and shall approve all legal documents; and said general counsel may appoint a local attorney as associate counsel, with a retainer to be approved by the Federal Reserve Bank of

ARTICLE V.

AUDITOR

Section 1. The Auditor of the Federal Reserve Bank of ______________ shall act as Auditor of the Branch.

ARTICLE VI.

BUSINESS HOURS.

Section 1. The Bank shall be open for business from 9:00 A.M. to 2:30 P. M., on each day except Saturdays and Sundays or days or parts of days established as legal holidays. On Saturdays the bank shall open at 9:00 A. M. and close at 12:00 noon.

ARTICLE VII

AMENDMENTS.

These by-laws may be amended at any regular directors' meeting by a majority vote of the entire Board of directors of the Federal Reserve Bank of __________, subject to the approval of the Federal Reserve Board.

X-485

FEDERAL RESERVE BOARD
WASHINGTON.

Memorandum for the Federal Reserve Board.
In re - State Bank Reports.

Section 9 of the Federal Reserve Act provides:

(State banks) "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."

1. Reports of the Payment of Dividends.

It is recommended that the report used by the office of the Comptroller of the Currency be adopted for use by State Member Banks in reporting to the Federal Reserve Banks.

2. Reports of Condition.

The law provides that not less than three of such reports be made annually to the Federal Reserve Bank on dates to be fixed by the Federal Reserve Board.

It is recommended that during the year of 1918 five calls be made for reports of condition on dates corresponding to those fixed by the Comptroller of the Currency for National Banks.

These reports to be made to the Federal Reserve Bank in duplicate, one copy to be retained by the Federal Reserve Bank and the other to be sent to the Federal Reserve Board. Compilation of statistics will be made by the statistical division of the Federal Reserve Board.

3. Form.

Form of report attached to this memorandum is submitted for the consideration and approval of the Board.

The form of the report is sufficiently uniform with that used by the Office of the Comptroller of the Currency as to permit of the consolidation of the more important items for all members of the Federal Reserve system.

4. Publisher's Certificate.

Form of the published Certificate submitted for the consideration and approval.

It is recommended that when a call is made simultaneously by the State Banking Department and Federal Reserve Bank, that the State Member Banks be permitted to forward a copy of the Publisher's Certificate furnished the State Banking Department in lieu of the one suggested by the Board.

Respectfully,

November 3, 1917. (Signed) J. A. Broderick

November 6, 1917.

Memorandum for the Board:

With reference to attached memorandum and form of Publishers' Certificate for nonnational member banks, the following suggestions are made:

While on general principles it would be desirable to have copies of the reports to the Board reproduced in the local press, it may be questioned (1) whether such publication can be legally ordered by the Board under the Amended Act (Counsel seems to doubt it); (2) whether the publication of reports, prepared in a different form from that used by the State banking department, would not cause confusion in the minds of the readers and prove a source of trouble to the banks. It should also be borne in mind that in case the dates of call made by the Board are not the same as those of the State banking department, some of the non-national members may have to publish as many as 8 - 9 statements a year.

Under the circumstances it might be possibly better not to insist upon the publication of reports other than those required by the State authorities. In cases where the State laws do not require publication of reports in the local newspapers the Board might very properly suggest to reporting non-national banks the advisability of publishing their reports to the Board and to use attached form for the purpose.

Respectfully submitted,

M. JACOBSON.

Statistician.

TREASURY DEPARTMENT TELEGRAM.

WHERE WRITTEN:
Mr. Leffingwell's office.

Washington, November 6, 1917.

N I G H T   L E T T E R .

To Governors, Federal Reserve Banks,

Boston, Mass.	Chicago, Ills.
New York, N. Y.	St. Louis, Mo.
Philadelphia, Pa.	Minneapolis, Minn.
Cleveland, Ohio.	Kansas City, Mo.
Richmond, Va.	Dallas, Texas.
Atlanta, Ga.	San Francisco, Cal.

Second Liberty Loan. Any qualified depositary may make payment by credit of amounts which correspondent banks and trust companies would otherwise pay by chdck upon the qualified depositary. Stop. This may be done whether the qualified depositary and correspondent bank or trust company are in the same district or in different districts. Stop. In cases where they are in different districts, the federal reserve bank of the district where the subscription is made must be notified by telegraph by the reserve bank of the district where payment is made, and the reserve bank of the district where payment is made must credit the war loan deposit account with the amount so paid but indicating that the payment is made on account of subscriptions in the other district.stop.

Thus, if a bank or trust company in the Chicago district has payments which it does not intend to make in Treasury certificates nor by credit, and would otherwise make by check or by telegraphic transfer upon its New York correspondent, such bank or trust company may telegraph or write its New York bank or correspondent to pay a specified amount in cash or by credit to the

Federal Reserve Bank of New York as fiscal agent of the United States War Loan Deposit Account, and to notify the Federal Reserve Bank New York that such payment is made for account of the Chicago bank or trust company in payment of or on account of a subscription of the latter filed with the Federal Reserve Bank of Chicago. Stop. In case of paymnt by a subscribing bank or trust company through a qualified depositary in the same district, the procedure is substantially the same except of course only the reserve bank of the district need be notified of the transaction. Stop.

Subscribers desiring to avail themselves of this method must give ample notice to the correspondent bank or trust company which they expect to call upon to make payment in order that such bank or trust company may be prepared and qualified. Stop. It is essential that steps should be taken in ample time to avoid possibility of payment not reaching one or the other federal reserve bank on time. Stop. The object from the point of view of the Treasury Department in sanctioning this procedure is to avoid unnecessary dislocation of funds and to reduce float as far as practicable. Stop. The procedure is of course wholly permissive and applies only to such funds as the subscribing bank or trust company would withdraw from its correspondent bank or trust company whether in its district or out of its district. Stop. Please notify banks and trust companies in your district accordingly.

(Signed) Leffingwell.

(Charge Liberty Loan.)

FEDERAL RESERVE BOARD

WASHINGTON

November 8, 1917.

Dear Sir:

Under an Act of Congress, passed September 24, 1917, provision was made for the issuance by the Secretary of the Treasury of two billions of war savings certificates in small denominations, payments for which were to be evidenced by stamps. The Secretary of the Treasury was given a wide latitude and discretion in making the arrangements for the issuance and sale of these war savings certificates.

Under the terms of this Act, the Secretary of the Treasury has appointed a Committee to organize the work of selling these war savings certificates and has named Mr. Frank A. Vanderlip, President of the National City Bank of New York, as Chairman, and Mr. Delano of this Board as one of the members, (for full list of Committee see page 730 of the October Bulletin).

The plans thus far developed are stated in considerable detail in Treasury Department Circular of November, 1917, a copy of which is inclosed herewith; but in addition to the information therein contained, it is proper to explain that the Secretary of the Treasury will desire to employ the Federal Reserve Banks as Fiscal Agents for the Government distribution of these certificates.

It is not expected that this will throw any large amount of additional labor on the Federal Reserve Banks for the reason that it is thought that the sale of cumulative $5.00 certificates will, to a very great extent do away with the necessity of the selling of "baby" bonds in denominations of $50.00, and also take the place very largely of the part-payment plan of selling bonds. The main object is that the Federal Reserve Banks shall serve as centers of distribution and supply for these war savings certificates stamps, literature, etc., and it is the thought of the Board that the Federal Reserve Banks can readily utilize a part of their Liberty Loan bond facilities for handling the new certificates. This will be especially possible for the reason that the brunt of the campaign for the selling of the war savings certificates will come in December and January in the interim between the major campaigns for selling Government bonds.

As will be seen from the Treasury Department Circular already referred to, the Secretary of the Treasury will utilize the post offices for the distribution of the war savings certificates, stamps and literature. Furthermore, through the courtesy of the American Bankers' Association it is expected to interest not only all the national banks but all the State banks in the enterprise. The result will be that while the Federal Reserve Banks will not themselves be expected to take active part in the sale of war savings certificates, it is desired that they shall be the main depots from which banks, large employers of labor, railroads, merchants, manufacturers, and others, who have consented or may hereafter consent to act as selling agents, will receive their supply.

The Federal Reserve Banks as Fiscal Agents of the Government will receive certificates and stamps in suitable pamphlet form and in large consignments and will account for them to the Treasury Department as rapidly as they make sales. It is not the desire of the Board that they shall be called upon to make retail sales, but only that they shall deal in considerable or wholesale quantities in supplying banks, railroads, merchants, manufacturers, and other corporations who may call upon them.

A list of the supplies which will be sent direct to the Federal Reserve Banks is as follows:

1. Form of application for authority to act as authorized "sales agent".

2. An illuminated poster or sign to be given only to duly authorized agencies.

3. A large envelope container for certificates, stamps, etc.

4. The standard war savings certificate blank, size 8" x 11".

5. The envelope container for the certificate blank, size 4" x $8\frac{1}{4}$"

6. The war savings certificate stamp ($5.00 maturity value) in standard packages.

7. The thrift card, to be used chiefly by school children.

8. Twenty-five cent thrift stamps in standard packages, to be used chiefly by school children.

Post offices through which sales of certificate stamps and thrift stamps will largely be made, will make remittances to designated member banks who will in turn remit to the Federal Reserve Bank of their district for the credit of the Treasurer of the United States. These remittances should be accompanied by a deposit slip in triplicate, one copy to be retained by the Federal Reserve Bank, one copy to be sent to the remitting bank and one copy to be sent to the Treasurer of the United States.

You are requested to kindly acknowledge the above, and oblige.

Yours very truly,

Governor.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

X-491.

November 9, 1917.

Dear Sir:

In all cases where applications for permission to export gold in any form to Mexico are presented to you, the Board requests that you ask the applicants to indicate separately the amounts of gold which they desire for use in paying duties to the Mexican Government, and the amounts which they require for payroll use. This will facilitate the Board's action in a number of cases.

Very truly yours,

Secretary.

Federal Reserve Bank,

PRINCIPAL MATURITIES FROM

DECEMBER 1, 1917, THROUGH 1918.

DECEMBER 1917.

$ 500,000	Case (J.I.) Threshing Machine Co. 1st Serial 6s	Dec. 1, 1917
1,000,000	Huntington Land & Improvement Co. Coll. Tr. Serial 6s	Dec. 1, 1917
1,000,000	Reading & Columbia R.R. 6% Debentures	Dec. 1, 1917
2,500,000		

JANUARY 1918.

$4,790,000	Arkansas & Memphis Ry. Bridge & Terminal Co. 3 Yr. 6% Gold Notes	Jan. 1, 1918
1,135,000	City Water Co. of East St. Louis & Granite City, Ill. Consol. 6s (extended)	Jan. 1, 1918
686,000	Cumberland Telephone & Telegraph Co., Inc. 1st 5s	Jan. 1, 1918
750,000	Ellsworth Collieries Co. (Lackawanna Steel Co.) Coll. Purchase Money 5s	Jan. 1, 1918
1,500,000	Hudson River Pulp & Paper Co.(Int. Paper Co.) Gold 6s	Jan. 1, 1918
1,700,250	Kansas Natural Gas Co. Sinking Fund Second 6s	Jan. 1, 1918
691,000	Mechanical Rubber Co.(Rubber Goods Mfg. Co.) 1st 6s	Jan. 1, 1918
750,000	Minneapolis, St. Paul, Rochester & Dubuque Electric Trac.Co.1st Lien 6% Coll.Tr.Notes	Jan. 1, 1918
2,000,000	N. Y. Central Lines 4½ % Equip. Trust of 1910	Jan. 1, 1918
1,000,000	N. Y. Central Lines 4½ % Equip. Trust of 1912	Jan. 1, 1918
1,495,867	N. Y. Central Lines 4½ % Equip. Trust of 1913	Jan. 1, 1918
625,000	Ohio Cities Gas Co. 6 % Serial Notes	Jan. 1, 1918
797,100	Perkiomen R. R. First Series 5s	Jan. 1, 1918
1,125,000	Perkiomen R. R. Second Series Gold 5s	Jan. 1, 1918
500,000	Phila. Baltimore & Washington R. R. Serial 4 % Debentures (Series "B" to "J")	Jan. 1, 1918
550,000	Remington Typewriter Co. 1st Convertible 6s	Jan. 1, 1918
750,000	United Light & Rys. Co. 6% Coupon Notes	Jan. 1, 1918
500,000	Western Maryland R. R. Terminal Co. 1st Mtge. 6% Notes	Jan. 1, 1918
1,250,000	Canadian North'n Ry. 6% Secured Notes	Jan.10, 1918
£1,000,000	Grand Trunk Ry. of Canada 3 Yr. 5½% Secured Notes	Jan.14, 1918
900,000	Pacific Lt. & Power Corp. Gen. Mtge. Serial Conv. 6s	Jan.15, 1918
750,000	Winnipeg Electric Ry. 2 Yr. 6% Notes	Jan.15, 1918
500,000	World Film Corp. 2 Yr. 6% Conv. Notes	Jan.15, 1918
$29,745,217		

FEBRUARY 1918

$2,000,000	Alabama Power Co. 1st Mtge. 3 Yr. 6s	Feb. 1, 1918
50,000,000	American Telephone & Telegraph Co. 4½% 3 Yr Notes	Feb. 1, 1918
1,000,000	Baltimore & Ohio R.R. Equip. Tr. 4½% Ctfs. of 1912	Feb. 1, 1918
600,000	Central Maine Power Co. 3 Yr. 6% Notes	Feb. 1, 1918
650,000	Great Northern Power Co. 3 Yr. 6% Coll. Tr. Notes	Feb. 1, 1918
8,291,000	International Paper Co. First Consolidated 6s	Feb. 1, 1918
3,000,000	Iowa Telephone Co., 2 Yr. 4½% Notes	Feb. 1, 1918
500,000	Lehigh Valley R.R. Coll. Tr. Gold 4s	Feb. 1, 1918
8,000,000	Missouri & Kansas Telephone Co. 4½% Notes	Feb. 1, 1918
2,500,000	Mount Vernon-Woodbury Mills, Inc. 3 Yr. 6% Deb. Notes	Feb. 1, 1918
4,000,000	Nebraska Telephone Co. 4½% 2 Yr. Notes	Feb. 1, 1918
500,000	Norfolk & Western Ry. Equip. Tr. 4½% Ctfs. Series I of 1914	Feb. 1, 1918
10,000,000	Northwestern Telephone Exchange Co. 4½% 2 Yr. Notes	Feb. 1, 1918
5,000,000	Southwestern Telegraph & Telephone Co. 4½% 2 Yr. Notes	Feb. 1, 1918
7,013,000	Toledo Traction, Light & Power Co. 1st Lien 5 Yr. 6s	Feb. 1, 1918
1,200,000	Toledo Traction, Light & Power Co. 2nd Lien Coll. Tr. 6s	Feb. 1, 1918
500,000	Waltham Watch Co. 4½% Gold Notes	Feb. 1, 1918
17,269,000	International Harvester Co. of N.J. 3½ Yr. 5% Notes	Feb. 15, 1918
5,000,000	International Harvester Corp. 3½ Yr. 5% Notes	Feb. 15, 1918
1,000,000	Wisconsin Central Ry. 3 Yr. 5% Secured Gold Notes	Feb. 15, 1918
128,023,000		

MARCH 1918.

$ 890,000	Aurora, Elgin & Chicago R. R. 3 Yr. 6% Coll. Tr. Notes	March 1, 1918
1,000,000	Ayer Mills (American Wollen Co.)Construction & Equip. 5% Notes	March 1, 1918
986,000	Doe Run Lead Co. 3 Yr. 6% Notes	March 1, 1918
2,350,000	Eastern Power & Light Corp. 5 Yr. Conv. 5s	March 1, 1918
845,000	Lewiston, Brunswick & Bath St. Ry.(Lewiston, Augusta & Waterville St.Ry)1st 5s	March 1, 1918
875,000	Pittsburg,Shawmut & Northern R.R. 2 Yr. 6% Receivers' Ctfs.	March 1, 1918
1,012,000	Southern Pacific Co. Equip Tr. 4½s,Series"A"	March 1, 1918
16,000,000	Winchester Repeating Arms Co. 2 Yr. 5% Notes	March 1, 1918
$23,868,000		

APRIL 1918

$ 750,000	American Rolling Mill Co. 6% Notes	April 1, 1918
1,000,000	Baltimore & Ohio R.R.Equip.Tr. 4½s of 1913	April 1, 1918
2,000,000	Bangor & Aroostook R.R. 2 Yr. 5% Notes	April 1, 1918
9,116,000	Cuban-American Sugar Co. Coll. Tr. 6s	April 1, 1918
500,000	Gaston, Williams & Wigmore S.S. Corp. First Mtge. & Coll. Tr. Bonds	April 1, 1918
500,000	Goodrich Transit Co. First 3 Yr. 6s	April 1, 1918
1,500,000	Louisville Gas & Elec.Co.(of Ky)3½ Yr.6% Notes	April 1, 1918
742,000	Mansfield Ry.Lt.& Power Co.(Mansfield Public Utility & Service Co.) Gen. Gold 5s	April 1, 1918
3,000,000	Massachusetts Electric Cos. 3 Yr. 5% Notes	April 1, 1918
4,935,000	Morgan's La. & Texas RR & SS Co.Main Line 1st 7s	April 1, 1918
1,970,000	Pa. Gen.Freight Equip.4½s,Issue of 1913/Series "A"to"T"	April 1, 1918
2,000,000	Sloss Iron & Steel Co. (Sloss-Sheffield Steel & Iron Co) Gen.4½s	April 1, 1918
500,000	Union Natural Gas Corp.Coll.Tr. 6s Series "A" to "L"	April 1, 1918
1,200,000	U.S. Public Service Co. 6% Coll. Lien Notes	April 1, 1918
2,305,000	Wilmington & Chester Trac. Co.Coll. Tr. 5s	April 1, 1918
2,000,000	Omnibus Cable Co.(United RRs of San Fran.)1st 6s	April 1, 1918
1,000,000	Gaston, William & Wigmore Inc. 6% Serial Notes	April 1, 1918
$35,018,000		

MAY 1918

$ 500,000	Baltimore & Ohio RR Equip. Tr. 4½s of 1916	May 1, 1918
1,494,000	Chic.R.I.& Pac.Ry.Gold 4s of 1902,Series"N"to"P"	May 1, 1918
778,000	Chic.St.Paul & Minn.Ry.(Chic.,St.Paul,Minn. & Omaha) First Gold 6s	May 1, 1918
10,000,000	Commonwealth Power,Ry.& Lt. Co.5Yr.Conv. 6s	May 1, 1918
3,970,000	Elk Horn Fuel Co.(ElkHorn Coal Corp.) 1st Mtge. 5% Conv. Notes	May 1, 1918
500,000	Fountain Valley Land & Irrigation Co. 1st 6s	May 1, 1918
1,125,900	Indian Refining Co. 2nd Mtge. 7% Notes	May 1, 1918
1,501,000	Metropolitan Tel.& Tel.Co.(N.Y.Tel.Co.) 1st 5s	May 1, 1918
2,062,750	Missouri & No. Arkansas RR 6% Receivers' Ctfs.	May 1, 1918
575,000	New Haven & Derby RR(N.Y. New Haven & Hartford RR) Consol. (now first) 5s	May 1, 1918
1,100,000	Pa. Gen.Freight Equip.4s,Issue of 1910 Series "A" to "K"	May 1, 1918
800,000	Philadelphia Bourse First 5s	May 1, 1918
1,000,000	Potter Gas Co. First Refunding 6s	May 1, 1918
3,800,000	Sutter Basin Co. 5 Yr. 6% Coll. Tr. Notes	May 1, 1918
1,000,000	Sutter St.Ry.(United RRs of San Fran.)1st 5s	May 1, 1918
1,561,700	Union Light, Heat & Power Co. First 4s	May 1, 1918
10,000,000	United Fruit Co. 4 Yr. 5% Notes	May 1, 1918
3,500,000	Detroit United Ry. 5% Coll. Tr. Coupon Notes	May 5, 1918
3,000,000	Cleveland Telephone Co. 2 Yr. 5% Notes	May 10, 1918
$ 48,268,350		

JUNE 1918.

$ 2,000,000	Federal Dyestuff & Chemical Corp. First Mtge. 2 Yr. 6% Notes	June 1, 1918
4,000,000	International Cotton Mills 5 Yr. 6% Notes	June 1, 1918
614,000	Lewiston, Augusta & Waterville St.Ry. 3 Yr. 5% Notes, Series "C"	June 1, 1918
1,000,000	Manchester Trac. Lt. & Power Co. 3 Yr. 5% Coupon Notes	June 1, 1918
3,250,000	New Orleans Ry & Light Co. 2 Yr.6% Deben.Notes	June 1, 1918
700,000	Pa. Gen. Freight Equip. 4s Issue of 1912 Series "A" to "G"	June 1, 1918
2,999,500	Puget Sound & Willapa Hbr. Ry.(Chic. Milw. & St.P. Ry.)5 Yr.5% Trust Certificates	June 1, 1918
2,500,000	Tennessee Ry. Light & Power Co. 2 Yr. 5% Secured Notes	June 1, 1918
3,500,000	Union Depot RR (United Rys. Co. of St. Louis) Consolidated 6s	June 1, 1918
$20,563,500		

JULY 1918.

$ 1,000,000	Alabama Central R.R. (So.Ry) 1st Gold 6s	July 1, 1918
500,000	Associated Simmons Hardware Co. Serial 5% Secured Notes	July 1, 1918
250,000	Betz(John F.)& Sons Brewery,Ltd.5% 1st Mtge/Stock Deb.	July 1, 1918
2,170,000	Boston & Providence RR Copp. 4% Plain Bonds	July 1, 1918
57,735,000	Brooklyn Rapid Transit Co.6 Yr.5% Gold Notes	July 1, 1918
1,500,000	Buffalo & S.W. RR (Erie RR) 1st 5s (ext.)	July 1, 1918
642,200	Burlington & Mo. River RR in Nebr. Cons. 6s	July 1, 1918
1,000,000	Erie RR,Buffalo & S.W.Div. 2nd Lien 5s (extended)	July 1, 1918
3,000,000	Fla. Central & Peninsular RR(Seaboard Air Line Ry.) 1st Gold 5s	July 1, 1918
600,000	Frick (H.C) Coke Co.(U.S.Steel Corp.)Pittsburgh-Monongahela 1st lien Purchase Money 5s	July 1, 1918
600,000	Industrial Securities Co. Coll. Trust 6s	July 1, 1918
7,922,000	Kansas City Ry Co. 3 Yr. 5½% Notes	July 1, 1918
9,000,000	Louisville Gas & Elec.Co.(of Ky) 1st & Refdg.6s	July 1, 1918
600,000	McKeesport & Belle Vernon RR 1st 6s	July 1, 1918
647,074	Nakusp & Slocan Ry. 1st 4s	July 1, 1918
625,000	Ohio Cities Gas Co. 6% Serial Notes	July 1, 1918
500,000	Oklahoma Ry. Co. Junior Mtge. 6% Notes	July 1, 1918
500,000	Producers' Oil Co. Purchase Money 6s	July 1, 1918
1,400,000	Providence Gas Co.3 Yr. 4% Conv. Debentures	July 1, 1918
600,000	St. Paul Gas Light Co.Consolidated extended 6s	July 1, 1918
1,662,000	Toledo, Saginaw & Muskegon Ry. 1st 5s	July 1, 1918
1,121,000	Oakland Transit Co.(San Fran.-Oakland Terminal Rys.) 1st Consolidated 6s	July 7, 1918
3,000,000	Canadian Northern Ry.6% Secured Gold Notes	July10, 1918
$97,774,274		

AUGUST 1918

$ 2,000,000	Grand Trunk Ry. Co. of Canada 5% 2 Yr. Collateral Gold Notes	Aug. 1, 1918
1,500,000	Hudson Companies Secured 6% Notes	Aug. 1, 1918
500,000	Lehigh Valley RR Coll. Tr. 4s	Aug. 1, 1918
700,000	Missouri Electric RR Purchase Money 5s	Aug. 1, 1918
500,000	Norfolk & Western Ry.Equip. Tr. 4½% Ctfs. Series of 1914	Aug. 1, 1918
856,500	U.S. Mtge. & Tr. Co. 1st 4s Series "G"	Aug. 1, 1918
1,581,000	West End St.Ry.Serial Debenture 5s	Aug. 1, 1918
500,000	Waltham Watch Co. 4½ Gold Notes	Aug. 1, 1918
£ 2,000,000	Canadian Northern Ry.5% Secured Sterling Notes	Aug.12, 1918
850,000	Masonic Hall & Asylum Fund (Trustees of) 1st 6s	Aug.18, 1918
$18,987,500		

SEPTEMBER 1918

2,195,700	Appalachian Power Co.Coll. Trust 7% Notes	Sept. 1, 1918
556,000	Chicago & West Towns Ry 1st Lien & Coll.Tr.6s	Sept. 1, 1918
1,200,000	Guardian Realty Co.of Canada,Ltd.5 Yr.1st Mtge.	Sept. 1, 1918
500,000	Lehigh Valley RR. Equip.Tr. 4½s Series "O"	Sept. 1, 1918
1,863,227.95	Chesapeake & Ohio Ry.Equip.Tr.Series "S.W.C.Co"	Sept.15, 1918
6,314,927.95		

OCTOBER 1918

$ 500,000	Boston & Albany RR (N.Y.C.R.R) 4$\frac{1}{2}$% Equip. Trust of 1912	Oct. 1, 1918
1,131,000	Cleveland, Painesville & Eastern R.R. 1st Cons. 5s	Oct. 1, 1918
500,000	Cleveland, Painesville & Eastern R.R. 1st 5s (ext.)	Oct. 1, 1918
2,900,000	Grand Trunk Ry. of Canada 5 Yr. 5% Secured Notes	Oct. 1, 1918
600,000	Potosi & Rio Verde Ry. 1st Skg. Fund 6s	Oct. 1, 1918
2,500,000	Proctor & Gamble Co. Serial 5% Coupon Notes	Oct. 1, 1918
2,500,000	Shawinigan Water & Power Co. 2 Yr. 5% Notes	Oct. 1, 1918
1,543,000	Western Ry. of Ala. Consolidated Gold 4$\frac{1}{2}$s	Oct. 1, 1918
$19,274,000		

NOVEMBER 1918

2,000,000	Atlantic Coast Lumber Corp. 1st 5s, Series "B"	Nov. 1, 1918
2,000,000	N. Y. Central Lines 5% Equip. Trust of 1907	Nov. 1, 1918
1,058,000	United Gas & Fuel Co. of Hamilton, Ltd. 1st 6s	Nov. 1, 1918
889,000	U.S. Mortgage & Trust Co. 1st 4s, Series "H"	Nov. 1, 1918
2,000,000	Detroit, Grand Haven & Milwaukee Ry. 1st Equip. 6s	Nov. 14, 1918
3,000,000	Cuba R. R. 3 Yr. 5% Notes	Nov. 15, 1918
3,200,000	Detroit, Grand Haven & Milwaukee Ry. Cons. 6s	Nov. 15, 1918
5,000,000	Kansas City Terminal Ry. 3 Yr. 4$\frac{1}{2}$% Notes	Nov. 15, 1918
$19,147,000		

DECEMBER 1918

$ 2,500,000	Canadian Cons.Rubber Co. Ltd. 5% Debent. Notes	Dec. 1, 1918
500,000	Case (J.I.) Threshing Machine Co. 1st Serial 6s	Dec. 1, 1918
500,000	Eastern Texas Electric Co. 3 Yr. 6% Notes	Dec. 1, 1918
9,000,000	General Rubber Co. 5% Gold Debentures	Dec. 1, 1918
1,000,000	Hooker Electrochemical Co. 5% Notes	Dec. 1, 1918
920,000	Huntington Land & Impvt.Co.Coll.Tr. Serial 6s	Dec. 1, 1918
5,000,000	Morgan & Wright (Rubber Goods Mfg.Co.)5% Deben.	Dec. 1, 1918
750,000	Toronto Ry. 6% Gold Notes	Dec. 1, 1918
16,500,000	U. S. Rubber Co. Coll. Tr. Skg. Fund 6s	Dec. 1, 1918
600,000	Barney & Smith Car Co. 6% Notes	Dec.15, 1918
500,000	Bayano River Lumber Co. 1st 6s	Dec.31, 1918
£ 125,000	Oceanic Steam Nav.Co.Ltd.4½% 1st Mtge.Debs.1st Series	Dec.31, 1918
$38,395,000		

RECAPITULATION.

December 1917	2,500,000
January 1918	29,745,217
February 1918	128,023,000
March 1918	23,868,000
April 1918	35,018,000
May 1918	48,268,350
June 1918	20,563,500
July 1918	97,774,274
August 1918	18,987,500
September 1918	6,314,927
October 1918	19,274,000
November 1918	19,147,000
December 1918	38,395,000
	487,878,768

Duplicate to X-491 on page 2932.

FEDERAL RESERVE BOARD

WASHINGTON

X-494.

November 12, 1917.

Dear Sir:

Please advise me of the number of state banks in your district which, in your opinion, might be desirable as members of the Federal Reserve system, but which are not eligible for membership because of their having a smaller capital than is required by law of national banks in the towns and cities in which they are located.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-495

November 12, 1917.

Dear Sir:

Please call the attention of the officials of your bank and of the executive committee, to the fact that the Commissioner of Internal Revenue has written the Board that, in his opinion, Federal Reserve banks are not subject to the tax upon charges for telephone, telegraph, and express service when such charges fall directly upon the Federal Reserve bank.

Very truly yours,

Governor.

X-496

FEDERAL RESERVE BOARD

WASHINGTON

November 12, 1917.

Gentlemen:

I wish to bring to your attention the following letter from the Treasurer of the United States:

November 9, 1917.

"I think the letter of October 10th of the Federal Reserve Board is a little misleading, namely:

"Paragraph 1 states that upon the receipt of unfit currency the Treasurer will place to the credit of the appropriate Federal Reserve Bank in the gold settlement fund an equivalent amount of gold or gold certificates and will advise the Federal Reserve Bank of the amount of that credit, stating for whose account the deposit is made, and will also advise the bank sending money for redemption in like effect.

"This, of course, leads the Reserve bank to believe that we are going to make this credit in gold or gold certificates, which we might not have at the time. It is also accountable for that part of the letter which says that our advice is not clear, and it does not appear therefrom, that the credit is going to be made in the gold settlement fund.

"The better way is to simply have this credit as a transfer of funds in the amount of the money redeemed, and I believe it would be a good plan to amend the letter of October 10th."

Very respectfully yours,

JOHN BURKE.

In the Board's letter of October 10, relative to the new plan for the redemption of unfit currency, paragraph 1, it was suggested to the Federal Reserve Banks that the Treasurer would upon receipt of unfit currency for redemption place to the credit of the appropriate Federal Reserve Bank in the Gold Settlement Fund an equivalent amount.

In view of the letter of the Treasurer of the United States quoted above the Board's letter of October 10, is amended so as to provide that the credit shall be given as a transfer of funds in the amount of money redeemed, and Federal Reserve Banks will charge the Treasurer's general account in one total for each list as a transfer of funds to the Treasurer of the United States.

Very truly yours,

Governor.

Federal Reserve Bank,

SUGGESTED OUTLINE OF ANNUAL REPORT OF FEDERAL RESERVE BOARD.

1 9 1 7

1. Prefatory Remarks:

    (a) Entry of U. S. into war and financial problem arising therefrom.

    (b) Consequent change in character of work done by Federal Reserve Banks and transformation of their functions.

2. Financial and Banking Situation at Entry into War:

    (a) Normal and stable conditions of Winter and Spring, 1916 - 1917.

        (1) Conservative policy of F. R. Banks.

        (2) Preliminary policies - preparation and distribution of new F. R. notes.

    (b) Character of work done by F. R. Banks as fiscal agents up to March, 1917.

    (c) Estimate of investment and banking strength of country at end of March 1917.

3. Opening of War and Placing of Loans:

    (a) Treasury policy toward Board and banks - development of fiscal agency function.

    (b) Organization for first loan:

        (1) Work at banks of several districts.

        (2) Policy of Board as to rediscounts.

(c) Short term certificate methods - how applied - relation to bond issues.

(d) Effect of first loan on banks of country.

(1) Easy disposal of bonds.

(2) Maintenance of liquidity.

(e) Placing of second loan:

(1) Difficulties of time and conditions surrounding it.

(2) Methods adopted for sale of bonds.

(3) Effect on banks.

(4) Problems of investment market.

4. Strength of Reserve Banks:

(a) Amendments of Federal Reserve Act.

(1) Reasons for and sketch of amendments.

(2) Effect of amendments on reserves held.

(b) Relation of F. R. Banks to market.

(1) Policy as to purchases and discounts.

(2) Relation to nonmember banks.

(c) Entry of State institutions into System.

(1) Sketch oforigin and conditions of movement.

(2) Growth of resources.

(3) Critical estimate of effect of movement on system as a whole.

5. Underlying Financial Problems of Year:

   (a) Condition of general business.

   (b) Confidence and its maintenance.

   (c) Movement of gold into country up to midsummer and turn of tide.

   (d) Effort to check outward gold flow.

   (e) Foreign exchange situation - Board's policy.

6. Oranization Problems:

   (a) Branch question - how Board established new offices.

   (b) Personnel at banks - Problems growing out of war.

   (c) Changes in directorates.

   (d) Board's own staff and expenses.

7. Summary and Forecast:

   (a) Net result of year.

   (b) Capacity of System under prospective demands.

11/13/17

FEDERAL RESERVE BOARD

WASHINGTON

X-500.

November 13, 1917.

Dear Sir:

Copy of letter which appears below is sent to you for your information and that of your bank.

Assistant Secretary.

November 12, 1917.

Mr. R. L. Austin,
Federal Reserve Agent,
Philadelphia, Pa.

Dear Mr. Austin:

The Board has today considered your schedule of proposed changes in discount rates and has acted upon your board's recommendation as follows:

The increase in the rate for fifteen-day paper, including member banks' collateral notes, from 3½% to 4% has been approved. As to the ninety-day Liberty Loan rate, the increase to 4% has been approved, upon the condition, however, that the rate shall not be put into effect until possibly a few days after November fifteenth, so that your member banks will have an opportunity to rediscount at the present rate when paying for the first installment of the Liberty Loan.

As to the fifteen-day rate for collateral notes secured by Liberty bonds or certificates of indebtedness, it was decided to keep a decision on this rate in abeyance and leave your rate of 3½% unchanged until after November fifteenth, when it will be possible fully to guage the pressure that will have to be faced by the Federal Reserve banks.

With respect to the trade acceptance rate, it was the opinion of the Board that a margin of 1/2% should, if possible, be maintained between trade acceptances and the rate for commercial paper of similar maturity. The amount of trade acceptances rediscounted with your bank is unimportant - not much in exsess of $100,000. - and it is our understanding that your board's reason for applying for an increase in the rate was that your bank is rediscounting a very large number of very small items, which it is the view of your board entail too much labor to warrant so low a rate. The Federal Reserve Board recommends in this respect that you leave the rate as it now stands, 1/2% under the commercial paper rate, but that you make it a rule that upon any items under fifty dollars you make an extra charge of ten cents each, in addition to the interest charge fixed for trade acceptances.

Very truly yours,

W. P. G. HARDING.

Governor.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

X-501

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

November 13, 1917.

Dear Sir:

I enclose herewith statement as of November 9, showing ratio of float of each Federal Reserve Bank to earning assets and to deposits. This statement shows some improvement over those brought to the attention of the Federal Reserve Bank governors when they were here last week.

Very truly yours,

Governor.

Inclosure.

2955

RATIO OF "FLOAT" OF EACH FEDERAL RESERVE BANK TO EARNING ASSETS AND DEPOSITS
NOVEMBER 9, 1917.

FEDERAL RESERVE BANK	BLOT Clearing House Exchanges	BAIT Transfers bought	All other uncollected Items	Total uncollected Items Dr.	Total collection Items Cr.	Total "Float"	Ratio of "Float" to total earning assets	Ratio of "Float" to Govt. and bank deposits
Boston	1,576	215	14,192	15,983	12,516	3,467	8.0	4.5
New York	14,977	...	50,593	65,570	44,251	21,319	6.4	3.2
Philadelphia	2,316	...	31,742	34,058	30,349	3,709	9.5	4.5
Cleveland	....	1,170	15,869	17,039	12,094	4,945	8.0	4.5
Richmond	1,310	...	16, 390	17,700	13,797	3,903	15.6	8.0
Atlanta	1,825	...	14,554	16,379	8,222	8,157	30.3	22.5
Chicago	1,522	12,739	21,287	35,548	23,109	12,439	13.3	7.2
St. Louis	236	2,745	14,435	17,416	13,964	3,452	13.3	6.8
Minneapolis	...	3,615	6,736	10,351	4,746	5,605	19.4	11.5
Kansas City	55	2,729	14,019	16,803	9,977	6,826	13.4	9.0
Dallas	11	5,573	7,816	13,400	5,117	8,283	29.5	17.7
San Francisco	1,613	1,521	8,415	11,549	8,880	2,669	8.5	3.2
TOTAL	25,441	30,307	216,048	271,796	187,022	84,744	10.8	5.7

X-502

FEDERAL RESERVE BOARD

WASHINGTON

November 13, 1917.

You are hereby advised that the Board has authorized the discontinuance, until further notice, of weekly reports on Form 32 showing the distribution by maturities of paper held in pledge by the Federal Reserve agent.

Accordingly, beginning with Friday November 16, we shall no longer expect any report on Form 32. Statements on Form 34 showing distribution by maturities of all classes of paper, (also of warrants) held by Bank and Agent and on Form 38 showing distribution by maturities for each class of paper should be sent by wire and mail as heretofore. Both of these forms are now in process of revision and copies of the 1918 edition will be sent to you shortly.

It will be appreciated if you will advise us how many copies of the daily Statement (Form 34, 1918 edition) you will require for your own, as well as your branches' needs.

Respectfully,

Mr.
Federal Reserve Agent,

EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

FEDERAL RESERVE BOARD X-503

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

November 14, 1917.

Copy of letter to a Federal Reserve agent regarding endorsement of paper sold by one Federal Reserve bank to another:

Dear Sir:

Receipt is acknowledged of your letter of November 6th in which you ask whether the Federal Reserve Bank of New York should not have endorsed the $5,000,000 of bankers' acceptances which you bought recently from that bank in accordance with the suggestion of the Federal Reserve Board.

Your point is well taken and the question was fully discussed by the Board when the transaction was arranged. In reviewing the conditions which led to this transaction, it should be remembered that the Federal Reserve banks, with hardly any exception, have been accustomed, with the approval of the Board, to invest liberally in bankers' acceptances which were purchased for them by the Federal Reserve Bank of New York. These transactions have been regularly engaged in and on a large scale, particularly by those banks which, like your own, did not find a sufficient field of investment in their own districts. The New York acceptance market has thus been developed to a considerable degree by the combined operations of the Federal Reserve banks. It has frequently happened that the Federal Reserve Bank of New York has given other Federal Reserve banks larger participations in these bankers' acceptances than it would have desired had the matter been looked upon from the viewpoint of its own interest alone. These liberal participations have been given other Federal Reserve banks when the New York bank's earnings were not sufficient to meet its own dividend requirements, while the other banks, by receiving a liberal allotment of acceptances purchased in New York, were enabled thereby to make a better showing in the matter of earnings.

There have been other occasions when the Federal Reserve banks have discontinued their purchases in anticipation of heavy demands in their own districts, thus throwing the whole burden of sustaining the acceptance market upon the Federal Reserve Bank of New York. In this way they conserve their own resources, while the reserves of the Federal Reserve Bank of New York were correspondingly reduced because of the larger part of the burden which it had to assume. These facts are brought to your attention for the purpose of emphasizing the point that a participation in the purchase of acceptances is not only a privilege but that it is perhaps a duty also, the measure of which can hardly be gauged by the convenience of any individual bank. Final responsibility in the matter rests under the law upon the Federal Reserve Board, and it may become necessary for the Board in the future to undertake a more complete regulation of these functions.

In suggesting to a number of Federal Reserve Banks which were in a strong position, to purchase bankers' acceptances from the Federal Reserve Bank of New York, the Board asked merely that they resume their purchases of acceptances in the manner in which they had engaged in these transactions heretofore; i.e., without the endorsement of the Federal Reserve Bank of New York. The Board anticipates that there will be a quick change in banking conditions shortly after the fifteenth instant, when the pressure on New York should diminish and bear heavier upon some of the other districts. From this point of view, the most natural operation perhaps would have been the rediscount by other Federal Reserve banks of the fifteen day member banks' collateral paper, of which the Federal Reserve Bank of New York holds a very large amount at this time. Such a transaction, however, would necessarily have been dealt with as a rediscount, as it would have involved single name collateral notes of member banks taken under Section 13, endorsed by the Federal Reserve Bank of New York under instructions from the Federal Reserve Board. It would have been necessary to show a transaction of this kind in the weekly statement, thereby creating more or less comment, which might have been undesirable in the present circumstances, and the Board felt, therefore, that it would be better for the adjustment to take the form of a sale of acceptances suggested by the Board rather than by a rediscount transaction ordered by the Board. The Board understands, of course, that in any case where a rediscount operation is ordered, Federal Reserve banks should have the right to require that the paper bear the endorsement of the selling bank; but where the Board invited the banks to resume purchases of bankers' acceptances upon the same conditions which have prevailed hitherto, it was felt that there was no necessity for requiring an endorsement. Had any bank to which the Board suggested a purchase, stipulated that the paper should be endorsed, the Federal Reserve Bank of New York, in that event, would have been called upon to decide whether it would prefer not to consider the proposed sale.

While your letter was in transit the Board effected a second transaction of this kind. When the Federal Reserve bank governors were assembled here last Thursday, some of them, whose banks were in a particularly strong position, were asked if they were willing to take from the Federal Reserve Bank of New York a specified amount of bankers' acceptances. Without hesitation they all stated their willingness to do so. This transaction also had the character of a voluntary purchase on the part of the Federal Reserve banks, upon the suggestion of the Federal Reserve Board, and as there was no compulsion in the matter, the endorsement of the Federal Reserve Bank of New York was not required.

Respectfully yours,

W. P. G. HARDING,

Governor.

Before the
INTERSTATE COMMERCE COMMISSION ::
::
Docket 4590 ::
No. 57 Ex Parte ::
:::::::::::::::::::::::::::::::::

November 16, 1917. 2 P.M.

Testimony of
HON. PAUL M. WARBURG
Vice-Governor,
Federal Reserve Board.

You have done me the honor of inviting me to testify before you for the purpose, I understand, of giving some facts as to how the general banking situation affects the financing of the railroads, and I believe you wish me to dwell upon this phase of the problem in its bearing upon the question before you of the petition of the railroads to be granted a fifteen per cent increase of the rates charged by them.

Owing to the very short notice that you have given me, it has, of course, been quite impossible for me to familiarize myself with the more technical railroad questions involved in this case or to collect any statistical material. I am glad to comply with your request to discuss this question from the purely financial point of view, but, at the same time, I am frank to admit that I do it only with great hesitation. Your honorable body is so fully conversant with the entire situation and has given it such close study that I feel that there is very little that I can add to the discussion of a subject that has been before you for about ten years. There are, however, certain extraordinary conditions which must enter at this time into your deliberations - conditions which have created a most unprecedented and anomalous situation in the financial market. It is, I understand, your wish that I should speak to you about this phase of the problem, and I am only too glad to present to you my thoughts for what they may be worth - emphasizing, however, that, of course, they represent only my own personal views.

A discussion of the subject necessarily involves at this time a consideration not merely of the railroads but also of the people as individuals and the Government as a whole, for the interests of each of these elements, interdependent even in normal times, are still more closely woven together in view of the common cause of all - the successful prosecution of the war.

When the country turns from peaceful occupations to the business of war a drastic upheaval in the entire economic structure of the country must necessarily result, and inasmuch as it is clear that the combined strength of the nation is essential to victory, every project, every industry, that contributes towards this end must be encouraged in every possible way; whereas, what is not necessary for the common cause must, for the present at least, stand aside. The railroads are clearly one of the most necessary factors in this respect and they must be placed and maintained in such a condition as will best enable them to render in the most efficient degree the services for which they are designed. It is not necessary to elaborate this point; it is sufficient to consider the disastrous effect that the deterioration of the railroads has had upon the military efficiency of some of the European belligerent countries.

What, then, is the carriers' present condition? Like any other corporation or individual, or even the Government itself, railroads suffer at this time from the fact that the dollar which they now earn has diminished very materially in purchasing power so that, even if they were earning the same amount in dollars as prior to the war, these earnings would not buy anything like the same amount of materials or the same amount of labor. It is interesting in this respect to note that their condition is parallel to that of all the belligerent governments which, owing to increasing prices, in order to produce the same purchasing power as heretofore, are forced to place upon the market larger and larger loans.

A comparison of the index figures for the years 1914 and 1917 would show that wholesale prices of commodities have increased, roughly, by 100% since the beginning of the war, and, therefore, the same number of dollars netted by a railroad can produce only a smaller amount of improvements than it produced in pre-war times. It follows that in order to secure these improvements, or even the necessary upkeep, a much larger amount of money must be procured. That money can be obtained in two ways only: by the flotation of additional securities or by an increase in revenue.

I believe I am safe in saying that the vast majority of the railroads are nowadays old established concerns which long since have sold their first mortgage bonds and have generally given comprehensive liens on their tangible properties so that, in financing today, they offer as the basis for new securities the general equity in the property; that means it is their earning power that today constitutes the chief basis of their credit. When net earnings dwindle, as they have, or when doubt arises in the public mind as to the ability of the railroads to be permitted to earn a generous return in the future, the entire credit structure of the railroads suffers. Securities can then be sold only on a higher interest basis. The higher interest charge, in turn, causes a corresponding reduction in net earnings, which again, in turn, operates further to destroy public confidence. And so one destroys the other!

Moreover, it must be borne in mind that the purchasing power of the dollar having been reduced to about 50% of its pre-war value, the interest received from his railroad obligations and the dividends received from his stock to the investor are worth only approximately one half as much as they were before the war, and the return from his investment is further reduced by taxation which absorbs a more or less substantial portion of what the railroad pays him. These are factors which make for the depreciation of railroad securities and it will have the further effect of forcing railroad companies in general to pay higher rates of interest and higher dividends in order to attract the investor's money.

The investor's present attitude toward railroad securities is, as just described, one of serious doubt as to the future. He does not and cannot know what will be the requirements of the Government; or what will be the labor situation: whether adequate labor will be available and if so at what price, and he naturally asks himself the same question as to the materials for the upkeep of the railroads: will they be available and at what price. On the other hand, he questions himself as to the attitude of the Inter-State Commerce Commission: will it permit an increase in the rates charged by the railroads sufficient to offset these abnormal conditions?

It is natural that such an attitude of doubt affects seriously both the marketability and the market value of railroad securities. But this doubt alone has not produced the present shrinkage in their value. Other important factors play a part. One is the unprecedented amount of Government securities which has been placed upon the market and which must continue to be offered as long as the war lasts. It is natural that Government financing undertaken upon so gigantic a scale cannot occur without affecting security values both directly and indirectly. Another factor is that the patriotic investor, under present circumstances, justly has a strong desire to make all his savings available for the direct use of the Government, and he wishes, therefore, to buy Government securities, regardless of how tempting may be the securities of private corporations. There is, in addition, the endless stream of American railroad securities, heretofore held in Europe, flowing back into our country and seeking investment here ever since the beginning of the war in 1914. Under all these circumstances, it is at present becoming increasingly difficult for railroads to sell their securities on reasonable terms, whether to provide for the renewal of such of their obligations as may be approaching maturity or whether for necessary improvements. As a matter of fact, the sale of securities has become practically impossible for most of them.

Inasmuch, therefore, as the present condition of the securities market is practically prohibitive as far as the carriers are concerned, it is of paramount importance that the railroads, as far as possible, should be enabled to pay out of current revenues for all improvements that are necessary to keep their property in at least the same condition of efficiency as obtained at the outbreak of the war. They should have ample revenue, not only because of these reasons, but also because of the fact, as stated before, that their earning power is the measure of their credit. If their credit is sustained it will tend to eliminate at least the lack of confidence, the doubt on the part of the investor, and thus remove one of the most serious handicaps upon the financial operations of the railroads. Enhanced confidence is tantamount to an increase of revenue because of the fact that it decreases the interest charges which must be paid.

It may be asked whether or not the proposed increase in net earnings and the consequent greater confidence of the public will open the securities market to the railroads to a degree sufficient to enable them to finance themselves. Not entirely. It will remain difficult enough for the railroads to finance themselves even under improved conditions, and it has been suggested that it may become necessary, in some way or other, to use or create agencies of the Government for the purpose of granting some sort of relief. Without entering into the merit of such a proposition, it is evident that, even in that case, the task of such agencies would be immeasurably relieved if they were dealing with companies capable of showing substantial net earnings.

It might be asked, "Why not let the railroads stop paying dividends and use these funds for the purpose of providing the moneys necessary for their improvements?" It is patent why such a policy would be fatal. The weak railroads have no dividends which they might suspend. The strong railroads through such suspension would destroy the continuity of their dividend records which constitutes a most valuable asset in that on the strength of these records they have secured the advantage of being able to sell some of their obligations as investments for savings banks Furthermore, such a policy would completely wreck railroad credit and would seriously affect the income and savings of the very public upon whom the Government must now rely for its revenues and for the flotation of its loans.

While all corporations, industrials and railroads, and even municipalities, when trying to raise money in the security market, are meeting with some of the obstacles encountered by the railroads i.e. the general conditions created by the over-shadowing financial operations of the Government, there is no doubt that no other class of borrowers is as much affected as are the railroads The municipalities still have the advantage of making their issues attractive by freeing them from onerous taxes, and such industries as are not affected by price fixing by the Government are not hampered in shifting to the consumer the additional burdens arising out of changed conditions. The railroads, however, and certain public utilities, while forced to pay increased wages and increased prices for materials, are dependent upon the action of Government agencies in adjusting the rates which they may charge for their services. From all the information available to me, the index price of railroad stocks has gone down about 20% since the beginning of the war in 1914 down to the present time, while the index price of industrial stocks has undergone but little change. The capitalization of all the railroads in the United States has been stated at $8,750,000,000 of stock and about $11,000,000,000 of funded debt. If we should figure that the value of railroad bonds has decreased by about 10% and that of railroad stock by about 20%, we would find that the shrinkage in railroad values since the beginning of the war, on that basis, would amount to about $2,800,000,000.

This leads me to a discussion of another side of this question - the interest of the Government.

The successful placing of the Government loans to be issued from time to time, and running into billions, is predicated upon the strength of the general banking situation and the public's confidence in that strength. It has been estimated that national banks, State banks, trust companies and savings banks together own about two billion dollars of railroad securities. In addition to that, these securities form a large percentage of the collateral for their loans. A drastic shrinkage in value of railroad securities, therefore, is naturally a matter of serious concern to all of these institutions and might materially impair their vigor and freedom of action in cooperating with the Government's financial program and, if permitted to go too far, it may throw an additional burden upon the Government. It is my sincere conviction that one of the main objects of the Government - the successful prosecution of the war - will be considerably helped if greater strength is given to the railroads and if greater confidence in them is instilled into the public mind.

For reasons which no doubt are apparent to your honors, it is difficult, in a public hearing, to express my views fully or in more than a very general way, but, in conclusion, I do not hesitate to say that present financial conditions appear to me to be such that an increase of the revenues of the railroads seems an urgent necessity for the purpose of sustaining their credit and efficiency, both of which are essential in aiding the Government and the country successfully to master the difficult tasks which are their chief concern at this time.

* * *

In the analysis of accounts required by the Federal Reserve Board it is necessary to have all the information called for on the "Memorandum copy of Government request for tansportation". It is, therefore, requested that carbon attached be used properly and that all blanks, including cost of tickets, be filled in at the time of receiving ticket. When more than one ticket is obtained on a transportation request the names of those using the tickets should also be indicated on the memorandum copy. This inforantion is required by the Government Auditor before he will pass our accounts. Failure to give this information has been the cause of much additional work both to this office and the railroad companies to whom it is necessary to apply for assistance in filling out the blanks.

SHERMAN ALLEN.

Fiscal Agent.

X-508

+ [illegible]

STATE BANKS ADMITTED TO FEDERAL RESERVE SYSTEM
NOVEMBER, 1917.

NOV 16 1917

	Capital	Surplus	Total Resources
Brooklyn Trust Company Brooklym, N. Y.	$1,500,000	$2,898,481	$40,270,6[illegible]
St. Clair Co. Savings Bank Port Huron, Mich.	100,000	50,000	1,319,436
Citizens Bank, Clinton, Wis.	50,000	10,000	478,360
Miners Deposit Bank, Lykens, Pa.	50,000	110,000	679,897
Citizens Commercial Trust Co. Buffalo, N. Y.	1,250,000	1,250,000	18,196,063
Citizens Trust & Savings Bank, Columbus, Ohio.	700,000	150,000	5,271,822
Savannah Bank & Trust Co., Savannah, Ga.	630,000	570,000	8,415,862
Manufacturers Trust Co., Brooklyn, N. Y.	1,000,000	300,000	15,031,812
The Baltimore Trust Co., Baltimore, Md.	1,000,000	2,000,000	15,990,745
Citizens Savings & Trust Co. Cleveland, Ohio.	4,000,000	4,000,000	74,532,631
Manhattan Company, New York, N. Y.	2,050,000	4,500,000	82,094,144
Fidelity Trust Co. New York, N. Y.	1,000,000	1,000,000	13,965,146
Peoples Trust Co., Brooklyn, N. Y.	1,000,000	1,000,000	29,443,301
W. R. Grace & Co.'s Bank, New York, N. Y.	500,000	500,000	6,675,523
Paoli State Bank, Paoli, Ind.	25,000	750	194,868
Farmers Banking Co., Prairie Depot, Ohio.	30,000	6,000	339,528
Wayne Co. & Home Savings Bank, Detroit, Mich.	3,000,000	3,000,000	53,681,743
Baltimore Commercial Bank, Baltimore, Md.	500,000	100,000	2,668,945
Industrial Trust Co., Providence, R.I.	3,000,000	4,000,000	71,783,303
First Trust & Savings Bank, Chicago, Ill.	500,000	500,000	84,207,394
United State Bank of Chicago, Chicago, Ill.	200,000	30,000	869,220
Austin State Bank, Chicago, Ill.	500,000	100,000	2,668,743
Union Trust Co. of New York, New York, N. Y.	3,000,000	4,500,000	87,043,831
United States Mortgage & Tr.Co. New York, N. Y.	2,000,000	4,000,000	93,377,698
Marion Central Bank Marion, Ala.	50,000	100,000	497,661
Columbia Trust Co., New York, N. Y.	5,000,000	5,000,000	124,186,774
Hillsboro Bank & Savings Co., Hillsboro, Ohio.	50,000	12,000	551,959
Scandinavian Trust Co., New York, N. Y.	1,000,000	1,500,000	11,359,362
TOTAL	33,685,000	41,187,231	845,796,400

FEDERAL RESERVE BOARD

WASHINGTON

X-513

November 17, 1917.

Gentlemen:

Thursday, November 29, is Thanksgiving Day. Please forward figures for use in connection with the Gold Settlement as usual at close of business, Wednesday, November 28.

Settlement will be made Friday, November 30.

Very truly yours,

Assistant Secretary.

OUTLINE OF OPERATIONS OF BRANCH BANK TO BE OPERATED UNDER BY-LAWS AGREED UPON BY THE BOARD ON NOVEMBER 16, 1917.

There will be no theoretical capital assigned to the branch, nor will the member banks in any specific territory be required to deal with the branch. The branch will be established upon the theory that it is an office of the Federal Reserve Bank of the district opened for the convenience of such member banks as may desire to use it. The routine operations of the branch will be conducted by the manager and the Board of Directors, subject to the supervision of the directors of the Federal Reserve Bank and of the Federal Reserve Board. A collection zone will be allotted to each branch and checks drawn upon banks located in this zone may be sent to the branch by any member bank in order to save time in transit and to reduce float. The resulting credit will be reported by the branch to the Federal Reserve Bank.

The member banks will continue to send their offerings for discount to the Federal Reserve Bank except that any bank located in the collection zone allotted to a branch and having signified its desire to deal with the branch may have the option of offering its paper for discount to the branch. Paper which, in the opinion of the directors or the discount committee of the directors of the branch, is eligible, may be passed immediately to the credit of the member bank on the books of the branch, subject to approval by the Federal Reserve Bank.

Each member bank located in the collection zone of a branch bank will be expected to advise the Federal Reserve Bank as to whether it wishes to treat the branch bank as its Federal reserve correspondent. If a bank so elects, it will transact all its Federal reserve business with the branch, except that it may send checks direct to the Federal reserve bank or to any other branch for credit of its account with its own branch. In the matter of exchange transfers, currency shipments and cash deposits and withdrawals, its dealings will be with its own brannh, and not with the Federal Reserve Bank.

Each Federal reserve branch will forward to the Federal reserve bank of its district a daily transcript of all business transacted, showing in detail credits given for loans, deferred credits given on account of collected items, and checks paid for member banks. The Federal reserve bank will make proper entries on its books, in order to maintain a record of the reserves of all member banks in its district, and will receive, as heretofore, reports from all member banks throughout the entire district, of their deposits and required reserves, and will notify all member banks of any delinquincies in reserves. Each Federal Reserve branch bank will keep a record of the collected balances and total reserves of each member bank within its collection zone, in order that it may be in position to pay checks of member banks in its zone which elect to use it as their principal correspondent, without being obliged to telegraph or telephone the Federal Reserve bank. Each branbh will receive daily advices from the Federal Reserve bank and from other branches in the district of debits and credits appearing on their books which affect the accounts of member banks which have elected to use the branch as its Federal reserve correspondent, in order that the record of a branch as to the reserves of member banks dealing with it may be complete.

11/17/17

X- 515

Washington, D. C.
November 17, 1917.

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

Dear Sir:

Permit me to leave this with you as a memorandum of what I understood to be the plan relating to state bank membership in the Federal Reserve system which was agreed upon at the conference at which were present, you, Messrs, Hamlin, Delano and Willis, and President Hinsch, Mr. Stevens and I.

It was thought advisable to adopt the plan suggested by Mr. F. W. Ellsworth, of the Guaranty Trust Company, modified as follows:

1. For the purpose of introducing into the plan the personal element, it seemed desirable that the Governor, or Federal reserve agent, of each Federal reserve bank send each week to the chairman of the American Bankers' Association Federal Reserve Campaign Committee -

(a) the names of ten state banks in his district not now members;

(b) the name of the officer in each of these banks who shapes the policy of the institution;

(c) in the selection of these banks to take the ten largest banks that have shown interest in membership in the system;

(d) in sending in the names of ten banks each week to avoid sending the names of more than one bank in each community.

2. The chairman of the committee will then write to each of these ten banks a personal letter as per copy attached.

If each of the twelve Federal reserve banks submit ten names each week it will mean that one hundred and twenty banks are being solicited directly each week. The nature of the letter written would bring a reply from practically every bank thus addressed. This reply would indicate the attitude of the bank toward membership in the system.

3. Upon receipt of these replies the contents would be carefully analyzed. If objections to membership in the system were evidenced therein founded on a lack of knowledge of the law governing state bank membership, or founded on a lack of knowledge of the practical working of the system, the Chairman would attempt in a further letter to correct these false impressions.

(a) he would send to the Federal Reserve Board and to the Federal reserve bank a copy of the letter from the objecting bank and his reply thereto, thus putting the Board and the Federal reserve bank of the district in possession of the exact attitude of that particular institution;

(b) if any of the banks responded favorably to the first letter the Chairman would write advising them to put themselves into communication with the Federal reserve bank of their district, again putting the Federal Reserve Board and the Federal reserve bank in possession of the facts.

4. When the correspondence with any of these banks begins to indicate a sufficient interest in membership in the system, which if encouraged might result in an application for membership -

(a) an interview should be arranged between the interested banker and some local banker with whom he is friendly and who is an advocate of membership in the system.

(b) or, if the bank is of sufficient importance it might be arranged to have a representative of the Federal reserve bank in the prespective applicant's district call upon the officers of the bank for the purpose of explaining away the difficulties and securing the application.

5. Mr. Ellsworth's plan, copies of which were sent to the members of your Board, contemplated using a country-wide publicity campaign at intervals of six weeks or two months. It is my hope that the Federal Reserve Board will aid this campaign by sending to all eligible nonmember banks, copies of the Federal Reserve Bulletin and inserting therein such matter as will induce an interest in the system:

(a) prominence should be given to the earnings of all Federal reserve banks;

(b) letters such as have already been published expressing satisfaction by state banks in membership in the system should be included;

(c) a "roll of honor" should be given a prominent place in the Bulletin, which should contain the names of all banks that have recently joined the system and which, each month, would bring the names of those banks joining during the month;

(d) a feature should be made of the total amount of assets which the state banks have put back of the system and this should be published each month showing the progress made.

I have asked Mr. M. I. Stevens, First National Bank Building, Milwaukee, who has for the past five or six years been publicity counselor of the Marshall & Illsley Bank, to assist me in the publicity work sent out from my office in connection with the campaign.

It would be well to ask those connected with the Federal Reserve Board and the Federal reserve banks making speeches in the interest of the system to send copies of their speeches to Mr. Stevens, who would then send them out to the financial papers and other publications of the country.

If reasonable cooperation is established, this plan can be conducted without any other expense than the necessay postage.

Mr. Ellsworth's plan of sending out at intervals literature in relation to membership in the system to all nonmember banks, together with the speeches made a group meetings, bankers' dinners and conventions, would maintain a sufficient interest in membership in the system so there would always be a number of banks volunteering to join, and so the letters from the Federal Reserve Campaign Committee would be given reasonable consideration.

Mr. Hinsch has announced that it is his intention as president of the American Bankers' Association, to do everything possible toward the unification of the banking system of the country. The machinery of the American Bankers' Accociation may therefore also be relied upon to help in every way. If the secretary of the Federal Reserve Board will advise the editor of the A. B. A. Bulletin of matter conducive to creating membership in the system, that matter will find a place in the Bulletin which is sent to practically every bank in the United States once each month.

* *

I started outlining what we discussed at our meeting of Thursday morning, but in my enthusiasm found myself adding a number of suggestions which I sincerely hope may have the approval of the members of your Board with the result that atyour convenience the plan be transmitted to the proper person in each Federal reserve bank whom you desire to have assist in this work.

Respectfully, yours,

FEDERAL RESERVE BOARD

WASHINGTON

X-576

November 19, 1917.

Dear Sir:

I beg to transmit for your information a letter which was sent on November 17, to Deputy Governor Treman of the Federal Reserve Bank of New York, as follows:

"Referring further to your letter of October 29, in which you inclose a letter from Mr. J. T. Sproull, dated October 27, with reference to the use of gold as Christmas holiday gifts, I beg to advise you that at a meeting of the Federal Reserve Board held November 16, the Committee to which this matter had been referred reported that -

'********* in view of the general opinion that gold should be concentrated, the attention of bankers, employers of labor and of individuals should be directed to the new War Savings Certificate plan as being an entirely suitable and patriotic method of handling the matter. These War Savings Stamps will be on sale by December first, descriptive literature is now on the press, and the Treasury circular will be issued within a few days.'

This report was approved by the Board."

Very truly yours,

Secretary.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-817

November 19, 1917.

Dear Sir:

In view of the extensive fiscal operations which will be undertaken by the Government during the period of the war, it seems most desirable that those in charge of these operations and the member banks themselves should be able to have a clear view at all times of the financial situation. To this end the Federal Reserve Board has decided that the member banks in eighty-two of the most important cities should be requested to transmit once a week to their respective Federal Reserve banks, a condensed statement showing the principal items, such as deposits, loans, investments, cash, government obligations owned, and loans on such securities. The preparation of these statements will involve but little labor and when tabulated they will reflect quite accurately the changing conditions in money and credit. The information given will be most valuable to the business community and to the banks. It is intended that the figures be reported to the Federal Reserve banks at the close of business Friday of each week, beginning December 7, and that a summary be made by each Federal Reserve bank and telegraphed to the Federal Reserve Board not later than the following Thursday, for publication when the Board's weekly statement is issued on Saturday.

As the leading state banks and trust companies are now members of the system, it will be possible for the first time regularly to publish statistics which will include figures from both the national banks and the state banking institutions. The necessary forms are transmitted herewith and you are requested to instruct the member banks of those cities on the list which are in your district. If you desire to have any additional cities in your district added to the list, please notify the Board promptly.

Your usual cordial and effective cooperation will be appreciated by the Board.

Respectfully, yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

November 19, 1917.

Dear Sir:

The American Bankers Association at its last convention held in Atlantic City, authorized the appointment by its president of a campaign committee on state bank membership in the Federal Reserve system. Mr. J. H. Puelicher, Vice President of the Marshall & Ilsley Bank of Milwaudee, Wisconsin, has been named by President Hinsch as chairman of this committee. When the Federal Reserve bank governors were here recently, reference was made to this Committee, and it was explained to them that the cooperation of the Federal Reserve banks seemed most desirable.

I am inclosing herewith, for your consideration and that of the officials of your bank, a copy of a memorandum which has been addressed to the Board by Mr. Puelicher. Your bank is requested, through its chairman or governor, to write Mr. Puelicher on the subjects outlined in this inclosure, and its cooperation with the American Bankers Association Committee will be appreciated by the Board.

Very truly yours,

Governor.

X-518

Inclosure.

STATEMENT FOR THE PRESS.

The Federal Advisory Council today convened for its usual stated meeting, as required by law. A conference with the Federal Reserve Board was held at 11 o'clock, all members of the Council, with the exception of Mr. Record of Texas, being present. In accordance with custom, Governor Harding briefly addressed the Council, laying before it certain matters relating to the operation of the Federal Reserve System. It is expected that further sessions will be held on Tuesday.

November 19, 1917.

2983

RATIO OF "FLOAT" OF EACH FEDERAL RESERVE BANK TO EARNING ASSETS AND DEPOSITS
NOVEMBER 16, 1917.

FEDERAL RESERVE BANK	Clearing House Exchanges	Transfers bought	All other uncollected Items	Total uncollected Items Dr.	Total collection Items Cr.	Total "Float"	Ratio of "Float" to total earning assets	Ratio of "Float" to Govt. and bank deposits
							Per cent	Per cent
Boston	3,636	900	26,172	30,708	18,420	12,288	18.1	9.5
New York	15,313	...	64,814	80,127	51,196	28,931	7.0	4.3
Philadelphia	12,278	...	35,620	47,898	31,934	15,964	35.2	15.5
Cleveland	6,325	3,385	26,744	36,454	20,940	15,514	21.7	10.5
Richmond	5,987	...	24,422	30,409	15,971	14,438	54.1	21.2
Atlanta	2,387	...	19,692	22,079	10,870	11,209	47.0	29.3
Chicago	926	41,761	28,088	70,775	38,889	31,886	29.[illegible]	14.8
St. Louis	1,128	5,532	20,407	27,067	16,073	10,994	38.5	17.4
Minneapolis	2,890	7,696	7,744	18,330	5,252	13,078	47.2	22.7
Kansas City	3,950	18,507	13,444	35,901	13,695	22,206	46.4	25.7
Dallas	19	5,680	9,327	15,026	6,451	8,575	31.0	18.3
San Francisco	1,217	1,882	10,671	13,770	10,746	3,024	8.1	3.3
TOTAL	56,056	85,343	287,145	428,544	240,437	188,107	20.3	10.9

WAR SAVINGS COMMITTEE

Initial Distribution of Expense Fund Allotment.

Basis: $500,000, allotted on basis of population at rate of $0.00475 per unit of population as estimated by Bureau of Census for July 1,1917.

Mr. Harris' District (Boston and New York Federal Reserve Districts)

		Estimated Population	Initial Expense Allotment
Boston District:	Connecticut	1,334,864	$ 6,340
	Maine	784,216	3,725
	Massachusetts	3,903,684	18,542
	New Hampshire	445,613	2,116
	Rhode Island	631,505	3,099
	Vermont	368,260	1,753
	Total Boston	6,836,637	$34,575
New York District:	New Jersey	3,120,488	14,822
	New York State	(10,785,854	25,000 (State)
	New York City	(	26,203 (City)
	Total New York	13,906,342	66,025
Total Mr. Harris' District		21,374,484	$ 101,600

- -

Mr. Lyon's District: (Philadelphia and Cleveland Federal Reserve Districts)

Philadelphia District:	Delaware	234,219	1,112
	Pennsylvania	8,683,728	41,247
	Total Philadelphia	8,917,947	$42,359
Cleveland District:	Kentucky	2,425,460	11,520
	Ohio	5,261,384	24,991
	West Virginia	1,420,151	6,745
	Total Cleveland	9,106,995	43,256
Total Mr. Lyon's District		18,024,942	$85,615

- -

Mr. Marx's District: (Richmond and Atlanta Federal Reserve Districts)

Richmond District:	Dist. of Columbia	369,282	1,750
	Maryland	1,409,415	6,500
	North Carolina	2,433,782	11,500
	South Carolina	1,646,645	8,138
	Virginia	2,254,137	10,500
	Total Richmond	8,113,261	$38,338

(Mr. Marx's District Continued)

Atlanta District:	Alabama	2,381,326	$11,300
	Florida	1,031,373	6,500
	Georgia	2,875,204	12,000
	Louisiana	1,864,524	9,100
	Mississippi	1,995,495	9,500
	Tennessee	2,328,729	11,000
	Total Atlanta	12,476,651	59,400
Total Mr. Marx's District		20,589,912	$97,788

- -

Mr. Riley's District (Chicago and Minneapolis Federal Reserve Districts)

Chicago District:	Illinois	6,275,779	28,000
	Indiana	2,916,193	12,000
	Iowa	2,376,526	10,269
	Michigan	3,458,186	15,000
	Wisconsin	2,536,091	12,000
	Total Chicago	17,562,975	77,269
Minneapolis District:	Minnesota	2,331,341	10,500
	Montana	472,987	5,000
	North Dakota	664,625	5,000
	South Dakota	605,179	5,000
	Total Minneapolis	4,074,132	25,500
Total Mr. Riley's District		21,636,907	$102,769

- -

Mr. Fleming's District (St. Louis and Kansas City and Dallas Federal Reserve Districts)

St. Louis District:	Arkansas	1,776,457	8,000
	Missouri	3,549,219	16,000
	Total St. Louis	5,325,676	24,000
Kansas City District:	Colorado	1,014,178	6,000
	Kansas	1,888,858	8,000
	Nebraska	1,296,006	8,000
	New Mexico	349,920	3,000
	Oklahoma	2,315,178	10,000
	Wyoming	142,332	1,273
	Total Kansas City	7,006,472	$36,273
Dallas District	Texas	4,574,240	20,000
	Total Dallas		
Total Mr. Fleming's District		16,906,388	$80,273

- -

Mr. Bradley's District (San Francisco Federal Reserve Bank District)

San Francisco District:	Arizona	263,788	$2,500
	California(North) (	3,038,322	7,500 (North)
	California(South) (		3,500 (South)
	Idaho	448,577	3,000
	Nevada	111,284	1,455
	Oregon	862,239	4,500
	Utah	445,196	2,500
	Washington	1,558,808	7,000
	Total San Francisco	6,728,214	$31,955

R E C A P I T U L A T I O N

District Allotted to Federal Director	Territory F. R. Districts	Population July 1, 1917	Initial Expense Allotment
Mr. Harris	Boston	6,836,637	$ 34,575
	New York	13,906,342	66,025
	Total	21,374,484	$101,600
Mr. Lyon	Philadelphia	8,917,947	42,359
	Cleveland	9,106,995	43,256
	Total	18,024,942	$85,615
Mr. Marx	Richmond	8,113,261	38,388
	Atlanta	12,476,651	59,400
	Total	20,589,912	$97,788
Mr. Riley	Chicago	17,562,975	77,269
	Minneapolis	4,074,132	25,500
	Total	21,636,907	$102,769
Mr. Fleming	St. Louis	5,325,676	24,000
	Kansas City	7,006,472	36,273
	Dallas	4,574,240	20,000
	Total	16,906,388	$80,273
Mr. Bradley	San Francisco	6,728,214	$ 31,955
	All Districts Grand Total	105,260,847	$ 500,000

11/21/17

Washington, D. C. November 22, 1917.

MEMORANDUM IN REGARD TO VOUCHERING BILLS FOR EXPENSES IN CONNECTION WITH THE WAR-SAVINGS CAMPAIGN.

The general plan of procedure in regard to vouchering bills for expenditures by the State Committees in the campaign for the sale of War Savings Certificate Stamps, is as follows:

The initial allotment of the general appropriation for field work is $500,000. This is divided among the forty-eight states as shown on the inclosed detailed list, from which it will be seen that the allotments vary from $51,203 for the State of New York (including New York City) to $1,112 for the State of Delaware.

It is proposed that expenditures be made in accordance with rules prepared by the Treasury Department, inclosed herewith, which are similar to the rules in respect to the auditing of expenditures in the Liberty Loan Campaign. Expenditures for field work in the different states must first be approved by the respective State Director and forwarded to the Federal Reserve Bank of the District in which the state is located. The Federal Reserve Bank, acting as fiscal agent of the Treasury Department, will advance the funds to meet the expenditure thus duly approved, and transmit the papers, vouchers, etc., to "Chief Clerk, Treasury Department, Washington, D. C." for final approval. The Federal Reserve Bank, upon final approval by the Treasury Department, will either be reimbursed or authorized to charge the sum against the account of the Treasurer of the United States.

X527.

FEDERAL RESERVE BOARD

WASHINGTON

November 26, 1917.

Dear Sir:

I inclose herewith for your information three papers in regard to making advances for expenditures by the War-Savings Committee and accounting for these expenditures. The documents inclosed are as follows:

1. Mimeograph X-524 - Allotments of proportions to various States.

2. Mimeograph X-525 - Memorandum in regard to vouchering bills for expenses in connection with the War-Savings Campaign.

3. Treasury Department Circular, which is also War-Savings Circular, No. 4, giving instructions of the Treasury Department in regard to auditing the accounts of War-Savings Committee expenditures in the various States.

As you will note, handling these expenditures is going to follow closely the rules which applied in the case of the Liberty Loan Campaign. I thrust, therefore, it will be readily comprehended. The expenditures being comparatively small, should not prove a serious burden.

Yours very truly,

Member, National War-Savings Committee.

FEDERAL RESERVE BOARD

WASHINGTON

X-529

Dear Sir:

The Federal Reserve Board is in receipt of your request for copies of the Tentative Proposal on Uniform Accounting.

I regret to advise that the edition of this booklet is entirely exhausted, and we are therefore unable to comply with your request.

It is not our intention, at the present time, to republish this pamphlet, but subsequently it may be reprinted and in somewhat modified form, in which case your request will receive attention.

Respectfully,

H. PARKER WILLIS.

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-533

November 26, 1917.

Dear Sir:

The following ruling has been made by Counsel for the War-Savings Committee, in response to a query from a Federal Reserve Bank:

"In reply to inquiry of the Federal Reserve Bank of Richmond as to its right to use the franking privilege in the distribution by it of stamps, certificates and cards, beg to advise that any shipment made by any Federal Reserve Bank or branch thereof, which contains exclusively stamps, certificates or cards or correspondence pertaining thereto, issued or in the process of being issued by the Secretary of the Treasury under provisions of the Act of September 24, 1917, relates exclusively to the business of the Government of the United States and is therefore entitled to be carried through the mails under frank of the Secretary of the Treasury.

The Federal Reserve Banks should be provided with suitable franked envelopes for letters, correspondence, etc., and with franked pasters for packages."

You will please be guided accordingly. Requisitions for supplies of franked envelopes and pasters should be placed with the War Savings Committee.

Very truly yours,

Member, National War Savings Committee.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

X-533

November 27, 1917.

Dear Sir:

Referring to Governor Harding's circular letter (X-517) of November 19 in the matter of weekly reports from member banks in principal cities, I enclose herewith list of code words to be used by Federal Reserve banks in transmitting the consolidated figures for the member banks of their districts separately for banks in central reserve cities, in other reserve cities, and outside of reserve cities.

It is suggested that the figures for the individual member banks be transcribed to a weekly compilation sheet, sample form of which is also enclosed herewith, and that the figures be grouped thereon separately for the three classes of banks above mentioned.

Your first consolidated report showing condition of the reporting banks as at close of business on December 7 is expected to reach the Board not later than Thursday, December 13, 1917.

Yours very truly,

Secretary.

Mr.

Federal Reserve Agent,

X538 Rev.

CODE WORDS TO BE USED BY FEDERAL RESERVE BANKS IN TELEGRAPHING TO THE BOARD THE CONSOLIDATED WEEKLY REPORT SHOWING PRINCIPAL RESOURCES AND LIABILITIES OF MEMBER BANKS LOCATED IN SELECTED CITIES.

(Figures as at close of business on Friday ______________ 191 .)

BANKS IN CENTRAL RESERVE CITIES

ROCK -	Number of reporting banks		______
HAND -	U. S. bonds to secure circulation	______	
HELP -	Other U. S. bonds including Liberty bonds	______	
HUFF -	U. S. certificates of indebtedness	______	
HACK -	Total U. S. securities owned		______
HEAR -	Loans secured by U. S. bonds and Certificates		______
HILT -	All other loans and investments		______
HOST -	Reserve with Federal Reserve Bank		______
HULL -	Cash in vault		______
HALE -	Net demand deposits on which reserve is computed		______
HEMP -	Time deposits		______
HEFT -	Government deposits		______
ROME -	Total of items HACK to HEFT inclusive		______

BANKS IN RESERVE CITIES

RENT -	Number of reporting banks		______
KAST -	U. S. bonds to secure circulation	______	
KREX -	Other U. S. bonds, including Liberty bonds	______	
KUBE -	U. S. certificates of indebtedness	______	
KALE -	Total U. S. securities owned		______
KENT -	Loans secured by U. S. bonds and certificates		______
KIRK -	All other loans and investments		______
KLUX -	Reserve with Federal Reserve Bank		______
KOLB -	Cash in vault		______
KULT -	Net demand deposits on which reserve is computed		______
KROP -	Time deposits		______
KNOB -	Government deposits		______
RUNG -	Total of items KALE to KNOB inclusive		______

BANKS NOT LOCATED IN RESERVE OR CENTRAL RESERVE CITIES

RAIL -	Number of reporting banks		______
PALM -	U. S. bonds to secure circulation	______	
POOR -	Other U. S. bonds, including Liberty bonds	______	
PUCK -	U. S. certificates of indebtedness	______	
PART -	Total U. S. securities owned		______
PEAL -	Loans secured by U. S. Bonds and certificates		______
PIKE -	All other loans and investments		______
PONE -	Reserve with Federal Reserve Bank		______
PULL -	Cash in vault		______
PRIM -	Net demand deposits on which reserve is computed		______
PLUS -	Time deposits		______
PELT -	Government deposits		______
RUTH -	Total of items PART to PELT inclusive		______

Figures to be telegraphed to Federal Reserve Board not later than Thursday following the date of report. Signed report to be mailed.

RATIO OF "FLOAT" OF EACH FEDERAL RESERVE BANK TO EARNING ASSETS AND DEPOSITS
NOVEMBER 23, 1917.

FEDERAL RESERVE BANK	Clearing House Exchanges	Transfers bought	All other uncollected Items	Total uncollected Items Dr.	Total collection Items Cr.	Total "Float"	Ratio of "Float" to total earning assets. Per cent	Ratio of "Float" to Govt. and bank deposits Per cent
BOSTON	1,246	15	14,961	16,222	14,311	1,911	2.7	2.2
NEW YORK	10,447	...	50,526	60,973	52,094	8,879	2.1	1.3
PHILADELPHIA	1,254	...	29,382	30,636	27,285	3,351	6.4	3.9
CLEVELAND	1,313	2,760	17,633	21,706	16,815	4,891	6.6	3.7
RICHMOND	2,308	...	18,305	20,613	16,469	4,144	12.5	7.6
ATLANTA	1,909	...	15,212	17,121	9,137	7,984	33.4	20.8
CHICAGO	1,070	20,178	22,774	44,022	27,807	16,215	12.6	7.8
ST. LOUIS	236	1,675	14,987	16,898	13,592	3,306	11.4	6.8
MINNEAPOLIS	...	6,711	4,979	11,690	4,614	7,076	30.8	14.6
KANSAS CITY	31	13,344	11,035	24,410	12,162	12,248	25.1	14.8
DALLAS	15	6,890	10,372	17,277	6,915	10,362	40.1	18.0
SAN FRANCISCO	4,084	3,418	13,455	20,957	13,968	6,989	17.9	6.8
TOTAL	23,913	54,991	223,621	302,525	215,169	87,356	8.9	5.3

FEDERAL RESERVE BOARD

WASHINGTON

X-539

November 27, 1917

Dear Sir:-

I am sending you herewith page proof of Treasury Circular No. 95 - War-Savings Circular No.2, as information supplementary to what I have already sent you. These proofs are subject to modification in detail, but probably not as to general principles; but are sent you to save time.

Yours very truly,

Member, National War-Savings
Committee

REGULATION OF THE FEDERAL RESERVE BOARD.

In accordance with administrative procedure prescribed by the Secretary of the Treasury under authority of executive order of the President, dated October 12, 1917, and in order that transactions in foreign exchange may be investigated, regulated, or prohibited as the circumstances may require, the following regulations are hereby prescribed, effective from this date.

FEDERAL RESERVE BOARD

By ______________________

Governor.

____

Secretary.

APPROVED:

____

Secretary of the Treasury.

DEFINITIONS.

The term person as used in these regulations shall be held to include individuals, firms, partnerships, corporations, and all associations of persons.

The term dealer shall be held to include any person engaged in the business of buying, selling or dealing in foreign exchange.

The term foreign exchange shall be held to include checks, drafts, bills of exchange, cable transfers, or any other form of negotiable or assignable instrument or order used to transfer credit or to order the payment of funds in any foreign country, insular possession or dependency of the United States, or other territory not included within the geographical limits of the Continental United States.

The term customer shall be held to include any person other than a dealer who is resident or domiciled in the United States, regardless of nationality, and who seeks to purchase or acquire foreign exchange or to arrange for the transfer of funds or of credits, or for the establishment of a credit in any form outside of the Continental United States.

The term registration certificate shall be held to mean certificate authorizing a dealer to engage in foreign exchange transactions not prohibited by law.

The term special license shall be held to mean a license or permit issued to an applicant authorizing such applicant to export gold or silver bullion or currency, or to engage in a particular foreign exchange transaction otherwise prohibited by law.

The term general license shall be held to mean a license or permit issued to an applicant authorizing such applicant to export gold or silver bullion to certain designated countries or to engage in certain classes of foreign exchange transactions for a fixed period of time or until such license is revoked.

FOREIGN EXCHANGE TRANSACTIONS:

Every dealer in foreign exchange shall within ______________ days from this date file with the Federal Reserve Bank of the district in which such dealer is located, or is engaged in business, an application for a registration certificate. Such application shall be in form approved by the Federal Reserve Board and shall show the character of the business engaged in and whether or not any enemy or ally of an enemy of the United States has any interest directly or indirectly in such business. It shall embody an agreement on the part of the applicant.

(a) to comply with regulations of the Board
(b) to permit the inspection of the books of the dealer and
(c) to make report as and when required on forms to be approved by the Board.

The Federal Reserve Bank with the approval of the Federal Reserve Board, may issue to such applicant a registration certificate in form approved by the Federal Reserve Board entitling the holder to engage in foreign exchange transactions not prohibited by law, by executive orders of the President or by administrative regulations. Such certificates may be revoked at any time by direction of the Secretary of the Treasury or the Federal Reserve Board. The Federal Reserve Bank issuing such licenses shall furnish to the applicant, copies of forms of reports required and the books and accounts of such applicant shall thereafter be kept in a manner which will enable him to furnish information called for in such reports without delay.

LICENSES:

Applications for licenses to export coin, bullion, or currency shall be filed as heretofore with the Federal Reserve Bank and if such exports are to be made pursuant to authority granted to the applicant by license of the War Trade Board to trade with an enemy, the application shall be accompanied with copy of the license issued by the War Trade Board. Applications to engage in foreign exchange transactions which involve trading with an enemy, shall likewise be accompanied with copy of license issued by the War Trade Board.

GENERAL REPORTS:

Within _______________ days after obtaining a registration certificate each dealer in foreign exchange shall file with the Federal Reserve Bank issuing such certificate a report showing all balances carried with or for foreign correspondents and such other information as may be called for on the forms to be furnished by the Federal Reserve Bank and shall thereafter file with the Federal Reserve Bank on dates specified by the Federal Reserve Bank, reports showing all changes in such balances and all purchases, sales, and other transactions in foreign exchange. Each dealer should require all customers purchasing or selling exchange to file a statement showing the purpose of such purchase or sale with full details of any transactions for the liquidation of or in connection with which such purchase or sale is made. Copies of such statement should be furnished upon request to the Federal Reserve Bank.

SPECIAL REPORTS:

Whenever any dealer in foreign exchange shall have reason to believe that any transaction, within his knowledge, involves or may involve directly or indirectly the payment of funds to or the transfer of credit for the benefit of an enemy or an ally of an enemy, he shall immediately report the facts and circumstances to the Federal Reserve Bank of his district.

EXAMINATIONS:

The books and records of all dealers in foreign exchange must at all times be open to inspection to examiners to be selected by the Federal Reserve Board.

11/28/17

FEDERAL RESERVE BOARD

WASHINGTON

X-540

November 28, 1917.

Dear Sir:

In December, 1914, Hon. Wm. H. Osborne, who was then the Commissioner of Internal Revenue, advised the Board that the following rul~~es~~ings had been made by his bureau.

"The rediscount of a note by a bank does not involve any tax liability.

"A promissory note payable on demand is not held to be renewed and subject to tax under the provisions of the Internal Revenue Act of October 22, 1914, when accrued interest thereon is paid.

"A promissory note may have interest payments endorsed thereon without becoming subject to tax, if the life of the note is not contingent upon payment of the interest and is not extended to a certain future date.

"A promissory note given for a fixed period which when due, is allowed to run without suit, is not held to be renewed upon payment of interest. This is looked upon as a forbearance and not as a renewal; the holder not relinquishing his right for any stated period, and, therefore, no stamp is required in such cases."

The present Commissioner, Hon. Daniel C. Roper, advises the Board that these rul~~es~~ings are deemed to be consistent with proper enforcement of the existing law. This information is given you in order that it may be transmitted to your member banks in such manner as may be deemed expedient.

Very truly yours,

Governor.

November 30, 1917.

MEMORANDUM FOR THE EMPLOYEES
OF THE FEDERAL RESERVE BOARD:

The Federal Reserve Board will not grant leave to employees during the month of December except under unusual and fully explained conditions. The attention of employees was called to the fact that the Board desired leave to be taken in other months than December in connection with the granting of annual leave early in the summer. Chiefs of Divisions and heads of offices will please call this to the attention of those associated with them, and refer all requests for leave to the Secretary's Office.

H. PARKER WILLIS.

Secretary.

STATEMENT FOR THE PRESS.

The Secretary of the Treasury has made arrangements so there shall be available to the importers of the United States rupee exchange for the purpose of satisfying the legitimate trade requirements of the country. The embargo on gold exports has made it difficult for importers of the United States to find remittances for their purchases in India. This difficulty was realized by the Secretary of the Treasury and the result has been a negotiation which now permits the merchants to purchase rupees.

The Secretary of the Treasury has placed in the hands of the Federal Reserve Board the administration and apportionment of these Rupee drafts and the Federal Reserve Board has taken the necessary steps so that merchants requiring such remittances can make their applications through the Federal Reserve Bank of their district and receive allotments to cover their requirements.

The amount of rupees now available is estimated as sufficient to take care of the immediate requirements of trade and it is hoped that further arrangements can be made to take care of the future requirements as they arise from time to time.

December 1, 1917.

FEDERAL RESERVE BOARD

WASHINGTON

December 1, 1917.

Dear Sir:

On November 28, 1917, the Federal Reserve Board forwarded to you the following telegram:

> "Board has been advised that promissory notes of member banks are subject to stamp tax Stop Legislation necessary to obtain exemption Stop Eligible commercial paper, however, may be rediscounted by member banks with Federal Reserve Banks without any additional stamps Stop If Federal Reserve Banks desire to do so they may resell such paper with customary rebate of unearned discount.
>
> HARDING, Governor."

In view of the fact that the stamp tax imposed by the War Revenue Act has been held to apply to the promissory notes of member banks on which short time advances are made by Federal Reserve Banks under the provisions of Section 13 of the Federal Reserve Act, and in view of the fact that this tax practically prohibits this form of short term borrowings by member banks at a time when such borrowings are most necessary as an incident to the successful loan operations of the Government, every proper effort will be made to secure an amendment effecting the requisite exemption.

Pending consideration of such an amendment by Congress, member banks may properly obtain short time advances from Federal Reserve Banks, by rediscounting eligible commercial paper, of longer maturities, under an agreement by which the reserve bank will resell and the member bank repurchase on whatever date may be agreed upon by both parties. The unearned discount may be rebated in the usual manner.

It is suggested by the Board, however, that, in order, to expedite these rediscount operations and to simplify the bookkeeping incident to such operations so that they will be practicable during the rush and pressure of the banks' activities in connection with the payment of the next installment of the Liberty Loan subscriptions, Federal Reserve Banks may adjust the rebate of discount in advance. That is, instead of deducting interest for the full period of the note or bill when making the credit in favor of the member banks, the reserve bank may charge interest only for the period covered by the agreement, that is, from the date of rediscount to the date of repurchase. Or the reserve bank may, if it desires, credit the member bank with the full amount of the paper rediscounted at the time of making the rediscount and at the date of repurchase charge the member bank with that amount plus the amount of discount earned up to the date of repurchase.

It should also be understood that the Federal Reserve Banks may further aid the situation by purchasing, either from member or nonmember banks, notes or bonds of the United States under similar agreements of resale.

Respectfully,

Governor.

Federal Reserve Agent,

Copy sent to Bank.

X-547

FEDERAL RESERVE BOARD

WASHINGTON

DIVISION OF AUDIT AND EXAMINATION

Dear Sir:

This is to advise you that the Federal Reserve Board has given favorable consideration to the application of the

for membership in the Federal Reserve system, upon the conditions set forth in a letter to that institution, a copy of which is herewith enclosed. Upon receipt of notice that the conditions are accepted you will be further advised.

Very truly yours,

Secretary.

Enclosure.

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

TO THE ADDRESSEE:

In connection with the examination of the Federal Reserve Bank of , as of close of business will you kindly give below a list of items held in special custody for your account by the bank named on the date stated. Envelope for reply is inclosed, which requires no postage.

Respectfully,

J. A. BRODERICK,

Federal Reserve Examiner.

(Name of bank)

(Date)

(Official signature)

X-549

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

TO THE BANK ADDRESSED:

In connection with the examination of the Fiscal Agent accounts of the Federal Reserve Bank of ________________, the information called for below is desired. Please address your reply to the undersigned, care of the Federal Reserve Bank.

Respectfully,

J. A. BRODERICK,

Federal Reserve Examiner.

J. A. Broderick,
Federal Reserve Examiner.
Sir:

The records of this bank as of close of business __________ show that the balance or balances listed below were due by this bank to the Treasurer of the United States:

War Loan Deposit Account .... $______________

____________________________________ $______________

As security for the Government deposits aforementioned, the Reserve Bank holds the following:

____
(Name of Bank) (City) (State)

____________________ ____________________
(Date) (Official title)

FEDERAL RESERVE BOARD

WASHINGTON

X-550

ADDRESS REPLY TO FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

Gentlemen:

The books of the Federal Reserve Bank of ______________ show that on ________________ the balance or balances, listed below were due from you to the Treasurer of the United States:

War Loan Deposit Account.............. $______________

__________________________________ $______________

As security for the Government deposits above named, the Reserve Bank holds the following:

Please confirm the figures shown herein to the undersigned, care of the Federal Reserve Bank of ______________.

Respectfully,

Federal Reserve Examiner.

Correct.

____
(Cashier)

____
(Date)

3008

D I S C O U N T   R A T E S.

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to December 4, 1917.

FEDERAL RESERVE BANK	Maturities.							
	Discounts						Trade acceptances	
	DAIS	DEAN	DINE	DOOR	DUAL	DRUM	DALE	DYRE
	Within 15 days including member banks' collateral notes	16 to 60 days	61 to 90 days	Agricultural and live-stock paper over 90 days	Secured by U. S. certificates of indebtedness or Liberty Loan bonds. Within 15 days including member banks' collateral notes	Secured by U. S. certificates of indebtedness or Liberty Loan bonds. 16 to 90 days	1 to 60 days inclusive	61 to 90 days inclusive
Boston	4	4½	4½	5	3½	4	4	4
New York	3	4	4	5	3	3½	3½	3½
Philadelphia	4	4½	4½	5	3½	4	4	4
Cleveland	4	4½	4½	5	3½	4	4	4
Richmond	4	4½	4½	4½	3½	4	4	4
Atlanta	4	4½	4½	5	3½	4	4	4
Chicago	4	4½	5	5½	3½	4	3½	4
St. Louis	4	4½	4½	5½	3½	4	4	4
Minneapolis	4	4½	5	5½	3½	4	4	4
Kansas City	4	4½	4½	5	3½	4	4	4
Dallas	4	4½	4½	5	3½	4	3½	4
San Francisco	4	4½	4½	5½	3½	4	4	4

Note 1. Rate for acceptances purchased in open market, 2½ to 4 per cent, except for San Francisco, whose rate ranges from 2½ to 4½ per cent.

Note 2. Rates for commodity paper have been merged with those for commercial paper of corresponding maturities.

DESK	DIKE	DOVE
Commodity paper		Bankers acceptances
16 to 60 days	61 to 90 days	

FEDERAL RESERVE BOARD

WASHINGTON

X-553

DIVISION OF AUDIT AND EXAMINATION

December 6, 1917.

Dear Sir:

In view of the fact that several of the Federal Reserve Banks seem to feel that the form of par list submitted with the Board's circular letter of June 6, 1917, is preferable to the one now in use, it has been decided to adopt this form beginning with the coming January full list. A copy of the circular letter referred to with the form attached is enclosed herewith.

In preparing your data for the January list, will you, therefore, kindly prepare same in accordance with this form, in duplicate, and forward so as to reach the Federal Reserve Board not later than December 22,1917? Corrections may be made by telegraph until December 27, 1917.

With the number of branches now being established it is probably desirable that the list show in what district or zone the bank or town is located, and it would also appear desirable to include the time schedule of each branch as applying to banks in its zone on items such banks send to the branch.

Should there be any other corrections in your time schedule, will you please make the necessary indications?

Very truly yours,

Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

X-554 3010

December 6, 1917.

Dear Sir:

Inclosed herewith is a table showing the discount rates which have been approved by the Federal Reserve Board as of December 4th. This table shows the changes which were made by all the Federal Reserve Banks at the suggestion of the Board, except in the case of the Federal Reserve Bank of New York, which, because of conditions of a local character, has asked that action be deferred until December 15th.

The table will show greater uniformity in the rates established by the eleven banks which have acted than has existed heretofore. It has been the desire of the Board to simplify the rate schedule and the means of acting upon changes in rates. There are now only two schedules for fifteen day paper, one for commercial paper and collateral notes secured by commercial paper, (including commodity paper and trade acceptances) and the other for collateral notes and customers' paper secured by Government securities. Heretofore there were four rates, as some banks charged a different rate for a note secured by commercial paper than for fifteen day commercial paper discounted, and some had a rate one-half per cent higher for member banks' customers' notes secured by Government securities than for a collateral note secured in the same way. Some banks had a special quotation for the fifteen day trade acceptances.

In telegrams which were exchanged between the Board and the banks some confusion has arisen because of difficulty in describing the character or maturity of the paper to which the rate referred. In order to avoid this in the future there has been inserted in the table <u>a code word at the head of each classification of paper, and hereafter in telegraphic correspondence regarding rates these code words will be used.</u> An additional code word has been inserted for bankers' acceptances, and two additional code words appear for commodity paper having from 16 to 60 days and from 61 to 90 days to run, for use by such banks as still maintain a quotation for this kind of paper, although for the time being the rates are the same as on ordinary commercial paper. The fifteen day rate for commodity paper should remain merged with the fifteen day rate for commercial paper, even though a special rate for longer time commodity paper be reestablished later on.

It should be understood that fifteen day trade acceptances will be taken under whichever classification may be the lower. To illustrate, one of the banks has a trade acceptance rate of 3½% for 1 to 60 days and a fifteen day commercial paper rate of 4%. Fifteen day trade acceptances will according be taken by that bank at 3½%. At another bank the rate is 3½% for trade acceptances from 1 to 60 days and 3% for fifteen day commercial paper. In that case the trade acceptance would be taken at the commercial paper rate of 3%. The Board is of the opinion that when commercial paper or trade acceptances have run down to fifteen days, the difference in classification is not of sufficient importance to warrant a special quotation.

Very truly yours,

Governor.

X-555

FEDERAL RESERVE BOARD

WASHINGTON

December 7, 1917.

Dear Sir:-

The Federal Reserve banks are now considering the matter of dividends and several of them have asked the Board for a ruling as to the depreciation charges which may properly be made.

In the opinion of the Board there should be liberal provision for apparent depreciation, as it seems likely that in the immediate future this depreciation will be increased rather than diminished, because of the weight of succeeding issues of government bonds upon the market. The Board's conclusion, therefore, is that full provision should be made for apparent depreciation in securities before any sum is transferred to surplus account or any payment is made to the United States government. A national bank cannot lawfully pay a dividend to stock-holders when such a payment would impair its capital, and it does not seem proper that a Federal Reserve bank should be permitted to distribute a surplus which does not really exist.

There are however, a number of Federal Reserve banks which are in position to make proper provision for depreciation and at the same time make a substantial payment to the government, carrying a like amount to surplus fund. Consequently, there is need for the adoption of a uniform rule in the treatment of depreciation on furniture, fixtures and equipment, bank premises; and cost of unissued Federal Reserve notes. After due consideration of the matter the Board has concluded

(1) That Federal Reserve banks should be permitted to charge off furniture and fixtures account in full and not exceeding 10% of the cost of vaults;

(2) That no charge be made against the cost of Federal Reserve notes except the notes actually issued to the bank by the Federal Reserve Agent;

(3) That on the cost of bank premises depreciation allowance in any one year should be limited to 5% of the total cost.

No reserve for depreciation against 3% one year notes should be provided as these notes may be taken up on any interest date.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

December 3, 1917.

When the United States joined in the war against Germany in April of this year, the cash reserves against combined note and deposit liabilities of the Federal Reserve System were 83%. At the end of November they were about 63.2% (see memo. No. 1). This means that the financial operations of the Government, covering loans to the aggregate of about $6,500,000,000 during the period from April to November 30, have brought about a reduction in reserves of about 21%. We must bear in mind, however, that full payment for the second Liberty Loan has not yet been completed (the last installment not being due until January 15th and about $1,400,000,000 being still paid by credit and about $650,000,000 being still on deposit against certificates of indebtedness sold and included in the above $6,500,000,000). It is quite possible, therefore, that our reserves have not yet reached their lowest point in connection with the payment of this loan, though the paying off of the Certificates of indebtedness will liquidate some of the loans of the Federal Reserve Banks and thus counteract to a certain extent demands for further loans from them.

If between April 6th and November 30th, 1917, there had not been an increase of $149,000,000 in the free gold holdings of the Federal Reserve System (see Memo No. 2) the reserve percentage would have dropped by a further 5.6% to 57.6%.

It is to be hoped, and it must be our serious concern, that between now and the next Liberty Loan campaign the reserve percentage will again be increased. During the previous campaign it dropped down from 81.0% to 71.4% in June and then recovered to 82% in August (see memo No. 3). It is too early to attempt to prognosticate how fast and how far the reserve strength will recover this time, but if we consult the charts (Nos. 4 and 5) showing similar developments in the Bank of England, the Banque de France, the Reichsbank and the Bank of Russia, we find that we must be prepared for a continuous rise in the liabilities and a continuous fall in reserves of our Federal Reserve Banks. Indeed, we will perceive that in European central banks in most cases rise and fall show a fatal acceleration with each successive year. The German Reichsbank's chart shows most clearly the lines on which the Federal Reserve System's chart is likely to develop; it shows at the same time the dangers that are facing us if we do not move cautiously.

If we look at the Reichsbank chart we find in line 3 (bills discounted, including treasury bills and advances) seven peaks indicating the large increases in loans and discounts accompanying the payments for each successive loan. Within one month after reaching the peak of the loan there follows liquidation bringing the curve down to about the previous level; but we find that this level rises between loans so that each successive starting point is higher than the previous one, and between the first and the last starting points there is a difference of over $2,000,000,000, and the reserve has gone down from 36.7% to 15.8%. In France from 59.5% to 14.1%; Russia from 60.2% to 7.4%. The Bank of England's chart does not show the real picture because about $910,000,000 of small treasury circulating notes are not included (Greenbacks to all intents and purposes, secured by only 14.9% of gold - memo. No 6) and the deposits of the Bank of England, which play a large part in England's reserve position must be considered. The Bank of England's reserve percentage dropped from 39.4% to 27.1% (if we include the $931,000,000 Treasury notes it dropped to about 20.5% since the beginning of the war. But we must bear in mind that England, from the beginning of the war, drew on the United States first for gold and later on for credit. Without the approximately $4,000,000,000 ($1,700,000,000 securities sold and $2,500,000,000 in direct loans) which England thus secured from the United States, Sterling exchange long since would have collapsed like Russian and Italian exchange and England, like those countries, would be practically on a paper basis today. France would be in the same condition had it not been for our assistance unless, indeed, these two countries should have been able to continue the war without importations from us. (In spite of our assistance, France's condition appears to be a critical one - see memo. No. 7)

I mention the experiences of France and England only because I am seriously alarmed by the thought of what will be our condition when our gold reserve should reach the danger point, when our currency should become seriously depreciated - with consequent extreme increases in prices - and when our power of expansion on any reasonably safe basis should have come to an end. When we reach that point it will mean a catastrophe because, unlike England and France, we have nobody who will stand behind us and bolster up our credit.

How soon will we reach that point?

It is too early to venture any guess as to our ability to liquidate the investments of our Federal Reserve Banks, thereby regaining our strength before the issue of the next Liberty Loan. It is not too early, however, to sound a word of warning and to ascertain what means we have to arrest a development which, if shown to exist, might prove disastrous.

If experience should show that our reserve power is dwindling from one loan to another by anything like 15%, the second or third following loan would bring us face to face with a critical situation. What means of protection are there available to the Federal Reserve Banks? And what else can there be done to ward off a too rapid decline of our banking strength?

(1) The Federal Reserve Banks, by raising their rates, will have to try to liquidate a substantial portion of their investments.

The difficulty in the way of carrying such policy into effect is the danger of creating a financial disturbance which might make things worse and affect unfavorably the large loan operations of the Government. We must, therefore, move cautiously and cannot force matters beyond certain limits.

(2) The Federal Reserve Banks must try to increase their gold holdings by continuing to withdraw gold certificates from circulation and substitute Federal reserve notes. This process will become more and more difficult as the amount of outstanding certificates becomes smaller and smaller.

(3) Federal Reserve Banks must continue their efforts to secure gold and gold certificates from the vaults of the banks. But we have drawn heavily on that source of supply and it will be more difficult in the future than in the past to gain gold from that quarter.

(4) We might try to get gold from abroad. Can we get it? It would be very interesting to find out what happened to the Russian and French gold in London. Is it impossible to get England to release some portion of that gold, provided it is available and necessary?

(5) The Federal Reserve Banks must try to reduce their "float" (the amount invested in checks and transfers) by raising the rate of interest upon which these transactions are based and by trying, if at all possible, further to reduce the double circle that money describes when paid in by the banks for account of the Government and paid out again by the Government.

(6) We must bend every effort to prevent permanent corporate financing, camouflaged as commercial paper, from creeping into the Federal Reserve Banks. The securities market being in a most unsatisfactory condition, corporations will try to create securities

in form available for investment by Federal Reserve Banks; or amendments will be recommended with the object of permitting Federal Reserve Banks to lend on corporate securities. It is most important that some machinery be created (a Government corporation such as we have discussed) to relieve the Federal Reserve Banks from additional pressure from these directions.

(7) The Federal Reserve Banks have about $100,000,000 invested in Government securities. The Federal Reserve Banks are permitted to convert their one year notes and other holdings of Government bonds into the 3% conversion bonds, only. These bonds sell at present at about 86% and the amounts invested can not therefore be liquidated at this time. If Federal Reserve Banks were permitted (with the approval of the Secretary of the Treasury) to convert their holdings into whatever bonds the Treasury issues from time to time, they could free themselves of these investments.

These are palliative measures, necessary and important, indeed, but they will not adequately remedy the situation if it should be shown that we are placing Government securities faster than the country is able to absorb them, either because the country does not yet save enough or because we are moving too fast - or both.

I need not go into the question of savings, except to say that if a Government corportation (mentioned under 6) should be established and Congress should empower the Presidnet to license all public sales of corporate securities - the President vesting this power in the board of said corporation - waste by States and municipalities could be checked and expansion by sale of securities could be controlled.

Our main concern, however, must be as to the speed with which we are moving. We must be certain that we have not started upon a three mile run at a thousand yard pace. Otherwise, we are sure to get "winded" and to get knocked out. In this connection the question is a burning one, whether it is possible, without endangering our chances of victory, to bring the military and naval program of the United States and her allies into a scope that will enable us to be quite certain that financially we can hold out even if the war should continue for several years.

People talk about the marvellously increased saving power of the country. But this impressive increase is caused by increased prices and increased wages (moving in a vicious circle). And as these increase the amount that the Government must borrow increases and the value of the dollar decreases.

Issuing billions for perishable goods (and, worse than that, perishable goods that destroy things of permanent value) creates inflation; it creates increased deposits and circulation and increased loans based upon inflated values (except stocks and bonds which go down) and thereby creates a demand for increased reserves. Increased reserves in turn are created by increased borrowing from Federal Reserve Bank. (Table 8, showing increase of deposits and loans since 1914, shows that loans have increased by 40.6% and deposits by 34.5%, both having increased by about $2,500,000,000. But investments during that period have increased by 68.5%, from $1,914,-000,000 to $3,227,000,000, and this greater increase of loans and investments - 47% against increase of deposits of 34.5% - is in itself a sign of a critical development that calls for close watching). This process of inflation and the gradual weakening of our reserves can not be entirely avoided. It is the necessary consequence of extended war financing. War expenses and Government loans must, however, remain fairly nearly within the limits of what can be raised by taxation and absorbed by savings between one large Government loan and the subsequent one. If loans are raised much in excess of that limit, Government bonds must be carried in increasing amounts by bank loans and these loans, and ultimately the Government bonds themselves, or direct advances to the Government, will creep into the Government banks, causing inflation, sapping the gold reserves and bringing about a critical financial and economic situation, and ultimate disaster. The charts of Russia and France tell their own stories in this respect. (I have no doubt Italy and Austria would show similar conditions),

The speed at which we are proceeding is unparalleled. Within one year, 1918, it is estimated that we are to raise about $19,000,000,-000, of which $15,000,000,000, by loans; while England, it is estimated has raised by loans an average of $6.725,000,000 per year, France $4,370,000,000, Germany $5,469,000,000, Russia $5,000,000,000, (See memos. 9 to 12); and, as stated before, these countries could resort to other financial markets in order to strengthen their position, while we not only can not borrow abroad, or sell our securities abroad, but must finance by our loans our allies as well as ourselves and, in addition, have the proceeds of credits opened by us used quite extensively for our allies' purchases of goods in foreign countries. This latter circumstance, and the scope and speed with which our departments and our allies call upon the Treasury for funds and credits are the danger points which must command our closest attention.

The next month will bring us definite figures upon which to base reliable conclusions. We are dealing with a new machinery and new conditions and have no precedents that would enable us to do more at this time than to point to certain possibilities, which, if they should become realities, may prove a serious menace to the successful prosecution of the war.

P. M. W.

12/7/17

December 6, 1917.

MEMORANDUM 1.

RATIO OF THE FEDERAL RESERVE BANKS' TOTAL RESERVES TO NET DEPOSIT AND FEDERAL RESERVE NOTE LIABILITIES COMBINED ON NOVEMBER 30, 1917.

Total Reserve	$1,676,211,000
Total net deposits	1,594,647,000
Total F. R. notes in circulation	1,056,983,000
Total net deposit and F. R. note liabilities. Combined..........	2,651,630,000

Ratio of total reserve to net deposit and F. R. note liabilities. Combined - 63.2 per cent

MEMORANDUM 2. FREE GOLD ON APRIL 6 AND NOVEMBER 30, 1917.

	April 6, 1917.		November 30, 1917.	
Net deposit liability	$ 760,282,000		$1,595,571,000	
Reserve required (35%)		$266,099,000		$558,450,000
F. R. notes in circulation	376,510,000		1,056,983,000	
Reserve required (40%)		150,604,000		422,793,000
Total net deposit & note Liab'l's	1,136,792,000		2,652,554,000	
Total reserves required		416,703,000		981,243,000
Total reserves held		962,662,000		1,676,211,000
Gold holdings in excess of reserve requirements		545,959,000		694,968,000
Gain in free gold between April 6 and Nov. 30, 1917				149,009,000

Percentages of reserve to combined net deposit and note liabilities:

April 6 - (962,662,000 ÷ 1,136,792,000) 84.7 per cent.

Nov. 30 - (1,676,211,000 ÷ 2,652,554,000) 63.2 " "

If it had not been for the increase of $149,009,000 in free gold between April 6 and November 30, 1917, the reserve percentage would have dropped to 57.6 (1,676,211,000 - 149,009,000 ÷ 2,652,554,000)

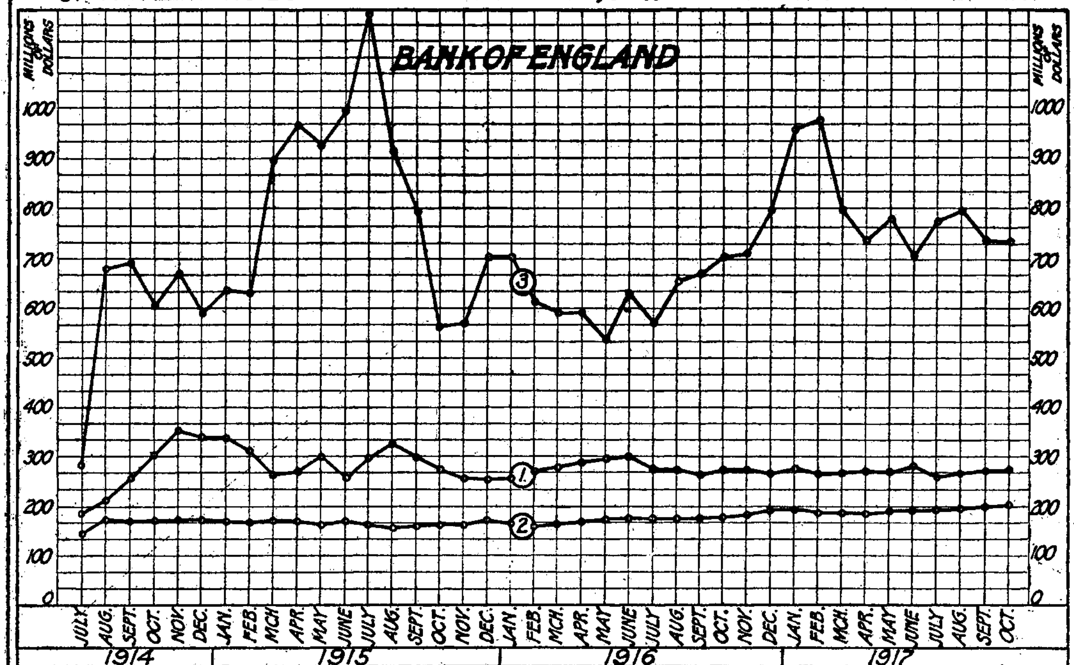
MEMORANDUM 3.

RATIO OF TOTAL RESERVE OF THE FEDERAL RESERVE BANKS TO COMBINED NET DEPOSIT AND FEDERAL RESERVE NOTE LIABILITIES.

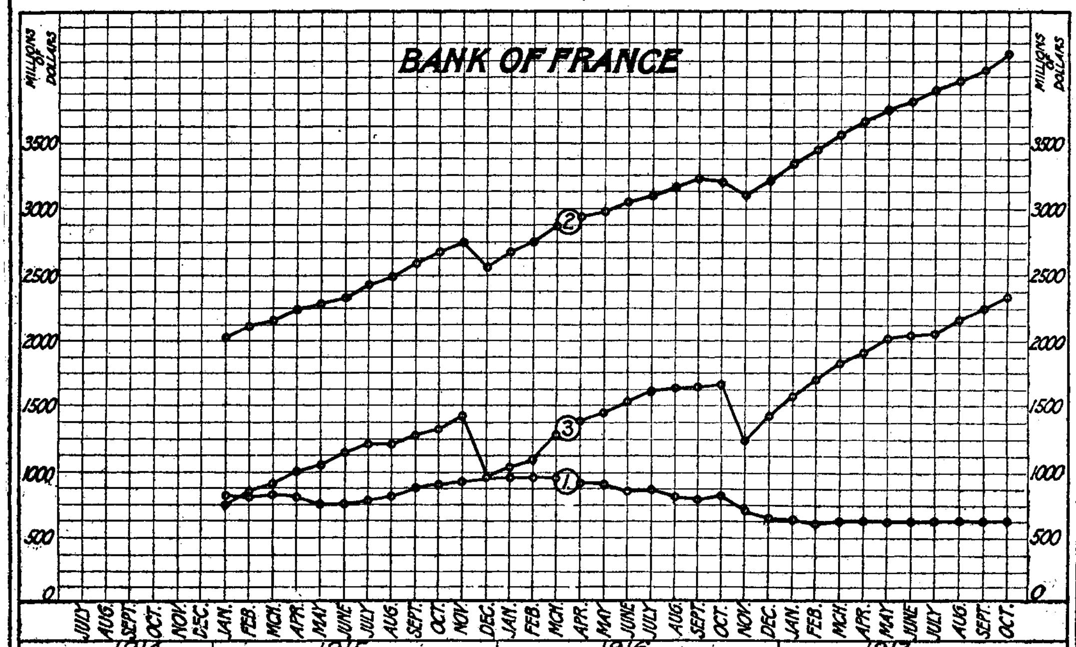
April 5-6, 1917	....	83.0	per	cent
May 11, "	....	81.1	"	"
June 15, "	....	71.4	"	"
June 22, "	....	71.6	"	"
June 29, "	....	75.4	"	"
July 6, "	....	79.6	"	"
July 13, "	....	79.9	"	"
July 20, "	....	79.1	"	"
July 27, "	....	80.1	"	"
Aug. 3, "	....	81.9	"	"
Aug. 10, "	....	82.7	"	"
Aug. 17, "	....	82.0	"	"
Aug. 24, "	....	82.6	"	"
Aug. 31, "	....	81.7	"	"
Sept. 7, "	....	79.6	"	"
Sept. 14, "	....	80.0	"	"
Sept. 21, "	....	79.6	"	"
Sept. 28, "	....	77.1	"	"
Oct. 5, "	....	74.4	"	"
Oct.11-12, "	....	74.5	"	"
Oct. 19, "	....	75.6	"	"
Oct. 26, "	....	71.7	"	"
Nov. 2, "	....	69.0	"	"
Nov. 9, "	....	69.4	"	"
Nov. 16, "	....	65.8	"	"
Nov. 23, "	....	64.7	"	"
Nov. 30, "	....	63.2	"	"

MEMORANDUM 4.

GOLD IN VAULT, BANK NOTES IN CIRCULATION, ETC., OF THE LEADING EUROPEAN BANKS OF ISSUE, SINCE THE OUTBREAK OF THE WAR.



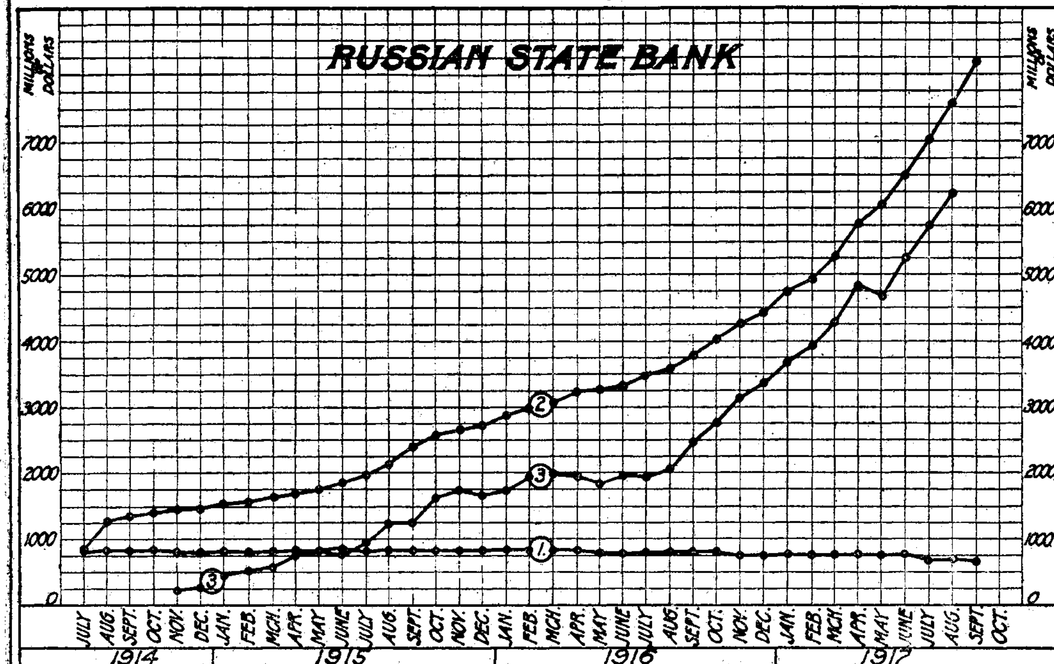
Curve 1: Gold and Silver in Issue and Banking Departments.
Curve 2: Notes in Actual Circulation. Curve 3: Securities in Banking Department.



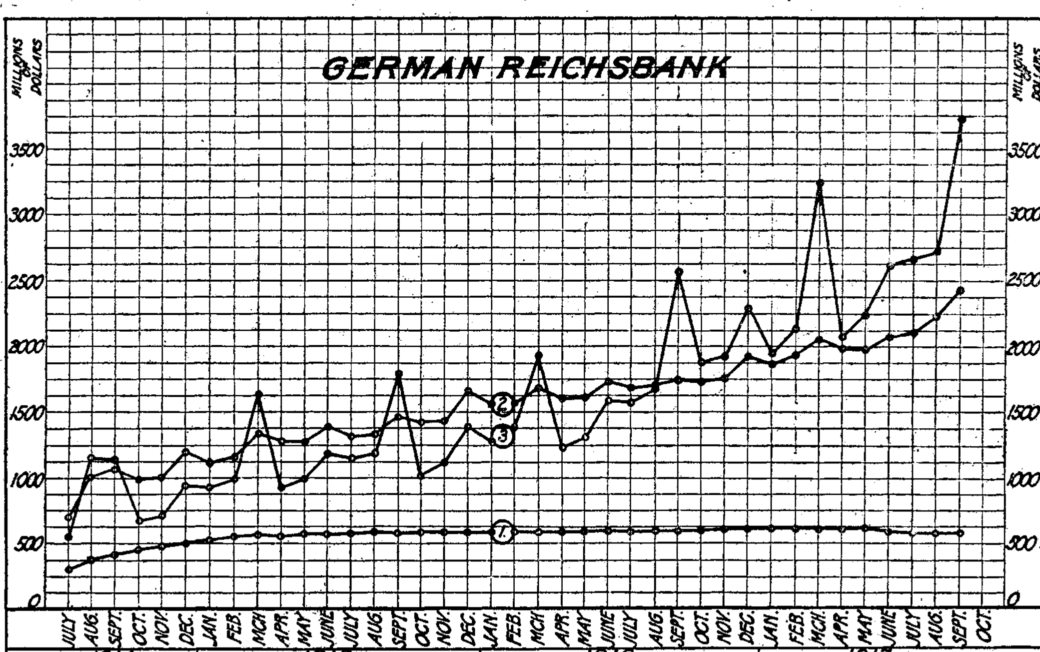
Curve 1: Gold in Vault. Curve 2: Notes in Circulation.
Curve 3: Advances to the Government since the War.

[illegible] 5.

GOLD IN VAULT, BANK NOTES IN CIRCULATION, ETC., OF THE LEADING EUROPEAN BANKS OF ISSUE, SINCE THE OUTBREAK OF THE WAR.



Curve 1: Gold in Vault. Curve 2: Notes in Circulation.
Curve 3: Short-Term Treasury Bonds.



Curve 1: Gold in Vault. Curve 2: Notes in Circulation.
Curve 3: Bills discounted, incl. Treasury Bills and Advances.

X-556

MEMORANDUM 6.

RATIO OF TOTAL RESERVE TO COMBINED DEPOSIT AND NOTE LIABILITIES
FOR THE PRINCIPAL EUROPEAN BANKS OF ISSUE.
(In thousands of dollars)

	Bank of England		Bank of France		Russian State Bank		German Reichsbank	
	July 29, 1914	Nov. 14, 1917	July 30, 1914	Nov. 15, 1917	July 16, to 29, 1914	Sept. 16, to 29, 1917	July 31, 1914	Oct. 23, 1917
Total Metallic Reserve	$185,567	$270,603	$919,968	$683,825	$683,371	$742,249	$363,670	$598,291
Government Deposits	61,869	205,486	73,834	6,375	264,937	109,421	) 299,515	1,365,026
Other Deposits	264,830	586,468	182,881	523,213	327,585	1,710,221	)	
Bank notes in Circulation	144,566	206,138	1,289,855	4,312,749	841,174	8,181,781	692,442	2,413,010
Total	471,265	998,092	1,546,570	4,842,337	1,433,696	10,001,423	991,957	3,778,036
Ratio of Reserve to combined Deposit and Note Liab's	39.4	27.1	59.5	14.1	60.2	7.4	36.7	15.8
Treasury notes outstanding	. . .	931,217						
Coin and bullion Cover	. . .	138,695						
Per cent		14.9						

MEMORANDUM 7.

The following is a quotation from a letter of a Dutch Gentleman.

"According to the official memorandum regarding French finances, France had borrowed in England somewhat over Fcs. 8,000,000,000, and close to Fcs. 6,000,000,000 in the United States. Further advances which we (U. S.) have made in the mean time may have brought France's debt in this country up to about Fcs. 8,000,000,000, making a total of Fcs. 16,000,000,000.

"The official estimate of crops of France indicates that there will be a shortage of wheat, rye, barley, and oats of about 45% against the average yield of these crops for the years 1905 to 1914. What is more serious is that the shortage is greatest in wheat, where it amounts to more than 55%. The "Temps" of September 28th estimates that France may have to import between three and four billion Francs of cereals to make up the shortage of this year. It seems impossible to see how France will be able to keep up her rate of exchange, even if peace should come. Unlike England, France does not dispose of any foreign investments which can be easily made available. For political reasons, the French markets were closed to just foreign securities which would have helped the country most now, and the Government and the banks co-operated in putting the savings of the nation which were availablefor investment abroad - chiefly in Russia, South America and Mexico - just the countries where investors have received the heaviest blows. It was exactly on account of this situation that France found herself actually in the midst of a financial crisis at the outbreak of the war. The necessities of the war long ago consumed whatever foreign assets of a more liquid kind France may have been holding and it is a wellknown fact that the country has even gone so far as to practically pledge the credit of its cities and its biggest private enterprises financially to back up the Government.

"If we turn to the conditions of the Bank of France, we do not find any more reassuring facts.

"On October 11th, the note circulation was Fcs. 21,500-000,000, which were covered by only Fcs. 3,300,000,000 actual gold, being only about 15%. Most of the assets held against the note issues are absolutely uncollectable for the time being. They consist up to:

	Fcs. 12,100,000,000	of advances to the State,
	1,150,000,000	Bills of Exchange not collectible under the moratorium.
and	3,500,000,000	of advances to foreign governments which notoriously are advances to the Russian Government for the payment of interest on its pre-war debt held in France.

This makes a
total of un-
collectible
assets of Fcs. 16,750,000,000, or about 77% of the total amount of notes outstanding.

"Perhaps one of the greatest difficulties which is in store for the French money market and which may well give the final blow to the whole structure, lies in the fact that the day must come when the French Government will cease to pay out to the French holders of the Russia pre-war debt the interest which it can never hope to collect itself. When that day comes I fear a very serious situation."

P. M. W.

MEMORANDUM 8

INCREASES BETWEEN JUNE 30, 1914 AND SEPTEMBER 11, 1917 OF LOANS AND DISCOUNTS AND NET DEPOSITS OF NATIONAL BANKS, AS SHOWN BY COMPTROLLER'S ABSTRACTS.

	June 30, 1914	Sept. 11, 1917	Increases.
	(In thousands of dollars).		
Loans and discounts including overdrafts	$6,445,555	$9,064,855	$2,619,300= 40.6%
Other loans and investments, excluding permanent investments	1,914,888	3,227,124	1,312,236= 68.5%
Total loans and investments,	8,360,443	12,291,979	3,931,536= 47.0%
Net deposits, on which reserve is computed:	7,495,149	10,082,779	2,587,630= 34.5%

MEMORANDUM 9.

BRITISH WAR LOANS

On September 30, according to official announcement of the Chancellor of the Exchequer, the total funded debt of the United Kingdom stood at £2,518,300,000 equivalent to $12,255,307,000. In addition there were outstanding on November 3 about £991,000,000 equivalent to $4,820,000,000, of Treasury Bills, about $1,475,000,000 loans from the United States Government and several hundred millions of credits raised in Holland, Scandanavia, Japan and other foreign countries, making a total of about 18.7 billions of dollars (see London Economist, Nov. 17, 1917).

The London Economist gives the total net borrowings of the British Government for the period August 1, 1914 to November 10, 1917 as £4,491,514,000 equivalent to $21,857,953,000, of which £1,260,000,000 equivalent to $6,132,000,000 represents advances to Dominions and Allies.

Under date of November 14 the Bank of England reports among its assets "Government Securities" amounting to £58,721,320, equivalent to $285,768,000. Taking the larger estimate of total war debt of $21,857,953,000 given by the London Economist as our basis for calculation, we obtain a yearly average of war loans raised between August 1914 and November 1917 of about 6,725 million dollars.

MEMORANDUM 10.

FRENCH WAR LOANS

The Economiste Européen quotes an official budget report, indicating the following increases in the French National debt between August 1, 1914 and September 30, 1917:

	Millions of Francs.
National Defense short-term bonds, ("Bons de la Defense Nationale")	21,700
National Defense "Obligations",	840
5% funded loans of 1915 and 1916,	21,920
Total	44,460

This total is exclusive of 12,350 millions of francs, equivalent to $2,383.5 millions of dollars (at the nominal rate of 19.3¢ per franc) of war advances by the Bank of France shown among its assets on November 15, 1917, - The Bank also carries among its assets an item of 3.145 millions of francs, or about 607 million dollars discounted Treasury Bills, the proceeds of which were advanced to the Allies. It is not clear whether this amount is included in the above total of 44,460 millions of francs. To the total given should be added also the following amounts, largely taken from M. Klotz's Treasury Statement as at July 31, 1917:

	Millions of francs.
Bills sold in England,	7,952
Amounts borrowed in the United States:	
Bank credits,	518
Industrial credit	239
April 1917 credit operations,	498
Anglo-French loan,	1,243
Advances by United States Gov't. (Nov.1,1917)	4,248.7
Amount borrowed in Japan,	129.0
Advances by the Bank of Algeria,	65.0
Total	14,892.7
Total long-term and short-term domestic loans outstanding Sept. 30, 1917	44,460
Advances of the Bank of France,	12,350
	71,702.7
or million	$13,838.8

Assuming this amount to represent total expenditures between August 1, 1914 to September 30, 1917 the average annual expense would be about 4,370 million dollars.

MEMORANDUM 11

RUSSIAN WAR LOANS.

According to an official announcement of the Russian Finance Minister (reproduced in the Economiste Européen of October 12, 1917) the Russian State expenditures between August 1, 1914 and September 1, 1917, aggregated 41,393,000,000 Rubles, or $21,317,000,000 nominal, while Government revenue for the same period was only about 9,701,000,000 Rubles, or $4,996,000,000 nominal. This leaves a total of $16,321,000,000 which had to be covered by loans. Aggregate domestic long-term and short-term loans are given in the statement as 12,758,000,000 Rubles or $6,570,000,000 nominal, the remainder of $9,749,000,000 nominal thus being covered by foreign loans, largely advanced by Great Britain.

On September 29, 1917 the Russian State Bank reports among its assets 13,394,795,000 Rubles of short-term Treasury bonds (Bons du Trésor) besides 828,994,000 Rubles of advances for provisioning operations of the Government, or a total of 14,223,789,000 Rubles equivalent to about 7,325 million dollars at the nominal rate of 51.5 cents per Ruble. Per contra the Bank reports a total of 15,886,953,000 Rubles or $8,181,781,000 nominal of notes in actual circulation.

Assuming a total war debt to September 1917 of $16,319,000,000 the yearly increase of the debt would average slightly over 5 billion dollars.

MEMORANDUM 12

GERMAN WAR LOANS.

	In millions of Marks	@ Dollars (In millions)
1st	4,480.8	1,066.4
2nd	9,106,3	2,167.3
3rd	12,162.6	2,894.7
4th	10,767.6	2,562.7
5th	10,699.0	2,546.4
6th	13,120.0	3,122.6
7th	12,430.0	2,958.3
Total	72,766.3	17,318.4

@ Marks converted at 23.8¢ per Mark.

Note: The above totals are exclusive of Treasury Bills, Treasury Notes, Government War Loan bank notes and other unfunded obligations of the Imperial Government. The above increase in the public debt averages about $5,469,000,000 per year, to which should be added a certain amount of floating indebtedness chiefly in the form of Treasury bills and War Loan bank notes.

DEPARTMENT OF JUSTICE
WASHINGTON

November 26, 1917.

Sir:

I have your letter dated November 16, 1917, with reference to the authority of the Federal Reserve Board to grant to national banks located in New York the power to act as trustee, executor and administrator. I am of opinion that the Reserve Board has no such authority under existing laws.

Section 11 (k) of the Federal Reserve Act of December 23, 1913, c. 6, empowers the Reserve Board:

> Sec.11(k). To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said Board may prescribe. (38 Stat. 251, 262.)

The congressional enactment therefore authorizes the special permit only "when not in contravention of State or local laws".

The Act of April 16, 1914, Article V, section 223, Laws of New York 1914, c. 369, p. 1371, provides:

> No corporation other than a trust company organized under the laws of this State shall have or exercise in this State the power to receive deposits of money, securities or other personal property from any person or corporation in trust, or have or exercise in this State any of the powers specified in subdivisions one, four, five, six, seven and eight of section one hundred eighty-five of this article, nor have or maintain an office in this State for the transaction of, or transact, directly or indirectly, any such or similar business, except that a federal reserve bank may exercise the powers conferred by subdivision one of such section if authorized so to do by the laws of the United States * * * .

Subdivisions 1, 4, 5, 6, 7, and 8 of section 185 of Article V referred to confer authority upon trust companies to act as registrar of stocks and bonds, as executor and administrator, and as trustee in various capacities.

The laws of New York empower only trust companies organized under the laws of that State to act as trustee, executor and administrator. This is not a case where the local law simply authorizes State banks to assume trust company functions. Fellows v. First National Bank, 192 Mich. 640. Corporations other than those organized in New York are expressly prohibited from exercising such powers. Since the national banks in question are not organized under the laws of New York, a special permit to act as trustee would/be plainly in contravention of the State law.

I find nothing in the opinion of Mr. Chief Justice White in First National Bank v. Fellows, 244 U. S. 416, which would justify, in the present matter, a different construction of the unambiguous provisions of the controlling statutes. The language of the present Chief Justice demonstrates the power of the national legislature to confer authority upon national banks to act as trustee, executor and administrator, where such powers are exercised by State trust companies, even though the State law discriminates against the national agencies in this regard. The power of Congress to determine how far national banks may be subject to State control is settled, and State regulations which conflict with the congressional enactments are invalid. Davis v. Elmira Bank, 161 U. S. 275; Easton v. Iowa, 188 U. S. 220; VanReed v. National Bank, 198 U. S. 554. But in this case Congress has not exerted its power. By section 11 (k) it has explicitly constituted the local statutory provisions as the criterion of the corporate capacity of national banks. The New York statute, therefore, can not fairly be said to deny to national banks operating in New York a power Congress intended they should have.

Very respectfully,

T. W. GREGORY

The President. Attorney General

Extract from Section 22 of the Federal Reserve Act:

"Other than the usual salary or director's fee paid to any officer, director, employee, or attorney of a member bank, and other than a reasonable fee paid by said bank to such officer, director, 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 a majority of the members of the board of directors of such member bank."

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:

<u>First</u>: 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, 1½%

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.

FEDERAL RESERVE BOARD

WASHINGTON

X561

DIVISION OF REPORTS AND STATISTICS

December 8, 1917.

Dear Sir:

During the more recent period the Federal Reserve banks have been reporting on Form 34 increasing amounts of Bill of lading drafts. Some of these bills are reported with definite maturities and supposedly represent rediscounted bills secured by bills of lading, while other paper designated as B. L. Drafts have no definite maturities and apparently are in the nature of maturing bills or notes accepted for collection in accordance with Section 13 of the Act. It is suggested that Drafts of the first class be reported with Bills discounted - Members and that the designation "Bill of lading drafts" be confined to drafts that have no definite maturity (including sight drafts) and are accepted by the Reserve banks for collection only. Accordingly figures of drafts of definite maturity with B. L. attached should be included on weekly and monthly reports to the Board with figures of bills discounted - Members.

May I also request that items representing B. L. Drafts with indefinite maturities be reported on Schedule B. D. 4, the respective items to be prefixed by letters B. L. and the "Due" column to contain the notation "Indefinite" "arrival" "sight" or some other similar term which will enable our compilers to segregate these items from others on the same schedule.

Very truly yours,

Secretary.

Mr.
Federal Reserve Agent,

X-563

FEDERAL RESERVE BOARD

WASHINGTON

Dear Sir:

There is being sent you today, under separate cover, a supply of the 1918 edition of Form 38, weekly report of discounts and short-term investments classed by maturities. You will note that a few slight changes have been made in the form. This has been done with the view of securing data regarding amounts and maturities of paper secured by Liberty Loan bonds and Certificates of Indebtedness.

Since the rates on "Commodity paper" have been merged with the general rates, you need no longer report any figures under this caption on form 38, 40, or schedule BD-4, but, on the other hand, information is desired regarding maturities of Government short-term securities.

The former more elaborate classification of discounts, by nature of the paper, has been considerably simplified, and it is believed that the new form will be found much more servicable to the banks, and that the compilation of data under the slightly changed captions will not increase the work of your discount department.

Respectfully,

Secretary.

FEDERAL RESERVE BANK,

RATIO OF "FLOAT" OF EACH FEDERAL RESERVE BANK TO EARNING ASSETS AND DEPOSITS
DECEMBER 7, 1917.

FEDERAL RESERVE BANK	Clearing House Exchanges	Transfers bought	All other uncollected Items	Total uncollected Items Dr.	Total collection Items Cr.	Total "Float"	Ratio of "Float"to total earning assets. Per cent	Ratio of "Float to immediately available Government and bank deposits. Per cent
BOSTON	1,032	...	15,763	16,795	13,895	2,900	3.0	3.4
NEW YORK	15,961	...	51,697	67,658	40,058	27,600	6.4	4.0
PHILADELPHIA	2,006	...	32,063	34,069	26,832	7,237	13.9	8.3
CLEVELAND	1,236	1,535	15,058	17,829	14,438	3,391	4.7	3.1
RICHMOND	2,238	...	19,317	21,555	14,594	6,961	19.2	10.4
ATLANTA	1,329	...	23,936	25,265	10,893	14,372	50.9	29.6
CHICAGO	928	24,668	18,109	43,705	20,937	22,768	21.7	12.5
ST. LOUIS	218	2,870	15,582	18,670	13,752	4,918	15.6	7.3
MINNEAPOLIS	...	6,438	6,286	12,724	4,289	8,435	45.3	15.4
KANSAS CITY	375	5,225	17,126	22,726	13,111	9,615	23.5	11.8
DALLAS	25	7,049	8,645	15,719	6,531	9,188	32.1	15.6
SAN FRANCISCO	2,032	2,015	9,810	13,857	10,531	3,326	8.5	3.6
TOTAL	27,380	49,800	233,392	310,572	189,861	120,711	12.3	7.4

X-566

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

December 13, 1917.

Dear Sir:

Section 7 of the Federal Reserve Act provides in part as follows:

> "After all necessary expenses of a Federal Reserve Bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank."

Inasmuch as on December 31, your bank will have remaining out of undivided profits, after charging off all current expenses, and providing a reserve for depreciation, a sum sufficient to pay all accumulated dividends on capital stock, it will become necessary for your bank to make a payment to the United States as a franchise tax, in an amount equal to one-half of the net earnings in excess of the required dividend, the other half of such excess to be paid into a surplus fund. It is suggested, therefore, that after the necessary entries have been made upon the books of your bank, that the Federal Reserve Board be authorized to transfer from your account in the Gold Settlement Fund, to the Treasurer of the United States, an amount equal to one-half of the net earnings in excess of all accumulated dividends, the remaining half of the excess earnings to be carried to a surplus fund in a ledger account to be opened for that purpose. It is desired that payments to the Treasurer be made on the same day, on behalf of all the Federal Reserve Banks which have excess earnings, and that any announcements made may be simultaneous. The Board will telegraph your bank when this transfer from the Gold Settlement Fund to the Treasurer of the United States is made, and you are requested to make no public announcement until you receive the Board's telegraphic advice.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-563

Dear Sir:

An examination of the
shows that you are serving as a director of that bank and at the same time as of

Under the terms of the Clayton Anti-trust Act no person who is a director of any national bank shall be permitted to serve at the same time as director of any other institution located in the same city of more than 200,000 inhabitants, without first obtaining the permission of the Federal Reserve Board.

If you desire to continue to serve with these institutions, it will be necessary for you to file an application with the Federal Reserve Board for its consent.

Enclosed you will find blank form of application to be filled out by you and statements to be filled out by the institutions on which you desire to serve. It will also be necessary for those banks to submit copy of last published report of condition.

When properly executed all the papers in your case should be filed with the Federal Reserve Agent at

Respectfully,

Enclosure.

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-569c

December 13, 1917.

Dear Sir:

There is inclosed for your information and attention copy of a resolution adopted by the Federal Reserve Board at a meeting held on December 12, levying an assessment of one hundred and thirty-five thousandths of one per cent (.00135) against Federal reserve banks to defray the estimated general expenses of the Federal Reserve Board from January 1 to June 30, 1918. This assessment does not include the cost of engraving and printing Federal reserve notes.

There is also inclosed a statement showing the basis upon which the assessment is levied.

I have the honor to request that you bring this matter to the early attention of the Board of Directors of your bank, and forward the assessment to the Federal Reserve Board, one-half to be payable January 1, and one-half on March 1, as indicated in the resolution.

Very truly yours,

Fiscal Agent.

Inclosures.

WHEREAS, under Section 10 of the Act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semiannually upon the Federal reserve banks in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts, and employes for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year; and

WHEREAS, it appears from estimates submitted and considered that it is necessary that a fund equal to one hundred and thirty-five thousandths of one per cent (.00135) of the capital stock of the Federal reserve banks be created for the purposes hereinbefore described, exclusive of the cost of engraving and printing of Federal reserve notes;

NOW, THEREFORE, BE IT RESOLVED, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal reserve banks of an amount equal to one hundred and thirty-five thousandths of one per cent (.00135) of the total capital stock of such banks, and the fiscal agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of this Board, a receipt for payment made. Such assessment will be collected in two instalments of one-half each; the first instalment to be paid on January 1, 1918, and the second half on March 1, 1918.

12/12/17

ESTIMATE FOR JANUARY, 1918, ASSESSMENT.

Average monthly encumbrance for period July 1, 1917 to December 31, 1917	$21,870.42
Estimated monthly requirements, January to June 1918, inclusive	30,811.24
Estimated monthly increase	$8,940.82
Estimated requirements, January to June 1918, inclusive	$184,867.44
Estimated unencumbered balance January 1, 1918	0.00
Total capitalization of Federal Reserve Banks, December 7, 1917..................................	$138,096,000.

Rate of assessment to produce $184,867.00	0.001387
Rate of assessment to produce $186,430.00	.00135
Rate of assessment to produce $193,334.00	.0014
Rate of assessment to produce $207,144.00 ,..............	.0015

In view of all conditions I have the honor to recommend that an assessment of one hundred and thirty-five thousandths of one percent be levied.

SHERMAN ALLEN
Fiscal Agent.

Approved for .00135 :

F. A. DELANO

C. S. HAMLIN

A. C. MILLER
Committee on Organization,
Expenditures, and Staff.

12/12/17

DETAILED STATEMENT OF EXPENDITURES AND COMMITMENTS AS A BASIS OF ESTIMATE.

	July 1 to Nov. 30, 1917	Estimate for December	Total for 6 Months	Monthly Average for 6 Months	Estimated monthly requirements 1/1 to 6/30/18
Personal services:					
Board & its Clerks	37,040.56	7,458.33	44,498 89	7,416.48	7,458.33
Secretary's Office	11,885.00	2,430.82	14,315.82	2,385.97	2,430.82
Counsel's Office	9,013.33	1,846.66	12,764.84	1,810.00	1,846.66
Div. Audit & Examination	10,149.88	2,614.96	12,764.84	2,127.47	2,614.96
" Reports & Statistics	7,083.34	1,447.66	8,531.00	1,421.83	1,447.66
" of Issue	4,203.99	1,041.64	5,245.63	874.27	1,041.64
Messengers	2,485.83	493.33	2,979.16	496.53	493.33
Charwomen	327.05	66.00	393.05	65.51	66.00
Contingent					2,609.91
Total	82,188.98	17,399.40	99,588.38	16,598.06	20,009.31
Non-personal Services:					
Transportation & Subsistence:					
Board & its clerks	774.37	100.00	874.37	145.73	200.00
Secretary's Office	18.00	..	18.00	3.00	20.00
Div. Audit & Examination	3,802.03	700.00	4,502.03	750.34	1,000.00
" Reports & Statistics	40.05	..	40.05	6.68	10.00
Counsel's Office	22.90	..	22.90	3.82	10.00
Messengers	10.00	5.00	15	2.50	3.00
Communication Service:					
Telephone	870.98	180.00	1,050.98	175.16	250.00
Telegraph	3,227.70	800.00	4,027.70	671.28	1,000.00
Postage	.....	20.00	20.00	3.33	5.00
Printing, Binding, etc:	10,938.46	1,500.00	12,438.46	2,073.08	2,000.00
Contract repairs:	35.09	..	35.09	5.85	20.00
Electricity (light & power):	150.00	30.00	180.00	30.00	30.00
Steam (heat) :	30.00	15.00	45.00	7.50	15.00
Other (Non-personal):	873.23	50.00	923.23	153.87	50.00
Supplies:					
Stationery	646.69	150.00	796.69	132.78	150.00
Periodicals	150.80	..	150.80	25.13	25.00
Other	260.09	50.00	310.09	51.68	100.00
Equipment:					
Furniture & office supplies	3,540.74	300.00	3,840.74	640.12	500.00
Books	142.40	..	142.40	23.73	25.00
Gold Settlement Fund:	805.91	150.00	955.91	159.32	200.00
Rent:	555.79	188.93	744.72	124.12	188.93
Contingencies:	..	500.00	500.00	83.33	5,000.00
Total	26,895.23	4,738.93	31,634.16	5,212.36	10,801.93
GRAND TOTAL	109,084.21	22,138.33	131,222.54	21,870.42	30,811.24

.... (Name of place)

______________________ 19____

I certify that the ticket (or tickets) No...................
Form No............ for.........(state the purpose for which purchased, whether for transportation by rail or water, or for seat, berth, or stateroom in parlor car, sleeping car, or on vessel, or for charges for excess baggage), from ....
to .... via .... is on account of official business and not for private purposes, and is exempt from the tax imposed by the Act of October 3, 1917.

....
(Signature of officer or employee purchasing ticket.)

............................(Title)

....
(Department or Establishment)

X-571-

LIST OF STATE INSTITUTIONS
MEMBERS OF THE FEDERAL RESERVE SYSTEM
UP TO AND INCLUDING DECEMBER 13, 1917
TOTAL MEMBERSHIP 206.

		Capital	Surplus	Total Resources
ALABAMA:				
Birmingham	American Tr. & Savings Bank	500,000	250,000	5,836,700
Eufaula	Bank of Eufaula	100,000	14,000	378,828
Marion	Marion Central Bank	50,000	100,000	497,661
Montgomery	Sullivan Bank & Trust Co.	250,000	25,750	605,582
	Total	900,000	389,750	7,318,771
COLORADO:				
Denver	International Trust Co.	500,000	500,000	13,803,659
CONNECTICUT:				
Bridgeport	Bridgeport Trust Co.	500,000	300,000	7,866,545
New Haven	Union & New Haven Tr. Co.	650,000	500,000	4,574,303
	Total	1,150,000	800,000	12,440,848

DISTRICT OF COLUMBIA:				
Washington,	Continental Trust Co.	1,000,000	100,000	4,289,237
FLORIDA:				
Tampa	Citizens Bank & Tr. Co.	250,000	500,000	3,550,995
GEORGIA:				
Athens	American State Bank	100,000	20,000	538,635
Atlanta	Central Bank & Tr. Corp.	1,000,000	300,000	9,620,109
"	Trust Company of Georgia	1,000,000	1,000,000	3,893,161
Brunswick	Brunswick Bank & Trust Co.	100,000	72,000	1,049,176
Savannah	Citizens & Southern Bank	1,000,000	1,000,000	18,537,851
"	Savannah Bank & Trust Co.	630,000	570,000	8,415,862
	Total	3,830,000	2,962,000	42,054,794
IDAHO:				
Genesee	Genesee Exchange Bank	25,000	12,500	482,091
Kimberly	Bank of Kimberly	35,000	10,250	389,592
	Total	60,000	22,750	871,683

ILLINOIS:				
Chicago	Austin State Bank	200,000	60,000	2,668,743
	Central Trust Co. of Ill.	6,000,000	1,000,000	54,074,035
	Chicago Savings Bk.& Tr. Co.	1,000,000	200,000	12,733,891
	First Trust & Savings Bk.	5,000,000	5,000,000	84,207,394
	Foreman Bros.Banking Co.	1,500,000	500,000	18,141,352
	Harris Tr.& Savings Bank	2,000,000	2,000,000	33,570,255
	Hyde Park State Bank	200,000	50,000	1,840,530
	Kaspar State Bank	500,000	300,000	6,476,754
	Merchants Loan & Trust Co.	3,000,000	8,000,000	109,517,884
	Noel State Bank	300,000	75,000	2,428,746
	Standard Tr. & Savings Bank	1,000,000	500,000	9,980,043
	State Bank of Chicago	1,500,000	3,000,000	38,004,507
	Union Trust Company	1,500,000	1,500,000	37,348,934
	United State Bank of Chicago	200,000	30,000	869,220

ILLINOIS: (Continued)

Elmhurst	Elmhurst State Bank	60,000	25,000	703,766
Joliet	Commercial Tr. & Savings Bk.	100,000	5,000	569,684
	Joliet Trust & Savings Bank	100,000	25,000	766,311
Evanston	State Bank of Evanston	150,000	200,000	4,142,457
Kewanee	Union State Savings Bk.&Tr.Co.	100,000	25,000	1,170,562
	Total	24,410,000	22,495,000	419,215,068

INDIANA:

Elkhart	St.Joseph Valley Bank	100,000	50,000	2,484,247
Paoli	Paoli State Bank	25,000	750	194,868
	Total	125,000	50,750	2,679,115

IOWA:

Clinton	Peoples Tr. & Savings Bank	300,000	300,000	5,179,744
Des Moines	Iowa Loan & Trust Co.	500,000	100,000	7,436,047
Gilman	Citizens Saving Bank	25,000	11,000	383,801
Mason City	Commercial Savings Bank	100,000	14,000	1,117,160
Ottumwa	Ottumwa Savings Bank	100,000	30,000	1,205,090
Sioux City	Bankers Loan & Trust Co.	100,000	5,000	277,323
	Total	1,125,000	460,000	15,599,165

KANSAS:

Fairview	Fairview State Bank	30,000	15,000	291,985
Ft. Scott	Fort Scott State Bank	100,000	26,000	748,859
Hiawatha	Morrill & Janes Bank	100,000	50,000	1,143,410
Wichita	Southwest State Bank	200,000	9,000	1,521,337
	Total	430,000	100,000	3,705,591

KENTUCKY:

Louisville	German Insurance Bank	250,000	500,000	7,307,484
Mt. Sterling	Exchange Bank of Kentucky	50,000	25,000	434,572
	Total	300,000	525,000	7,742,056

LOUISIANA:

Gretna	Jefferson Trust & Savings Bk.	30,000	20,000	402,332
Iota	Bank of Iota	25,000	.. ...	114,204
New Orleans	Canal Bank & Trust Co.	2,000,000	500,000	21,210,372
	Hibernia Bank & Trust Co.	1,500,000	2,000,000	25,881,516
	Metropolitan Bank	400,000	200,000	4,077,889
	Total	3,955,000	2,720,000	51,686,313

MARYLAND:

Baltimore	Baltimore Commercial Bank	500,000	100,000	2,668,945
	Baltimore Trust Co.	1,000,000	2,000,000	15,990,745
	Total	1,500,000	2,100,000	18,659,690

MASSACHUSETTS:

Boston	American Trust Co.	1,000,000	2,000,000	25,578,848
	Commonwealth Trust Co.	1,000,000	500,000	24,001,520
	International Trust Co.	1,500,000	1,500,000	23,933,840
	Metropolitan Trust Co.	300,000	300,000	5,787,080
	Old Colony Trust Co.	6,000,000	7,000,000	150,784,124
Cambridge	Charles River Trust Co.	200,000	200,000	2,893,283
Fitchburg	Fitchburg Bank & Trust Co.	500,000	250,000	4,935,072
Newton	Newton Trust Company	400,000	400,000	4,889,053
Norwood	Norwood Trust Company	200,000	... ...	2,563,580
Winchester	Winchester Trust Company	100,000	25,000	731,236
Worcester	Worcester Bank & Trust Co.	1,250,000	500,000	24,123,410
	Total	12,450,000	12,675,000	270,221,046

MICHIGAN:

Albion	Commercial & Savings Bank	75,000	40,000	798,485
Detroit	First State Bank	500,000	150,000	8,275,489
	Peninsular State Bank	2,500,000	1,000,000	27,270,333
	Peoples State Bank	2,500,000	2,500,000	77,761,759
	The Dime Savings Bank	1,000,000	1,000,000	32,769,194
	Wayne Co. & Home Savings Bk.	3,000,000	3,000,000	53,681,743
Flint	Citizens Com'l & Savings Bk.	150,000	175,000	3,438,805
	Union Trust & Savings Bank	100,000	135,000	3,848,355
	Industrial Savings Bank	250,000	250,000	4,307,935
Grand Rapids	Grand Rapids Savings Bank	400,000	350,000	8,479,169
	Kent State Bank	500,000	500,000	9,419,740
Highland Park	Highland Park State Bank	1,000,000	400,000	20,976,678
Jackson	Central State Bank	100,000	26,000	1,062,781
	Union Bank of Jackson	400,000	100,000	4,388,130
Lapeer	Lapeer Savings Bank	50,000	10,000	545,282
Niles	Niles City Bank	100,000	20,000	699,175
Monroe	B. Dansard & Son's State Bk.	100,000	20,000	1,627,265
Mt. Pleasant	Exchange Savings Bank	50,000	30,000	791,176

MICHIGAN: (Continued)

Port Huron	St. Clair Co. Savings Bank	100,000	50,000	1,319,436
Rochester	Rochester Savings Bank	50,000	10,000	556,346
Romeo	Romeo Savings Bank	50,000	30,000	1,081,181
Saugatuck	Fruit Growers State Bank	50,000	10,000	476,786
Sault Ste.Marie	Sault Savings Bank	100,000	35,000	1,140,382
	Total	13,125,000	9,841,000	264,715,626

MINNESOTA:

Minneapolis	Bankers Tr. & Savings Bank	1,000,000	200,000	2,197,403
	German American Bank	200,000	200,000	4,689,159
	St. Anthony Falls Bank	300,000	60,000	3,763,062
St. Paul	Peoples Bank	300,000	50,000	2,280,204
Spring Valley	Farmers State Bank	25,000	5,000	149,092
Winona	Merchants Bank of Winona	100,000	50,000	2,561,970
	Total	1,925,000	565,000	15,660,890

MISSISSIPPI:

Summit	Union Bank of Pike	25,000	4,000	165,516

MISSOURI:				
Kansas City	Commerce Trust Co.	1,000,000	750,000	32,897,159
	Fidelity Trust Co.	1,000,000	1,000,000	14,461,776
St. Louis	Franklin Bank	600,000	700,000	8,961,674
	German American	1,000,000	700,000	9,239,685
	German Savings Institution	1,500,000	1,000,000	19,261,222
	International Bank of	500,000	500,000	6,981,718
	Lafayette South Side Bank	800,000	400,000	12,604,870
	Mercantile Trust Company	3,000,000	6,500,000	40,732,458
	Mississippi Valley Tr. Co.	3,000,000	3,500,000	30,414,523
	St. Louis Union Bank	2,500,000	2,500,000	44,389,921
	Total	14,900,000	17,550,000	219,945,006
MONTANA:				
Helena	Conrad Trust & Savings Bank	200,000	80,000	3,042,678
Hingham	Hingham State Bank	35,000	.. ...	335,296
Opheim	First State Bank	25,000	5,000	229,183
Sidney	Yellowstone Valley Bk & Tr.Co.	100,000	5,000	748,601
		360,000	90,000	4,355,758
NEBRASKA:				
Lewellen	Bank of Lewellen	25,000	10,000	250,820
NEW JERSEY:				
Bloomfield	Bloomfield Trust Co.	200,000	100,000	3,213,787
Camden	Camden Safe Deposit & Tr. Co.	500,000	800,000	10,352,726
Montclair	Bank of Montclair	100,000	80,000	2,799,827
Passiac	Passiac Tr.& Safe Deposit Co.	200,000	100,000	7,130,181
Plainfield	Plainfield Trust Company	300,000	200,000	8,749,434
Rahway	Rahway Trust Company	100,000	25,000	398,277
Westfield	Peoples Bank & Trust Co.	100,000	80,000	2,005,718
	Total	1,500,000	1,385,000	34,649,950

NEW YORK:				
Batavia	The Bank of Genesee	100,000	100,000	1,151,907
Brooklyn	Brooklyn Trust Co.	1,500,000	2,898,481	40,270,629
	Franklin Trust Co.	1,000,000	1,000,000	24,823,842
	Manufacturers Trust Co.	1,000,000	300,000	15,031,812
	Peoples Trust Co.	1,000,000	1,000,000	29,443,301
Buffalo	Buffalo Trust Co.	500,000	500,000	9,624,217
	Citizens Commercial Tr.Co.	1,250,000	1,250,000	18,196,063
New York	Bankers Trust Company	11,250,000	11,250,000	327,011,784
	Bank of America	1,500,000	6,000,000	60,903,035
	Broadway Trust Company	1,500,000	750,000	34,726,703
	Central Trust Company	5,000,000	15,000,000	209,953,374
	Columbia Trust Company	5,000,000	5,000,000	124,186,774
	Corn Exchange Bank	3,500,000	6,991,165	153,989,100
	Equitable Trust Company	6,000,000	10,500,000	230,210,148
	Fidelity Trust Company	1,000,000	1,000,000	13,965,146
	German American Bank	750,000	250,000	8,404,825
	Germania Bank of the City of	400,000	600,000	8,731,766
	Guaranty Trust Company	25,000,000	25,000,000	613,535,033
	Manhattan Company	2,050,000	4,500,000	82,094,144
	Mercantile Tr.& Deposit Co.	1,000,000	500,000	8,593,786
	Metropolitan Bank	2,000,000	1,000,000	28,801,800
	Metropolitan Trust Co.	2,000,000	4,000,000	63,853,782
	New York Trust Company	3,000,000	10,000,000	90,773,776
	Pacific Bank	500,000	500,000	13,907,579
	Scandinavian Trust Co.	1,000,000	1,500,000	11,359,362
	Union Trust Company	3,000,000	4,500,000	87,043,831
	U. S. Mortgage & Trust Co.	2,000,000	4,000,000	93,377,698
	W. R. Grace & Company's Bk.	500,000	500,000	6,675,523

NEW YORK: (Continued)				
Ogdensburg	St. Lawrence Trust Co.	100,000	25,000	823,362
Utica	Citizens Trust Company	500,000	400,000	10,641,931
	Oneida County Trust Co.	250,000	250,000	2,428,746
	Utica Trust & Deposit Co.	400,000	200,000	11,850,975
Watertown	Northern New York Trust Co.	400,000	400,000	7,151,603
	Total	85,950,000	121,664,646	2,443,537,357

NORTH DAKOTA:				
Enderlin	Enderlin State Bank	50,000	10,000	395,259
Hettinger	Hettinger State Bank	25,000	3,500	282,089
Williston	Bank of Williston	50,000	.. ...	113,071
	Total	125,000	13,500	790,419

OHIO:				
Cleveland	Citizens Savings & Tr.Co.	4,000,000	4,000,000	74,532,631
	Cleveland Trust Company	2,500,000	2,500,000	55,121,784
	Guardian Savings & Tr. Co.	3,000,000	3,000,000	52,731,355
Columbus	Citizens Trust & Savings Bk.	700,000	150,000	5,271,822
Hillsboro	Hillsboro Bank & Savings Co.	50,000	12,000	551,959
Massillon	Ohio Banking & Trust Co.	150,000	37,500	1,307,036
Toledo	Guardian Trust & Savings Bk.	200,000	200,000	4,224,961
Youngstown	City Trust & Savings Bank	200,000	150,000	4,752,034
	Total	10,800,000	10,049,500	198,493,582

OREGON:				
Hood River	Butler Banking Company	100,000	20,000	909,708
Portland	Ladd & Tilton Bank	1,000,000	1,000,000	21,427,913
No. Portland	Live Stock State Bank	100,000	10,000	872,846
	Total	1,200,000	1,030,000	23,210,467

PENNSYLVANIA:				
Lykens	Miners Deposit Bank	50,000	110,000	679,897
New Castle	Lawrence Savings & Trust Co.	300,000	300,000	3,183,907
Pittsburgh	Pittsburgh Trust Company	2,000,000	1,000,000	21,067,764
	Union Trust Company	1,500,000	34,500,000	137,516,868
Philadelphia	Commercial Trust Company	1,000,000	1,750,000	24,796,108
	Girard Trust Company	2,500,000	7,500,000	61,172,461
	Philadelphia Trust Company	1,000,000	4,000,000	26,160,684
		8,350,000	49,160,000	274,577,689

RHODE ISLAND:				
Providence	Industrial Trust Co.	3,000,000	4,000,000	71,783,303

SOUTH CAROLINA:				
Cheraw	Merchants & Farmers Bank	100,000	3,000	338,007
Hartsville	Bank of Hartsville	50,000	50,000	394,626
Sumter	Peoples Bank of Sumter	100,000	19,400	368,325
Westminster	Westminster Bank	100,000	25,000	453,433
Woodruff	Bank of Woodruff	40,700	10,500	256,874
	Total	390,700	107,900	1,811,265

SOUTH DAKOTA:				
Sioux Falls	Sioux Falls Savings Bank	200,000	23,000	3,852,236
TENNESSEE:				
Memphis	Union & Planters Bk & Tr.Co.	1,400,000	200,000	15,307,795
TEXAS:				
Bonham	First State Bank	100,000	14,000	543,354
Bremond	First State Bank	50,000	25,000	232,823
Dallas	Central State Bank	200,000	5,000	1,698,236
	First State Bank	250,000	28,000	3,016,796
De Kalb	First State Bank	25,000	25,000	2,638,304
Edgewood	Farmers & Merchants State Bank	35,000	7,000	95,675
Hamlin	First State Bank	25,000	1,750	158,894
Lubbock	Lubbock State Bank	100,000	13,000	837,114
Memphis	Citizens State Bank	75,000	26,400	377,603
Savoy	First State Bank	25,000	3,500	120,175
Wolfe City	First State Bank	50,000	20,000	235,461
	Total	935,000	168,650	9,954,435
VIRGINIA:				
Chase City	Peoples Bank & Trust Co.	100,000	10,000	173,005
Harrisonburg	Peoples Bank of	150,000	20,000	554,154
Norfolk	Citizens Bank of	600,000	500,000	5,896,002
Richmond	The Savings Bank of	200,000	200,000	2,198,163
	Total	1,050,000	730,000	8,821,324
WASHINGTON:				
Chehalis	Coffman-Dobson Bank & Trust Co	150,000	100,000	1,493,790
Colfax	First Savings & Trust Co.	50,000	15,000	369,711
Rosalia	Bank of Rosalia	25,000	5,000	308,777
Spokane	Spokane & Eastern Trust Co.	1,000,000	200,000	20,078,867
	Total	1,225,000	320,000	22,251,145
WEST VIRGINIA:				
Grafton	Grafton Banking & Trust Co.	100,000	30,000	1,180,082
WISCONSIN:				
Clinton	Citizens Bank	50,000	10,000	478,360
Madison	Bank of Wisconsin	300,000	60,000	2,156,438
Milwaukee	Badger State Bank	200,000	2,000	1,506,471
	Marshall & Illsley Bank	1,000,000	700,000	17,405,264
	Total	1,550,000	772,000	21,546,533

12/17/18

FEDERAL RESERVE BOARD

X-574

WASHINGTON

December 14, 1917.

Dear Sir:

Your attention is drawn to a ruling by the War Trade Board with reference to the payment of certain acceptances made before December fourteenth. A copy of the statement is inclosed herewith.

Very truly yours,

Vice Governor.

Federal Reserve Bank,

Inclosure.

The War Trade Board has authorized the payment of drafts accepted on or before December 14, 1917, drawn on funds to the credit of a person who is an "Enemy" or "Ally of Enemy", or acting for or on behalf of an "Enemy" or "Ally of Enemy", or on which such a person appears as drawer or endorser, when such drafts are presented for payment in the United States, PROVIDED, however, that when such drafts are collected for or on behalf of any person who is an "Enemy" or "Ally of Enemy" or person acting for or on behalf of an "Enemy" or"Ally of Enemy", the proceeds of collection shall be at once reported by the person making such collection, to, and be held subject to the disposition of the Alien Property Custodian.

Attention is called to the fact that no drafts can now be accepted, or transferred or dealt in before acceptance, which are drawn on funds to the credit of any person who is an "Enemy" or "Ally of Enemy", or acting for or on behalf of an "Enemy" or "Ally of Enemy", or drawn by or to the order of such person, or on which such person appears as endorser, unless a license is first obtained from the Bureau of Enemy Trade, Bond Building, Washington, D. C.

The War Trade Board has authorized the payment of travelers' checks, not exceeding $100.00 in amount, on which there appears the endorsement of a person who is an "Enemy" or"Ally of Enemy", or acting for or on behalf of an "Enemy" or "Ally of Enemy", without obtaining a license therefor.

APPROVED : W. T. B.

December 14, 1917.

FEDERAL RESERVE BOARD

X-577

WASHINGTON

December 15, 1917.

Dear Sir:

Referring to the matter of setting up a reserve against depreciation of bonds, I quote that price at which depreciation of Government bonds should be allowed for:

2% Consols. - 1930	Price 96-1/2
1936	" 96
3% One year notes	Par
3% of 1918	Par
4's of 1925	104
3% Conv. 1946-7	84

Governor Harding is away from the city today, and I find that this fact was omitted from his recent letter to you on the subject, and I am therefore writing to supplement his letter.

Yours very truly,

FEDERAL RESERVE BOARD

WASHINGTON

December 15, 1917.

Dear Sir:

You have been advised that it is the plan of the Secretary of the Treasury to renew his offerings of certificates of indebtedness maturing June 25, 1918, bearing interest at the rate of 4%, the purchase price being payable between January 2 and January 15.

It is expected to leave the offer open for some time so as to enable the Federal reserve banks widely and properly to distribute these certificates.

I am addressing this letter to you in order to enlist your particular interest in this offering and to point out to you that in order to attain the results contemplated in this instance special efforts must be made to reach the tax payer, large and small, who wishes to anticipate or spread payments due in June. These certificates can not be used in payment of future Liberty Loan instalments and they are not designed ultimately as an investment for banks, and in addressing the banks of your district it might be well to point out to them that while the Treasury contemplates through these issues to raise money and welcomes subscriptions from other/than tax payers, the ultimate object of the issue is to relieve the congestion of the money market such as would ensue if the two billions of tax payments were made by the tax payers in June. It is of the greatest importance, therefore, that, the largest possible number of tax payers, be reached and encouraged to purchase these certificates maturing June 25. A vigorous effort should be made not only to place these certificates in the first instance as far as possible among tax payers, but to the extent that they and the similar certificates dated November 30, are subscribed in the first instance by banks and other than tax payers, to continue the work with a view to obtaining a large secondary distribution among tax payers.

It might be well worth while to consider the advisability of creating in your district and in your bank a small special organization that will devote its efforts to this particular work.

Respectfully,

Vice Governor.

X-578

TREASURY DEPARTMENT
WASHINGTON

December 13, 1917.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period July 1 to 31, 1917, amounting to $134,321.44, as follows:

	$5	$10	$20	$50	$100	Total.
Boston........	9,000	28,000	8,000	---	2,000	47,000
New York......	2,000,000	1,121,000	252,000	15,000	---	3,388,000
Philadelphia..	14,000	---	8,000	---	---	22,000
Cleveland.....	2,000	19,000	1,000	5,000	2,000	29,000
Richmond......	2,000	---	---	1,000	1,000	4,000
Chicago.......	19,000	63,000	29,000	8,000	8,000	127,000
St. Louis.....	---	14,000	---	1,000	1,000	16,000
Minneapolis...	13,000	---	---	---	---	13,000
Kansas City...	2,000	---	---	---	---	2,000
Dallas........	2,000	---	---	---	---	2,000
San Francisco.	---	24,000	---	---	---	24,000
	2,063,000	1,269,000	298,000	30,000	14,000	3,674,000
	3,674,000 sheets @ $36.56 per M					$134,321.44

The charges against the several Federal reserve banks are as follows:

	Sheets	Compensation.	Bureau appropriations: Plate Printing	Bureau appropriations: Materials	Bureau appropriations: Inc. Compensation.	Total
Boston.......	47,000	$514.65	$665.05	$482.22	$56.40	$1,718.32
New York.....	3,388,000	37,098.60	47,940.20	34,760.88	4,065.60	123,865.28
Philadelphia.	22,000	240.90	311.30	225.72	26.40	804.32
Cleveland....	29,000	317.55	410.35	297.54	34.80	1,060.24
Richmond.....	4,000	43.80	56.60	41.04	4.80	146.24
Chicago......	127,000	1,390.65	1,797.05	1,303.02	152.40	4,643.12
St. Louis....	16,000	175.20	226.40	164.16	19.20	584.96
Minneapolis..	13,000	142.35	183.95	133.38	15.60	475.28
Kansas City..	2,000	21.90	28.30	20.52	2.40	73.12
Dallas.......	2,000	21.90	28.30	20.52	2.40	73.12
San Francisco	24,000	262.80	339.60	246.24	28.80	877.44
	3,674,000	$40,230.30	$51,987.10	$37,695.24	$4,408.80	$134,321.44

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation, "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
Signed Paul Myers
Acting Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

December 13, 1917.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period August 1 to 31, 1917, amounting to $109,935.92, as follows:

	$5	$10	$20	$50	$100	Total.
New York.......	1,783,000	514,000	87,000	---	---	2,384,000
Philadelphia...	---	---	12,000	---	---	12,000
Cleveland......	---	---	---	6,000	2,000	8,000
Chicago........	60,000	271,000	166,000	25,000	8,000	530,000
Kansas City....	73,000	---	---	---	---	73,000
	1,916,000	785,000	265,000	31,000	10,000	3,007,000

3,007,000 sheets @ $36.56 per M....................$109,935.92

The charges against the several Federal reserve banks are as follows:

		Bureau appropriations				
	Sheets.	Compensation.	Plate Printing.	Materials	Inc. Compensation.	Total.
New York.....	2,384,000	$26,104.80	$33,733.60	$24,459.84	$2,860.80	$87,159.04
Philadelphia.	12,000	131.40	169.80	123.12	14.40	438.72
Cleveland....	8,000	87.60	113.20	82.08	9.60	292.48
Chicago......	530,000	5,803.50	7,499.50	5,437.80	636.00	19,376.80
Kansas City..	73,000	799.35	1,032.95	748.98	87.60	2,668.88
	3,007,000	$32,926.65	$42,549.05	$30,851.82	$3,608.40	$109,935.92

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation, "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

Signed Paul Myers,

Acting Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

December 13, 1917.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal reserve notes during the period September 1 to 30, 1917, amounting to $73,741.52, as follows:

	$5	$10	$20	$50	$100	Total.
Boston.........	187,000	147,000	7,000	---	---	341,000
New York.......	845,000	---	3,000	3,000	---	851,000
Philadelphia...	---	46,000	48,000	---	---	94,000
Cleveland......	---	14,000	191,000	8,000	3,000	216,000
Richmond.......	---	---	23,000	1,000	---	24,000
Atlanta........	---	10,000	22,000	---	---	32,000
Chicago........	164,000	106,000	114,000	3,000	---	387,000
St. Louis......	---	---	---	3,000	1,000	4,000
Kansas City....	10,000	---	---	---	---	10,000
Dallas.........	---	---	22,000	---	---	22,000
San Francisco..	---	---	36,000	---	---	36,000
	1,206,000	323,000	466,000	18,000	4,000	2,017,000

2,017,000 sheets @ $36.56 per M....................$73,741.52

The charges against the several Federal reserve banks are as follows:

			Bureau appropriations			
	Sheets.	Compensation.	Plate Printing	Materials	Inc. Compensation.	Total.
Boston.......	341,000	$3,733.95	$4,825.15	$3,498,66	$ 409.20	$12,466.96
New York.....	851,000	9,318.45	12,041.65	8,731.26	1,021.20	31,112.56
Philadelphia.	94,000	1,029.30	1,330.10	964.44	112.80	3,436.64
Cleveland....	216,000	2,365.20	3,056.40	2,216,16	259.20	7,896.96
Richmond.....	24,000	262.80	339.60	246.24	28.80	877.44
Atlanta......	32,000	350.40	452.80	328.32	38.40	1,169.92
Chicago......	387,000	4,237.65	5,476.05	3,970.62	464.40	14,148.72
St. Louis....	4,000	43.80	56.60	41.04	4.80	146.24
Kansas City..	10,000	109.50	141.50	102.60	12.00	365.60
Dallas.......	22,000	240.90	311.30	225.72	26.40	804.32
San Francisco	36,000	394.20	509.40	369.36	43.20	1,316.16
	2,017,000	$22,086.15	$28,540.55	$20,694.42	$ 2,420.40	$73,741.52

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation, "Preparation and Issue of Federal Reserve Notes, Reimbursable," and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
Signed Paul Myers.
Acting Assistant Secretary of the Treasury.

3075

RATIO OF "FLOAT" OF EACH FEDERAL RESERVE BANK TO EARNING ASSETS AND DEPOSITS X-582
DECEMBER 14, 1917.

FEDERAL RESERVE BANK	Clearing House Exchanges	Transfers bought	All other uncollected items	Total Uncollected items Dr.	Total Collection Items Cr.	Total "Float"	Ratio of "Float" to total earning assets. per cent	Ratio of "Float" immediately avail Government and ba deposits Per cent.
Boston	3,788	700	19,745	24,233	17,818	6,415	7.3	7.5
New York	29,991		49,006	78,997	43,281	35,716	7.4	4.4
Philadelphia	4,438		35,334	39,772	33,038	6,734	11.1	8.4
Cleveland	784	1.100	17,332	19,216	15,522	3,694	4.4	3.0
Richmond	1,167		14,275	15,442	11,789	3,653	9.0	7.4
Atlanta	1,410		22,470	23,880	8,223	15,657	56.5	30.1
Chicago	3,201	15,874	20,761	39,836	22,333	17,503	17.3	9.7
St. Louis	414	2,565	15,566	18,545	13,276	5,269	12.5	9.6
Minneapolis		5,179	5,653	10,832	4,168	6,664	25.9	13.9
Kansas City	126	12,652	12,524	25,302	10,109	15,193	36.1	19.4
Dallas,	9	5,109	7,644	12,762	6,519	6,243	19.9	12.4
San Francisco	1,116	1,452	8,271	10,839	10,691	148	0.3	0.2
Total	46,444	44,631	232,602	322,656	198,767	122,889	11.5	7.3

FEDERAL RESERVE BOARD

WASHINGTON

X-583

The Comptroller of the Currency,

Washington, D. C.

Dear Sir:

In accordance with a telegraphic request received from the Federal Reserve Agent at

I have the honor to request that you will cause the release to the Federal Reserve Agent by the Assistant Treasurer of the United States at

of Federal Reserve notes in the following amounts and denominations:

Very truly yours,

Governor.

Countersigned:

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

X-524

The Comptroller of the Currency,

Washington, D. C.

Dear Sir:

In accordance with a telegraphic request received from the Federal Reserve Agent at
I have the honor to request that you will cause shipment to be made to the Federal Reserve Agent at
of Federal Reserve notes in the following amounts and denominations:

Requisition in regular form covering this request will be handed to you in due course.

Very truly yours,

Governor.

Countersigned:

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

DIVISION OF REPORTS AND STATISTICS

X-585

The Comptroller of the Currency,

Washington, D. C.

Dear Sir:

Attached hereto is requisition confirming telegraphic request of

from the Federal Reserve Agent at

for Federal Reserve notes in the following amounts and denominations:

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-586

The Comptroller of the Currency,

Washington, D. C.

Dear Sir:

There is handed to you herewith requisition from the Federal Reserve Agent at for Federal Reserve notes in the following amounts and denominations:

Very truly yours,

Governor.

Inclosure.

FEDERAL RESERVE BOARD

WASHINGTON

X-588

DIVISION OF REPORTS AND STATISTICS

December 20, 1917.

Dear Sir:

For the purpose of insuring uniform treatment of items handled by all Federal Reserve Banks as reported in the "Monthly report of clearing operations" a new item "Average number and amount of items handled daily by both parent bank and branches" has been added to form 50.

You will note that the setting up under separate head of this item will further increase the amount of duplication shown on Form No. 50, which at present segregates items drawn on "Banks located outside the district", though these items are again reported by another Federal Reserve bank as items drawn on banks either in the Federal Reserve city or the Federal Reserve district. But the duplication is apparent in both cases and necessary for the proper calculation of cost per item handled by each Bank. In case a check is handled by both parent bank and the branch, it should be included under the caption "Items handled by both parent bank and branches" in addition to being included in one of the immediately preceding items, depending on the location of the drawee bank.

In the consolidated report forwarded to the Board all items drawn on banks in the city where the parent bank is located should be reported as items drawn on "Banks located in the Federal Reserve City", while all items drawn on banks located elsewhere in the District, whether on banks in cities where the Branch is situated or outside these cities should be reported as items drawn on "Banks located in this district outside Federal Reserve City".

A supply of 25 copies of the revised form is being forwarded under separate cover.

Yours very truly,

Secretary.

Mr.
Federal Reserve Agent,

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

X589

December 20, 1917.

Dear Sir:

Supply of form 34 for the coming year is now being forwarded to your bank by the Government Printing Office. You will note that the only material changes in the form relate to the method of computing reserve percentages. Beginning with the Board's weekly statement for January 4, 1918, the published report will show reserve percentages as follows: "Gold reserve against net deposit and Federal Reserve note liabilities combined" and "Gold and lawful money reserve against net deposit and Federal Reserve note liabilities combined". The number of code words for use on Friday nights has been considerably decreased and you may therefore discard form 341.

Since the proof on the new form 34 was sent to the printer it has been decided to have the banks combine on form 34 "Disbursements a/c Transit Department" with "Expense - current". This will also necessitate combining the current expenses of the bank proper with the disbursements of the transit department in the monthly expense report form 96. The Board desires you however, to continue to submit detailed statement of Transit department disbursements on monthly form 97. In view of the above noted change involving the merging on form 34 of "Disbursements a/c Transit Department" with "Expense - current" item "Net service charges - received" should be reported next year among the bank's monthly earnings on form 95.

One copy each of forms 95 - 96 and 97 revised for use during the coming year are forwarded herewith. The regular supply will be forwarded to you as soon as it is received from the printer.

Yours very truly,

Secretary.

Mr.
Federal Reserve Agent,

FEDERAL RESERVE BOARD

WASHINGTON

X-592

DIVISION OF AUDIT AND EXAMINATION

TAX ON PARCEL POST PACKAGES.

December 20, 1917.

Dear Sir:

The Commissioner of Internal Revenue has advised the Board that Federal Reserve banks are subject to the war stamp tax imposed by Subdivision 14 of Schedule A, act of October 3, 1917, upon parcel post packages, and states that this tax applies to all packages on which postage required to be paid amounts to 25¢ or more. The Commissioner advises that postal authorities are prohibited from transporting such packages until a stamp or stamps representing the tax due shall have been affixed thereto, and that there is no exemption provided by the act for those agencies or departments of the government, including the Federal Reserve banks, mailing such packages, where postage is to be paid thereon.

Very truly yours,

Governor.

X-593

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

December 20, 1917.

Dear Sir:

The Federal Reserve Board has modified its previous ruling regarding amounts which may be written off against expenses incurred in the printing of Federal Reserve notes, so that Federal Reserve banks may, at their discretion, write off amounts which have been actually expended for these notes, whether they are held by the Federal Reserve agent or are in circulation. The previous ruling, which has now been modified, limited the amounts which could be written off to notes actually issued to the bank by the Federal Reserve agents.

Very truly yours,

Governor.

TRANSFERS OF PROPERTY OR OF EVIDENCES OF INDEBTEDNESS.

Sale or pledge of securities or other property.

No person in the United States shall sell, hypothecate, deliver or transfer, or cause to be sold, hypothecated, delivered or transferred, any shares of stock or other form of property, real, personal or mixed, or any bonds, securities or other evidences of indebtedness for or on behalf of, or for the benefit of any foreign government or resident of any foreign country without first making a declaration to the effect that no enemy or ally of an enemy has any interest directly or indirectly in the property or evidence of indebtedness sold, hypothecated, transferred or delivered, and will not be benefited directly or indirectly by such transaction.

Sale of Collateral.

In the case of collateral held as security for existing loans and sold for the liquidation of such loans the pledgee or seller, at his option, may make a declaration showing for whose account such sale is made in lieu of the declaration hereinbefore described. In such case the proceeds of the sale may be used in the liquidation of the loan but no part of such proceeds shall be paid over or delivered to the owner of the equity in such collateral until the person making such payment has been furnished with a declaration to the effect that no enemy or ally of an enemy is interested in or will be benefitted by such payment.

Filing of Declarations.

All declarations made as provided in these regulations shall be filed with the Federal Reserve Board through the Federal reserve bank of the district in which such declarations are made.

License to deal with or for an Enemy.

If any person in the United States desires to sell, hypothecate, transfer or deliver any stocks, bonds or other securities, or other evidences of indebtedness, or any property of any kind whether real, personal or mixed, and has reasonable cause to believe that the person to or with whom such sale, hypothecation, transfer or sale is to be made is an enemy or an ally of an enemy, or is acting for or on behalf of or for the benefit of an enemy or an ally of an enemy, he shall first procure from the War Trade Board a license to engage in such transaction.

CERTIFICATE OF AGREEMENT OF FOREIGN CORRESPONDENT TO BE OBTAINED BY HOLDERS OF REGISTRATION CERTIFICATES AND FILED WITH THE FEDERAL RESERVE BOARD.

. . . .

Every holder of a registration certificate desiring to engage in transactions with or for a foreign correspondent shall obtain from suh correspondent by or before ______________________________ a certificate of agreement to the following effect:

Having arranged with ___________ ________________ to act as the
(Holder of registration certificate)
agent or correspondent in the United States for, or on behalf of, the undersigned, under regulations issued by the appropriate authorities of the United States Government I/We do hereby undertake and agree that I/We will not deal or attempt to deal, directly or indirectly, with said agent or correspondent in any transaction for or on account of, or for the benefit of, an enemy or an ally of an enemy of the United States, and will not make available for the use of an enemy or an ally of an enemy of the United States any funds or property received or credits established as a result of any transaction engaged in with or through said agent or correspondent, and will not transmit to said agent or correspondent for collection or credit any negotiable instrument bearing the signature or indorsement of an enemy or ally of an enemy of the United States.

______________________________ ______

The words "enemy" and "ally of enemy" are used herein, as defined in Section 2 of the act of Congress of the United States, approved October 6, 1917, and known as the Trading with the Enemy Act - a copy of Section 2 having been exhibited to the undersigned before the execution of this agreement.

NOTE: If foreign correspondent is an incorporated banking institution, this certificate must be executed by a duly authorized officer of such corporation.

DECLARATION OF NON-INTEREST OF ENEMIES TO BE FILED BY PERSONS ACTING FOR FOREIGN AGENTS OR CORRESPONDENTS.

From actual personal knowledge, or in reliance upon declarations or affidavits furnished the undersigned by the parties in interest, I/We do hereby expressly declare that no enemy or ally of an enemy is directly or indirectly interested in the transaction described below; that the property or evidence of indebtedness involved therein has not been owned or held for the account of an enemy or an ally of an enemy of the United States since ______________________________, and that the funds derived therefrom will not be made available for the use of an enemy or an ally of an enemy of the United States.

____

NOTE: If the transaction is engaged in by a corporation the foregoing declaration must be executed by a duly authorized officer.

TRANSACTIONS REFERRED TO IN AND MADE A PART OF THE FOREGOING DECLARATION.

Date	Property or evidence of indebtedness involved.	Nature of transaction, i.e. sale, hypothecation, delivery for safekeeping or collection of maturing obligations.	Other party to transaction, i.e. purchaser, lender, person to whom delivery is made or obligor.	Foreign correspondent for whose account or in whose behalf person making declaration is acting.	Amount

DECLARATION OF NON-INTEREST OF ENEMIES TO BE FILED BY FOREIGN AGENTS OR CORRESPONDENTS.

From actual personal knowledge, or in reliance upon declarations or affidavits furnished the undersigned by the parties in interest, I/We do hereby expressly declare that no enemy or ally of an enemy is directly or indirectly interested in the transaction described below; that the property or evidence of indebtedness involved therein has not been owned by, or held for the account of an enemy or an ally of an enemy of the United States since ____________________; that such property has not been purchased by the present owner from an enemy or ally of an enemy of the United States since February 3, 1917, and that the funds derived from the transaction will not be made available for the use of an enemy or ally of an enemy of the United States. The words "enemy" and ally of enemy" are herein used as defined in Section 5 of the act of Congress of the United States, approved October 6, 1917, and known as the Trading with the Enemy Act, a copy of Section 5 having been exhibited to the undersigned before the execution of this declaration.

____

NOTE: If the transaction is engaged in by a corporation the foregoing declaration must be executed by a duly authorized officer.

TRANSACTION REFERRED TO IN AND MADE A PART OF THE FOREGOING DECLARATION.

Date	Property or evidence of indebtedness involved	Nature of transaction, i.e. sale hypothecation, delivery for safekeeping or collection of maturing obligations.	Other party to transaction i.e. purchaser, lender, person to whom delivery is made or obligor.	Foreign correspondent. For whose account or in whose behalf person making declaration is acting.	Amount

COLLECTION OF DIVIDENDS. INTEREST ON MATURING BONDS FOR FOREIGN ACCOUNT.

All persons presenting for collection maturing bonds or coupons, or checks or drafts issued for dividends or interest, for the the account of any foreign government or resident of any foreign country, or who are authorized to collect such maturing bonds, interest or dividends as the agent of any foreign government or resident of any foreign country, shall make a declaration in writing to the effect that such collections are not made for or on behalf of, or for the benefit of, any enemy or ally of an enemy; that the proceeds of such collections will not be made available for any enemy or any ally of an enemy; and that the maturing bonds or the bonds and stocks upon which dividends or interest are to be paid are not the property of any enemy or any ally of an enemy and have not been owned by or held for the account of any enemy or ally of any enemy since ____________ 1917.

Provided, however, that the holder of a Class A or Class C registration certificate may collect maturing bonds and coupons, and checks and drafts for dividends or interest for the account of a foreign correspondent, without making such declaration, if such holder has filed with the Federal Reserve Board a declaration or certificate of the correspondent for whom collection is made to the following effect:

That the foreign correspondent certifies from actual personnal knowledge or in reliance upon declaration or affidavits made under oath by the actual owner of the securities involved that such securities are not owned or held for the account of any enemy or ally of an enemy of the United States and have not been so owned or held since __________; that no enemy or ally of an enemy has any interest in the proceeds of the items collected and that such proceeds will not be made available for any enemy or ally of an enemy of the United States.

NOTATION ON DIVIDEND CHECKS PAYABLE TO FOREIGN GOVERNMENTS OR RESIDENTS OF FOREIGN COUNTRIES.

Every person issuing checks or drafts for interest or dividends after ______________________________ payable to any foreign Government or persons resident in any foreign country shall affix upon the face of said checks or drafts, by rubber-stamp or otherwise, words to the following effect:

> This check or draft will be paid only if presented by holder who has filed declaration of non-interest of enemies or allies of enemies, in accordance with the Executive Order of the President, dated ______________ 1917.

FEDERAL RESERVE BOARD

WASHINGTON

X-598

December 20, 1917.

Dear Sir:

In connection with applications for permission to export coin, bullion or currency, your attention is called to the notice, copy of which is herewith enclosed, which is being sent to all applicants for licenses to export such coin, bullion or currency.

Your attention is particularly called to this notice in order that you may cooperate, so far as possible, with the Board in this matter, taking pains to approve only those applications in which the definite proof asked for is submitted to you, and in which such proof is to your mind, convincing; showing that the individual or concern submitting it has in good faith used the funds in the manner indicated in the application. Your ascertainment of the facts in each case should not be pro-forma, but should in every instance go as far as possible in order that there may be no release of funds for purposes other than those named. It is the opinion of the Board that where applications are made with the specific statement that they are to be applied to the payment of duties and taxes there should be no difficulty in obtaining such evidence yourself.

Very truly yours,

Secretary.

Notice to applicants for permission to export coin and bullion.

The Federal Reserve Board has directed that in each case where an application for the exportation of coin or bullion is granted, the applicant shall, upon making subsequent application for licenses covering further shipments, submit with his application definite proof that the coin or bullion whose shipment has been authorized in his last preceding application has been actually applied to the purposes set forth in said application.

Applicants are advised that the submission of such proof will have an important bearing upon the said subsequent application.

FEDERAL RESERVE BOARD

WASHINGTON

X-600

December 20, 1917.

Dear Sir:

In connection with applications for permission to export gold and silver made to you the Board thinks you might be saved some trouble if advised that at the present time all applications involving industrial use of either metal are being referred to the War Trade Board, and are no longer being acted upon by the Federal Reserve Board. This means that in all cases where the value of an article composed wholly or in part of gold or silver is primarily due to workmanship or to some other element of value, so that the material of which it is composed is comparatively unimportant in estimating its worth, or where the article in question has passed through a process of manufacture which has practically transformed it from bullion into an industrial shape, the applications for license to export should not be presented to the Federal Reserve Board but should go to the War Trade Board. This rule applies especially to such items as dental gold and jewelry.

Very truly yours,

FEDERAL RESERVE BOARD

WASHINGTON

December 21, 1917.

Dear Sir:

The Federal Reserve Board has had under careful advisement the question of making suitable acknowledgment to persons who, while not attached to the Staff of Federal Reserve Banks, generously participated in the Liberty Loan work of the several districts. Many such persons served on committees and assisted in the placing of bonds at considerable expense and inconvenience to themselves. In sending out instructions with reference to the preparation of the reports of the Federal Reserve Agents, Governor Harding, some time ago, suggested that no special praise or thanks should be given to anyone mentioned by name in the reports, but that such acknowledgment should be purely general. In the reports thus far received some of the Federal Reserve Agents followed these instructions closely while others have entirely disregarded them. The Board feels that it will be necessary to eliminate from all reports statements of the kind referred to, but in order not to seem ungenerous it is suggested that those Federal Reserve Agents who feel so disposed may incorporate into their reports a paragraph in somewhat the following form:

> "Appreciative acknowledgment is hereby made to the many citizens who patriotically and unselfishly cooperated in the work of the local Liberty Loan organization and who freely devoted their time to the task of placing the bonds in the hands of subscribers. While no expression of individual thanks is possible in this report, there is annexed hereto a roster of the various committees participating in this work in order that there may be an official record of their efforts."

There may then be attached to the report as an appendix or exhibit a list of the committees and their membership, in which may be set forth the names of all those who, in the opinion of the Federal Reserve Agent submitting the report, are entitled to such recognition.

If you have already inserted in your report a paragraph to substantially this effect accompanied by such a list of names, no further action on your part is necessary. If, on the other hand, your report does not contain such an acknowledgment and if you think it desirable to add material of the kind above described, the Board will be glad to receive such data at as early a date as possible. Those reports which contain as a part of their text descriptions of the personnel of the Liberty Loan committees will be edited by the omitting of such data, and those who desire the insertion of some acknowledgment in place thereof, should prepare and forward it substantially in the form herein recommended.

Very truly yours,

Secretary.

X-601

Ex-Officio Members
WILLIAM G. McADOO
Secretary of the Treasury
Chairman
JOHN SKELTON WILLIAMS
Comptroller of the Currency

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, Governor
PAUL M. WARBURG, Vice Governor
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, Secretary
SHERMAN P. ALLEN, Asst. Secretary and Fiscal Agent

Address reply to
FEDERAL RESERVE BOARD

X-603

December 1917.

Dear Sir:

I have the honor to advise you that at a meeting of the Federal Reserve Board held on December 21, you were reelected a director of the Branch of the Federal Reserve Bank of   at   for the period of one year, the term expiring on December 31, 1918.

Very truly yours,

Secretary.

MEMORANDUM FOR THE STAFF OF THE FEDERAL RESERVE BOARD.

The Federal Reserve Board stands for intelligent thrift - individual and collective. Coal is a scarce commodity which it is important to save:

NOW, THEREFORE, PLEASE, turn out electric lights not in use, or not needed. Daylight is much better for the eyes, when it can be had.

Do not, when you go home at night, leave lights burning in your room if these lights are not in use by others.

Do not use letterheads, or printed matter, when an unprinted sheet will do as well. An example of this may be found in memoranda for the use of the Board itself.

Do not use costly embossed stationery when printed sheets and envelopes will do as well.

Help to save coal used for making electric light, and do not waste time, paper, or supplies.

Make suggestions that will save time and money.

THIS COUNTRY IS AT WAR. SAVE AND SERVE.

FEDERAL RESERVE BOARD

WASHINGTON

X-605

December 22, 1917.

Dear Sir:

Arrangements have been made with the National Bank Redemption Agency, which also assorts Federal Reserve notes, to reduce its standard so that a greater proportion of used notes will be returned to Federal Reserve banks as fit for circulation. This step is necessary because the Bureau of Engraving and Printing has been concentrating upon the preparation of Liberty Bonds, and as a result cannot complete orders for Federal Reserve notes as rapidly as formerly.

It is suggested that your standard be revised to conform to that adopted by the National Bank Redemption Agency in the Treasury Department, and that no notes be sent in for redemption unless badly worn.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-606

December 24, 1917.

Dear Sir:

I send you herewith mimeograph X-572 covering State institutions which are members of the Federal Reserve System, up to and including December 13, 1917.

You will note that the statement is made up so that additional names may be inserted under the various State captions as the various institutions come into the System. You will also note that there are 13 States which are not representated in this list.

Yours very truly,

Secretary.

Federal Reserve Agent,

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF REPORTS AND STATISTICS

X-608

December 26, 1917.

Dear Sir:

Referring to our telegram of even date, may I request that beginning with next Thursday, December 27, you give us in your weekly telegram (Form X-538) in addition to items heretofore shown, also amounts of Special Government deposits (Liberty loan and U. S. Certificate accounts) held by reporting member banks under the threefold caption:

1.	Banks in Central Reserve cities,	Code	word	HEFT
2.	Banks in Reserve cities,	"	"	KNOB
3.	Banks outside Reserve cities,	"	"	PELT

Weekly figures of special Government deposits desired are those shown on the books of your own Fiscal Agent Department as at close of business on Fridays of each week. It will, therefore, not be necessary for you to request your members to insert the additional information in their weekly condition reports (Form X-538) to the Federal Reserve bank.

Very truly yours,

Secretary.

Mr.
Federal Reserve Agent,

2004

FEDERAL RESERVE BOARD

WASHINGTON

December 26, 1917.

Dear Sir:

It appears that in some sections of the country it is not customary for national banks, state banks, and trust companies which have savings departments to require the presentation of the pass-book whenever savings accounts are withdrawn, and in some cases national banks have indicated that they are at a disadvantage by reason of the Board's regulation as to savings accounts. To meet this situation it has been suggested that Regulation D, Series 1917, be amended insofar as it relates to savings accounts, to read as follows:

> "The term 'savings accounts' shall be held to include those accounts which are usually carried on the books of the banks in ledgers or accounts separate and distinct from commercial or checking deposits; which are not ordinarily used or drawn against by the depositor for current expenses and which, by the printed regulations of the bank, accepted by the depositor at the time that the account is opened - -
>
> (a) The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than thirty days before the withdrawal is made.
>
> (b) The pass-book, certificate, or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made, but this requirement may be waived by the bank in those cases in which

the account does not exceed five thousand dollars. In any case in which this requirement is waived all sums standing to the credit of the depositor in excess of five thousand dollars shall be treated as demand deposits."

In view of the fact that the reserves required against "time deposits" and "saving accounts" are very low, only 3%, the Board is reluctant to take any action which could be abused and which would result in a lowering of the reserves carried with the Federal Reserve banks, but in view of the requests which have been made for a modification of the present regulation, the Board would like to have your opinion as to the advisability of making the change above outlined. It is particularly desirous of avoiding a situation which would enable a bank, by the simple expedient of requiring notice at its discretion, to classify all its deposits as time deposits, thereby reducing its reserves to 3%.

Very truly yours,

Governor.

(2) FORM TO BE USED BY GOVERNOR OR VICE GOVERNOR IN MAKING REQUISITION FOR FEDERAL RESERVE NOTES.

Under authority of resolution of the Federal Reserve Board adopted December 12, 1917, you are hereby requested, in accordance with the foregoing application, to deliver to the Federal reserve agent whose signature appears thereon Federal reserve notes in the aggregate amount of $..................... in denominations as follows:

Five dollars ($20,000 per package)............ $..............

Ten dollars ($40,000 per package) .... $..............

Twenty dollars ($80,000 per package) .... $..............

Fifty dollars ($200,000 per package) .... $..............

One hundred dollars ($400,000 per package) ... $..............

______________________ Governor.

To the Comptroller of the Currency,
Washington, D. C.

______________________ Secretary

X-610

FEDERAL RESERVE BOARD

WASHINGTON

8102

DIVISION OF REPORTS AND STATISTICS

X612 December 28, 1917

Dear Sir:

According to preliminary data on hand net earnings of certain Reserve banks for the current year will be large enough to provide for the payment of dividends up to the end of the year and the carrying of substantial amounts to Surplus accounts.

Section 7 of the Act provides that "all net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to 40 per centum of the paid-in capital stock of such bank". - - In accordance with this provision one-half of all net earnings, less amounts reserved for depreciation, unexpected losses and like contingencies will have to be paid to the Government at the close of the year, after the net earnings shall have been determined.

It is proposed to have a new item "Surplus" shown in the published weekly statements of the Board, beginning January 4, 1918, and those banks which have set up surplus accounts are requested to show the item on their daily and weekly statements to the Board, (Item CEDE of Form 34), as well as in their weekly press statements.

Great care should be used in calculating these amounts, as the totals carried to surplus by the banks at this time must equal the amounts of franchise tax payable by them to the Government. For this reason no changes in the surplus account once set up should be made during the following year, or six-month period.

It will be appreciated if these instructions will be brought to the attention of your Bookkeeping and Auditing Departments.

Very truly yours,

Secretary.

Mr.
Federal Reserve Agent,

RATIO OF "FLOAT" OF EACH FEDERAL RESERVE BANK TO EARNING ASSETS AND DEPOSITS, DECEMBER 21, 1917

FEDERAL RESERVE BANK	Clearing House Exchanges	Transfers bought	All other uncollected items	Total uncollected items Dr.	Total collection items Cr.	Total "Float"	Ratio of "Float" to total earning assets. Per cent	Ratio of "Float to immediately available Government and bank deposits. Per cent
Boston	2,503	630	16,522	19,655	14,612	5,043	6.9	6.4
New York	14,723	...	61,159	75,882	47,660	28,222	7.0	4.2
Philadelphia	4,008	...	28,757	32,765	27,348	5,417	7.2	6.3
Cleveland	1,473	2,720	18,356	22,549	17,368	5,181	4.3	3.2
Richmond	799	...	15,722	16,521	13,397	3,124	6.5	6.0
Atlanta	1,603	541	17,468	19,612	12,019	7,593	24.9	16.8
Chicago	3,543	23,992	22,736	50,271	26,667	23,604	18.6	12.2
St. Louis	1,159	1,910	15,334	18,403	13,981	4,422	8.6	7.6
Minneapolis	...	5,953	5,626	11,579	4,917	6,662	25.3	13.8
Kansas City	26	10,447	16,062	26,535	11,528	15,007	32.6	18.3
Dallas	26	4,397	8,895	13,318	6,977	6,341	20.6	12.6
San Francisco	1,342	5,553	9,589	16,484	9,345	7,139	14.7	6.7
Total	31,205	56,143	236,226	323,574	205,819	117,755	10.9	7.2

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

Dear Sir:

Your letter of addressed to the Secretary of the Treasury has been referred to the Federal Reserve Board which will, as soon as practicable give careful consideration to your proposition and advise you of the conclusions reached.

Very truly yours,

Governor.

X-615

X-619

FEDERAL RESERVE BOARD

WASHINGTON

December 29, 1917.

Dear Sir:

Section 9 of the Federal Reserve Act provides that state banks admitted to membership under authority of that section shall be required to make reports of condition and of the payments of dividends to their respective Federal Reserve banks, reports to be made on call of the Federal Reserve bank, on dates to be fixed by the Federal Reserve Board.

You will call upon your state member banks for information as to dividends paid and disposition of earnings for the dividend period ending December 31st and the Board will within a short time telegraph you advising you of the date fixed for which you should call for report of condition from your state bank members. The necessary printed blanks for their reports are in transit to you. In forwarding forms to your state bank members, please instruct each one to fill out the forms in triplicate, retaining one copy for itself, and sending two copies to you as promptly as possible after the date of the report has been communicated to it. As these reports are received, retain one copy for your files and send one copy to the Board. Please advise the state bank members that no publication of these reports is required, although there is no objection to their publishing them as an official report made to the Federal Reserve bank if they care to do so.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

X-621

The Comptroller of the Currency,

Washington, D. C.

Dear Sir:

I have the honor to request that you will cause shipment to be made to the Subtreasury at of Federal Reserve notes of the Federal Reserve Bank. for the account of the Federal Reserve Agent at that bank, in the following amounts and denominations:

Very truly yours,

Governor.

First Draft
W.P.G.H.

X-622

S I R:

In conformity with the requirements of Section 10 of the Federal Reserve Act, the fourth annual report of the operations of the Federal Reserve Board for the calendar year ended December 31, 1917, is submitted herewith:

The outstanding feature of the year has been, of course, the entry of the United States into the war. The declaration by Congress of a state of war, on April 6th, had been preceded by a period extending over many months of unprecedented activity and expansion in practically all lines of business and industry, tempered, however, in the minds of thoughtful men, by uncertainty and apprehension as to the ultimate adjustment of international relationships. The Board had seen, for a long time, that the feverish conditions brought about by the rapid change in our position from a debtor to a creditor nation, by the great influx of gold into the country, and by the large foreign credits negotiated here, rendered it imperative that the Federal Reserve system should be strengthened and brought to the highest state of efficiency, in order that it might perform the most effective service in either one of two events which seemed likely to transpire -- the conclusion of a general peace in Europe, or the entry of the United States itself into the war. In the event of peace, a radical readjustment was to be expected, and there would have been a slowing down of those industries which were engaged in supplying war material, a consequent heavy falling off in our exports, accompanied, in all probability, by a strong demand upon us for gold: and on the other hand, in the case of our own belligerency, it was foreseen that there would be a greatly increased demand for all articles necessary for the equipment and maintenance of our own military and naval establishments, much larger credits to the countries associated with us in the war, and an inevitable cessation of gold shipments to us by those countries.

For these reasons, the Board felt that it should in either event, during this period of uncertainty, undertake to preserve the liquid character of the assets of the Federal Reserve banks, to discourage any undue expansion of credits, and to reduce to very moderate proportions the holdings of the banks in such investments as bonds and warrants which had been made primarily for the sake of income. Early in the year, therefore, the Board began to carry out these policies and the end of March found the Federal Reserve banks in a very strong position, with assets unusually liquid. While some of the banks had purchased and were holding government bonds, the aggregate amounted to less than five per cent of their total resources. Holdings of municipal warrants, which at times had been freely purchased by some of the banks also, had been reduced to a comparatively small amount.

In order better to provide for the strengthening of our banking structure, for the conservation of our gold supply, and for the regulation of its outflow, the Board in January suggested some amendments to the Federal Reserve act which were designed to make membership in the system more attractive to the state banks and trust companies, and to modify reserve requirements in such a way as to increase the gold holdings of the Federal Reserve banks and to make their gold more available as a basis for note issues. These amendments finally became law on June 21st and will be discussed more fully in other parts of this report. In anticipation of these changes and of future contingencies, the Board determined upon the preparation and distribution of a much larger volume of Federal Reserve notes, and during the months of January and February placed additional orders with the Bureau of Engraving and Printing, through the Comptroller of the Currency, for more than $900,000,000 of these notes, and arranged also that the stock of notes on hand should no longer be reduced through withdrawals for current needs, but that as drawn upon by the Federal Reserve banks new orders in equal amount should be placed automatically. In order to insure immediate availability, ample supplies of notes were placed at the subtreasuries for delivery to the Federal Reserve agents as required. The precautions taken have been justified by events and an ample supply of Federal Reserve notes has been available throughout the year.

When a state of war was declared on April 6th, the reserve position of the Federal Reserve banks was exceptionally strong. Gold in the Federal Reserve banks and with Federal Reserve agents amounted to $943,552,000; the reserve against notes was 101.2% and against deposits 76.5%, the combined reserve against deposits and notes being 84.7%.

Investments in government bonds and municipal warrants had been reduced to $51,836,000 and purchases of acceptances were in smaller volume.

FEDERAL RESERVE BANKS AS FISCAL AGENTS OF THE UNITED STATES.

The entry of the country into war resulted almost immediately in the assignment to the Federal Reserve banks of new and exceedingly important duties. Section 15 of the Federal Reserve Act provides in part that the banks when required by the Secretary of the Treasury shall act as fiscal agents of the United States. This function had hitherto been a negligible one, but on May 2nd the Secretary of the Treasury made public the details of the first bond issue, known as the Liberty loan of 1917, and at the same time he announced that each Federal Reserve bank would be constituted a central agency in its own district for the organization of a bond campaign, for receiving subscriptions and payments, making deliveries and managing the necessary details. The banks were also charged by the Secretary of the Treasury with the duty of placing the successive issues of short time Treasury certificates which have been offered, and of redeeming them at maturity. These new duties have brought the banks into more intimate contact with the Treasury and have also increased enormously their operating problems. It has been necessary for them to add to their working space and to more than double their clerical staffs. They have rendered especially valuable service in the prompt flotation of the various issues of Treasury certificates of indebtedness which, running for short periods only in anticipation of receipts from the long term bonds, were placed with banks rather than with the investing public.

The first issue of $50,000,000 offered under the provisions of the Act of March 3, 1917 in anticipation of income tax receipts accruing on June 30th, was offered before rates for money had advanced, and at the request of the Secretary of the Treasury, the Federal Reserve banks themselves subscribed for the entire issue, at the rate of 2% per annum. This constituted their first direct service to the government in its war financing. This issue however, was only a beginning. It was following by an offering of $250,000,000, at 3 %, on April 25th, which was quickly distributed by the Federal Reserve banks among the member and nonmember banks of their respective districts. This process has been repeated on eleven subsequent occasions, four issues having been made in anticipation of the first Liberty loan of $2,000,000 000 which was closed on June 15th, while six were anticipatory of the second Liberty Loan, subscriptions to which closed on November 28th. The last issue of approximately $700,000,000, in anticipation of taxes due next June, has a longer time to run than the others and being intended primarily for the convenience of those who will have taxes to pay on account of incomes and excess profits, appealed more particularly to corporations and investors than other issues, which went mainly to banks. Subscriptions are now being received by the Federal Reserve banks for a new offering of the same character.

In his annual report to Congress the Secretary of the Treasury expressed his appreciation of the services rendered by the Federal Reserve banks as fiscal agents by stating that "The Federal Reserve system has been of incalculable value during this period of war financing on the most extensive scale ever undertaken by any nation in the history of the world. It would have been impossible to carry through these unprecedented financing operations under our old banking system. The effective machinery afforded by the Federal Reserve banks has permitted the government to execute its plans without a tremor of disturbance. Great credit is due the twelve Federal Reserve banks for their broad grasp of the situation and their intelligent and comprehensive cooperation." He added that the organizations which they have perfected have contributed greatly to the phenomenal success of the Liberty loans.

The Federal Reserve banks have from the first met with a prompt and hearty response from the member and nonmember banks in their respective districts, both in the flotation of Treasury certificates and of the Liberty bonds. The Treasury has relieved pressure upon the market by permitting the Federal Reserve banks to distribute the proceeds of the sale of certificates and bonds among the national banks subscribing, but the term of these deposits has necessarily been short, and as a considerable lapse of time is required for the redistribution of these funds throughout the country through normal trade and banking channels, the greatest measure of relief has been afforded through rediscounts of member banks with the Federal Reserve banks. These transactions have involved no loss of gold, this being obviated by a substantial expansion of Federal Reserve note issues.

DISCOUNT POLICY.

Upon the Federal Reserve Board has fallen the responsibility of directing the policies of the system so as to insure prompt accommodation to banks whose customers required assistance in making their payments for bonds, as well as to banks which bought bonds for their own account. It was important that there be no disturbance in the money market and that interest rates should be stable and as free as possible from fluctuation. The Board accordingly, before the subscriptions to the first Liberty bond issue were closed, and in anticipation of the amendments which became law on June 21st, established a preferential rate of discount for notes of member banks secured by government obligations, whether certificates or bonds, fixing a lower rate than that borne by the securities themselves, - 3½% for notes maturing up to 90 days. As a further means of relief, the Board authorized Federal Reserve banks to discount for nonmember banks, upon the endorsement of a member bank, notes secured by government securities, whether made by the nonmember banks themselves or by their customers, when the proceeds were to be used for carrying Treasury certificates or United States bonds. These measures involved modifications in discount schedules and rates, which may be enumerated as follows:

(1) The establishment of a rate of 3% per annum for the discount at Federal Reserve banks of notes of member banks running not longer than 15 days secured by Treasury certificates of indebtedness, which certificates had been issued at rates varying from 3 to 3½% per annum.

(2) The establishment of a rate of discount at Federal Reserve banks of 3½% per annum for customers' notes running up to 90 days, with

the endorsement of member banks, when such notes had been made for the purpose of obtaining funds for the purchase of government bonds and were secured by government obligations.

(3) The authorization of Federal Reserve banks to rediscount for member banks, on behalf of nonmember banks, notes of nonmember banks or their customers, secured by government obligations, for the purpose of obtaining funds with which to purchase United States bonds or notes.

(4) The establishment of a one day rate of from 2 to 4% at the Federal Reserve banks in the principal financial centers, New York particularly, for the purpose of restoring to the market funds temporarily withdrawn through government loan operations.

(5) The authorization of Federal Reserve banks to discount notes made by nonmember banks with the endorsement of a member bank, on condition that such notes, running not longer than 90 days, should be rediscounted only up to July 15th and that they should be accompanied by an affidavit that the preceeds thereof had been used for the purchase of government bonds by the banks or their customers.

was given

A general assurance / savings banks and trust companies that the Board desired in every way to cooperate with them in avoiding stringency and that the Federal Reserve banks were prepared to extend through member banks every reasonable accommodation not inconsistent with law, for the purpose of relieving any strain which might result from withdrawals of deposits for purchases of government securities.

The rediscount policy of the Board, which was intended to assist those desiring to subscribe for the first Liberty loan by assuming banking accommodation pending the payment in full of their subscriptions, was amply justified by results. As nearly as can be ascertained, scarcely more than $300,000,000 of the loan was actually subscribed by banks for their own account, and of this amount a very large part was quickly transferred to private investors who had not originally subscribed for or been allotted all the bonds they desired to obtain.

The amount of rediscounts at Federal Reserve banks of notes secured by government obligations reached its maximum of $82,950,000 on June 22nd, one week after the closing of subscriptions for the loan, but these notes were paid off so rapidly that the total of such rediscounts had on August 17th, fallen to $11,051,000. Reports from all sections of the country indicate that only a comparatively small percentage of the first issue of Liberty bonds is now being carried upon a long term instalment basis, and that as a rule both banks and private investors were able, within a few weeks, to pay for the securities which they agreed to take.

EFFECT OF ADDITIONAL LOANS.

The services rendered by the Federal Reserve banks during the second Liberty loan campaign, which began on October 1st and ended on October 27th, were even more marked than in the first instance. The experience which had been gained on the former occasion, the fact that more time had been afforded for ~~official~~ efficient organization, a better understanding by the people of the merits of government bonds as an investment, and a general awakening to a sense of patriotic duty, all combined to bring about the vigorous cooperation of the public generally. The arrangements previously made to accommodate the banks and their customers who desired to subscribe to government bonds, remained effective, and there were no changes in discount rates, notwithstanding the advance of one-half of one per cent in the rate of interest carried by the bonds themselves, until the close of November and the middle of December, when general advances of one-half of one per cent in rates of Federal Reserve banks were made.

The organization of the Liberty loan committee and the arrangements for publicity and for soliciting subscriptions, had been greatly improved under the leadership of the Federal Reserve bank in each district, and the result was gratifying in a corresponding degree. The fact that the second loan, as offered to the public, was fifty per cent greater than the first, while actual subscriptions received were in an even greater proportion, has naturally increased very substantially the operations of the Federal Reserve banks in discounting paper secured by government obligations. The total of such paper discounted at the Federal Reserve banks reached a maximum on Nov 30, when the aggregate amount of notes under discount secured by government obligations was $ 499,265,000.X As was the case with the first loan however, there were constant transfers to investors, and on Dec 28 the total amount of ~~re~~discounts of this character had been reduced to $ 283,421,000.

Experience during the year with these operations and an analysis of the consequent changes in the banking situation, demonstrate how greatly the entry of the United States into the war has increased the responsibility

X Composed of $405,608,000 of member banks' collateral notes and 93,657,000 of customers' notes of the Federal Reserve system in its relations to the Treasury and to the public. Not only have new duties devolved upon the Federal Reserve system, but it has been made more directly responsible for the soundness of the banking position. The Federal Reserve Board is, of course, not concerned with the financial policy of the government except in so far as the Secretary of the Treasury may choose to call upon its members for service in an advisory capacity. The Board, however, is charged by the Federal Reserve Act with the exercise of a general supervision over Federal Reserve banks, which, in their functions as fiscal agents of the government, are responsible for banking technique of government borrowing, as well as for the execution of policies determining the extent and manner of banking participation in public loans. This responsibility is one which, during the past year, has rested heavily upon the members of the Board, and which they cannot evade or transfer.

The Board feels that the duties which it is called upon to perform are at all times impressed with the highest qualities of trusteeship, and in times of emergency like the present, are vested, if it be possible, with an added solemnity. It seems not improper to suggest that those charged with the supervision of banks should at this time advise and caution the banks of the country in the interest of the public welfare, with the view of developing and applying methods which are best adapted to withdrawing from private employment and diverting to public service the vast sums which national necessity demands and which Congress, by its enactments, has authorized the Secretary of the Treasury to borrow or to raise by taxation. In its final analysis, war financing means the furnishing to our government of supplies or services for its own use or for the assistance of those governments which are associated with us in the war. These services and supplies are necessary for the winning of the war, and it is just as important that the government secure them as it is that it should procure the funds or credits with which to pay for them. In some respects the American people have not as yet cooperated to a sufficient degree, not because of any lack of patriotism, but because they have not yet been adequately impressed with the imperative necessity for their complete and constant cooperation. They have not yet been thoroughly aroused to the fact that the issue -- success or failure -- our future as a nation, lies in their hands. A great campaign of education, nation-wide in scope, lies ahead of us, and in this campaign the banks of the country have an opportunity to render great service by constituting themselves the leaders of public sentiment. Each bank in its own community ought to make the people understand clearly that the amount of goods or supplies which can be produced is limited, and that in conservation and in the avoidance of waste, as well as by increased production of food stuffs, cotton, wool, lumber, iron and steel products, and all other supplies necessary in the conduct of the war, the people who remain at home have the best opportunity of serving their country. These necessary supplies should be furnished in sufficient quantities and in the shortest possible time, for time is a vital factor. It is of course essential to economize in the use of those things which are required by the government, but by restricting the use of those things which are not required by the government, material may be released which can be used in other ways or shipped to other countries. As an illustration it may be pointed out that if every family in the United States would use fewer clothes than they would in ordinary times, cotton and woolen goods to the value of millions of dollars could be made available for export, and the proceeds could be used in making purchases of copper in Mexico, hides and wool in Argentina, and of nitrates in Chile. By consuming a smaller amount of goods additional money is saved, which can be used by the people in paying for the war loans of the government. Decreased demand for goods by individuals and purchases of government bonds out of savings rather than by excessive borrowing from banks, will tend to retard a further rise in prices and to restrict expansion of banking credits which necessarily contribute to the rise of prices. The government is the principal customer for farm products and for manufactured articles and there need be no fear of any falling off in demand for staple articles of all kinds as the result of individual economies.

Since the beginning of the war, and more especially since the entry of this country into the war, deposits in banks have increased enormously, but it should be remembered that loans and discounts and investments have increased in an even greater degree. ~~Our~~ the country's gold holdings in three years have increased more than a billion dollars and are now larger than those of any other country, but at the same time ~~our~~ the percentage of gold reserves against deposits and note issues has decreased. These conditions are not unusual in times of war, and to a certain extent they cannot be prevented, but the banks of the country should make it their business to keep these tendencies under control and to prevent too rapid an expansion of credits as far as possible, without placing in jeopardy the supreme object of our national effort -- the winning of the war. But we should realize that in the accomplishment of this purpose, the conservation of our economic and financial strength is just as important as the augmentation of our military power, and that upon this conservation our military strength depends. Nothing must be used which can be dispensed with. There must be a conservation of credit as well as goods, and credit, generally speaking, should not be used except where it is required for the common welfare, such as in planting crops, the manufacture of necessary articles, or in such construction work as may be essential in bringing about increased production. ~~Contraction~~ limitation of ordinary lines of credit is necessary to make room for the credits required by the government for the purchase of supplies essential for war purposes.

It is hoped that the banks of the country will cooperate along these lines and that they will teach the doctrine of serving and saving. This is not the time for the purchase and sale of luxuries or for carrying large stocks of any kind. There should be fewer and plainer goods carried in stock, for their is no unlimited supply of goods or of credit. This is a time for all establishments, large and small, to reduce inventories, thereby freeing goods and banking credit. It should be urged upon state, city and county authorities, that this is not the time for municipalities to engage in construction work, except perhaps in cases where such work is necessary for the public health, and that instead of engaging in new undertakings, they should rather consider cancelling existing contracts in order to release men and material, thereby avoiding competition with the government for man power and for the savings of the people.

It is, of course, inevitable that the war activities of the government will tend to cause a further rapid growth of deposits and loans in banks, and in order to keep our credit structure strong it is necessary that the banks should exert their influence and lend their energies to a more general absorption of government loans by savings, to a contraction of private credits wherever practicable without causing hardship. We must look to the future, and prepare unceasingly for further demands which may be made upon us. The products of the fields, the forests the mines, and the manufacturing establishments of the country are not, generally speaking, in the nature of luxuries. They can, as a rule, be classed as necessaries, and with the outlook ahead of us there seems to be no possibility of over-production. It seems, therefore, that the banks of the country, from the standpoint of good business as well as from patriotism, should lend their funds and credits freely to those engaged in these productive enterprises, and their power to serve the country in this way will be increased by the curtailment of unnecessary credits and by the adoption by the people generally of a policy of common sense, practical economy.

The Board would call attention also to the very great assistance which it is in the power of the Federal Reserve banks to give to their member banks by rediscounting paper growing out of agricultural, industrial, and commercial transactions. The Federal Reserve Act as amended

last June provides that state banks admitted to membership may retain all of their statutory and charter powers. Thus state bank members are governed by their own state laws and remain under the supervision of their state banking departments. Their interest rates and the limitations upon their loans are determined entirely by state law. There are
not yet members but which are eligible for membership
hundreds of good banks throughout the country/ and it seems proper to refer here to a statement issued by the President of the United States on October 13th last in which he called attention to the fact that "the extent to which our country can withstand the financial strains for which we must be prepared will depend very largely upon the strength and staying power of the Federal Reserve banks," and in which he urged the importance of developing our banking power to the maximum degree and of providing financial machinery adequate for the very great financial requirements imposed upon our country by reason of the war. He pointed out that all banks should cooperate in strengthening the position of the Federal Reserve system, thereby strengthening the nation's banking power, and urged upon every bank officer and director to consider the question of membership in the Federal Reserve system as a "solemn obligation."

Since the date of the President's statement the banking departments of nearly all of the states have expressed approval of membership in the Federal Reserve system on the part of the banks under their supervision, but the reserve requirements in a few states practically prohibit the cooperation of state banks and trust companies with the Federal Reserve system, making it ~~impracticable~~ unprofitable for them to become members as well as impossible to exchange their Federal Reserve notes for gold. The Board would suggest to the banks in these states that efforts should be made to obtain such legislative action as may be necessary to enable them to co-operate with the system, and that in those states where the legislatures will not meet for a year or more, the banks might feel justified in asking their governors to convene the legislature in special session.

DISCOUNT RATES.

The discount rates of the Federal Reserve banks have an important bearing upon the problems of government financing, and upon the condition of the banks of the country as a whole. Since the first adjustment of discount rates, effective shortly after the organization of the Federal Reserve banks, changes have been comparatively infrequent ~~unimportant~~, and have been [illegible] ~~the most significant having been the establishment at various times of new rates for particular classes of paper~~. At the beginning of the year 1917, money was in abundant supply, and discount rates were low. The expectation of some that the entry of the United States into the war would immediately cause an abrupt advance in rates ~~drastic changes in rates of interest~~, was not realized. While Market rates have, ~~of course~~, advanced substantially, but the process has been gradual, and there were no changes made in the rates of Federal Reserve banks until the flotation of the first Liberty loan was well under way. Then, in order to facilitate the disposition of the bonds, the Board indicated to the Federal Reserve banks that it would be desirable to establish preferential rates in favor of notes secured by government obligations. With such paper, as with ordinary commercial paper, a distinction was made between short maturities and those running for a longer period. Accordingly, notes of member banks running not longer than fifteen days, and secured by government obligations, were in general, put upon a 3% basis, while 90 day obligations secured in the same way, were given a rate of 3½%, these rates being about one-half of one per cent below the rates fixed for ordinary commercial paper of the same maturities.

Because of the generous cooperation of many banks throughout the country in making advances to purchasers of government bonds at the same rate of interest as that carried by the securities, these bond purchasers have had the full advantage of the facilities afforded by Federal Reserve banks in the rediscount of their notes. A firmer tendency became apparent during the summer at some of the financial centers, and the 4% rate borne by the second Liberty loan (one-half per cent more than the first) suggested the ~~propriety of~~ desirability of a general advance of one-half of one per cent in Federal Reserve discount rates. As already stated, this advance has been made, but the differential in favor of paper secured by government obligations is still maintained. The discount schedules have been consolidated and simplified by reducing the number of separate classifications.

In connection with the revision of rates, it was deemed proper to merge with the ordinary commercial rates the special rate which was made in the summer of 1915 for paper secured by warehouse receipts for staple and readily marketable articles of a non-perishable character, known as commodity paper. The continuance of this rate, which had been made originally for the purpose of assisting the orderly marketing of crops in order to avoid speculation and violent fluctuations in prices, had become unnecessary because of the great advance in the price of agricultural products, and because of the policy of price ~~fixing~~ control adopted by the government. Changed conditions made it desirable that these products should move steadily to market, and it seemed best in the circumstances not to encourge their unnecessary holding ~~in storage~~ by producers or middle men. Complete tables showing these changes in discount rates, are appended to this report, as Exhibit ________.

EFFECT OF THE AMENDMENTS OF JUNE 21ST.

The amendments to the Federal Reserve Act which became law on June 21st last, were most opportune, as they added greatly to the ability of the Federal Reserve system to assist in meeting the financial requirements of the government, and to exercise a controlling influence in the money market, just at a time when much larger demands were being made upon it because of war financing. The amendments were substantially those recommended by the Board in its last annual report, and they have opened two new and distinct avenues of added strength, - by making possible greatly increased holdings of gold in the Federal Reserve banks by permitting them to issue Federal Reserve notes in exchange for gold, and by inviting the full cooperation of state banks and trust companies, through more favorable conditions of membership.

The process of issuing notes has been simplified, and the discount power of the banks has been augmented without impairing their actual holdings of gold, by reason of their larger power to issue notes. While it may be true that the character of the Federal Reserve note as contemplated in the original act has been altered to a certain extent, and that these notes may remain outstanding for longer periods of time than had been first intended, the flexible quality of the notes has not been impaired, nor does a large issue of notes of necessity mean expansion of currency. The character of the Federal Reserve note is now best determined by the amount of the gold reserve behind it. When it is issued against gold, it merely takes the place as a circulating medium of the gold for which it was exchanged. As the gold reserve is reduced, commercial paper is deposited to preserve the security, and the note takes on more of the quality which it possessed under the original act, and when the rediscounts of the Federal Reserve banks are reduced, the paper securing the note issues is returned to the makers, and the gold reserves are correspondingly increased, thereby giving outstanding Federal Reserve notes more of the character of gold certificates.

Amendments to the act have also changed the former reserve requirements for member banks by fixing them at 13%, 10%, and 7% for central reserve, reserve city, and country banks respectively, and have, at the same time, strengthened the position of the Federal Reserve banks themselves by requiring the maintenance with them of the member banks' entire reserves in collected funds, the amount physically of vault cash to be carried by a member bank being left to its own discretion, as determined by actual needs. This change, together with the expiration of the time limit for the complete transfer of reserves as required by the original act, involved the transfer of a large amount of actual money to the Federal Reserve banks. The termination of the period when funds deposited with banks in reserve cities might be counted as reserve for country banks, would not, for reasons explained in the Board's last annual report, have made necessary any material transfer of cash, but the new reserve requirements led to the shifting of about $250,000,000 and a corresponding increase in the cash holdings of Federal Reserve banks.

Another amendment included in the act of June 21st, permits nonmember banks to open for exchange or collection purposes, accounts with Federal Reserve banks, thereby availing themselves of the facilities of the check clearing and collection system. This change, at the outset, increased still further the cash holdings of the Federal Reserve banks, as several large nonmember institutions opened accounts of this kind with Federal Reserve banks. Most of these institutions have, however, now become members, so that the balances held by nonmember banks are comparatively negligible, amounting on December 31st to $____________. The rapid gain in [illegible] actual cash by Federal Reserve banks, ~~as the result of the amendments,~~ following the amendments may be best demonstrated by a comparison of their condition on June 1st (three weeks before the amendments were adopted,) with their condition on August 3rd. On the earlier date, the gold and lawful money [illegible] ~~in Federal Reserve banks and with Federal Reserve agents~~, amounted to $933,425,000, while on the latter date the total was $1,421,382,000.

MEMBERSHIP OF STATE BANKS.

Second only in importance to the change in the reserve and note issue provisions of the law, must be reckoned the amendment to Section 9, under which state banks and trust companies may become members of the Federal Reserve system and retain, at the same time, their full charter and statutory privileges. The Board has already given such assurance in its regulations relating to membership of state banks, but there had always been a question in the minds of many as to the validity and permanence of rhese regulations, in the absence of definite statutory authority. The action of Congress in confirming what the Board had attempted to accomplish by regulation has given state banking institutions firm assurance that they may continue to carry on their business in substantially the same way as they have heretofore done, without fear of future changes in methods prescribed, and it has given them in addition the definite right to withdraw from the system upon six months' notice, subject to conditions which they regard as reasonable. The inducement to the state banks to become members of the system thus held out by theamendment to Section 9 of the Act was further strengthened by an opinion of the Attorney General of the United States rendered on September 10th, in which he expressed the vuew that this amendment, in reserving to the state banks as members their full statutory and charter powers, released them from the restrictions of Section 8 of the Clayton Act, as to interlocking directors, to which they had been previously held to be subject, in common with the national banks. Just at a time when the principal obstacles which had previously stood in the way of the enlargement of the system by state bank membership were thus overcome by statute and by ~~high~~ authoritative legal interpretation, an additional incentive was given the state banks and trust companies to apply for membership in the system by reason of the rapid development of the government's requirements in war financing, the patriotic desire to assist in meeting and supplying these needs, and an appreciation of the added safety to themselves resulting from membership. Compelling reasons for membership in the system from a patriotic standpoint were brought to the attention of all the banks in a strong statement by the President on ~~October~~ Sept. 13th, to which reference has already been made. Under all these influences many of the strongest state banks and trust companies in the United States have filed their applications and have been admitted to membership. At the time of the passage of the Act on June 21st 53 state banks and trust companies were members of the system, but on December 31st membership had been increased to 750. The aggregate capital and surplus of the member state banks and trust companies was on that date $575,705,530 and aggregate resources ~~in~~ of ~~excess of~~ about 5 billion dollars(a) as compared with $78,491,165 and about 825 millions on June 21st. It is estimated that the membership of the Federal Reserve system represents at this time about 57% of the total banking assets of the country. Thus it is evident that substantial progress has been made toward the complete unification of our banking system. A table showing the titles, dates of admission, capital and surplus, and aggregate resources of state ~~banks~~ bank members appears in the appendix.

CREDIT EXPANSION.

Great as is the admitted power of the Federal Reserve system, equipped with its new resources and supported by the greater part of the banking ~~resources~~ reserves of the country, there are nevertheless, limits to its

(a) figure as reported $4,999,427,655

capacity. During the past year there have been very naturally some expressions of anxiety on the part of the financial community as to expansion of credits. The Board has fully recognized the dangers of over expansion and has endeavored in every way not hurtful to war financing, to prevent such a condition. The question as to how far expansion has drifted toward the danger point, despite concentration and careful use of our banking resources, should be carefully considered in the development of a sound policy for the future. The following tabulation from combined statements of the twelve Federal Reserve banks shows the changes in the reserve position of the Federal Reserve system during the year, the figures being as of December 31, 1916, April 1, 1917, July 1, August 1, November 1, and December 31, 1917, the four dates last named reflecting the changes directly attributable to the flotation of the Liberty loans:

(Insert table)

From the foregoing it will be noted that the increase in the total invested funds grouped as earning assets, during the months intervening between the beginning and the close of the year 1917 is about $834,940,000. Of this sum, $__________ is represented by purchase or discount of commercial paper of the kinds made eligible under the terms of the Federal Reserve Act, the remaining $273,998,000 representing the discount ~~or purchase~~ by the banks of both member banks' collateral notes and customers paper secured by government obligations, for the purpose of enabling buyers of bonds to carry them during the period necessary for the liquidation of their own obligations thus incurred. As will be seen from the table, the reduction in the reserve percentages of the Federal Reserve banks against notes and deposits was

also temporary investments ~~to a large extent~~ in Govt securities, chiefly certificates, most marked during the periods between April 1 to July 1 and between August 1 to November 1. During the month of July there was a notable strengthening of the reserve position and this condicion is also observed in a smaller degree between November 1 and December 31. Taking the year as a whole, it will be noted that, although there has been a great increase in the total assets of the system, there has been a reduction of gold and lawful money reserves from 8.4% at the beginning, to 63.6% at the end of the year, but it should not be overlooked that the figures for December 31, 1917 represent the condition existing at a time when the process of distributing the second Liberty loan was still uncompleted. The question whether the final distribution of the second Liberty loan and the resulting financial adjustments would bring about as favorable a situation as that which existed at the closing of the first loan, is still an open one, but indications are that there will be a larger amount of bonds left in the hands of the banks and that a correspondingly greater volume of rediscounts secured by government obligations may remain with the Federal Reserve banks than was the case at the close of the first Liberty loan. This condition will no doubt be gradually improved, but the reduction in the volume of discounts will depend to a great extent upon the requirements of the government and the time which will elapse before the floating of a new bond issue becomes necessary. The position of the banks with respect to credit expansion is shown by the condensed statement of the deposits, loans, discounts, and investments of the national banks as reported to the Comptroller of the Currency on November 20th 1917, as compared with corresponding figures on

November 17, 1917:

	Nov. 17, 1916	Nov. 20, 1917
Deposits, net on which reserve is computed	$ 9.976.980.000	
Loans and discounts, incl. overdrafts	8 355.101.000	
United States bonds (a)	724.473.000	
Other stocks, bonds, and securities	1747.794.000	

(a) Including Treasury certificates of indebtedness

It seems reasonable to assume that while, during the year 1917, there has been a ~~material~~ lessening of the fluidity and immediate availability of the country's banking resources, the change has really been moderate when there is considered the extent of the requirements which have been made upon our banking system. It is evident also, from an analysis of the figures, that the decrease in reserve strength is ~~hardly~~ only in a minor degree attributable to commercial discounts but that it is directly the result of government financing and its unavoidable but necessary demands upon our ~~national~~ resources. It is estimated that the advance in commodity prices during the year 1917 as shown by the statements of the Department of Labor has been about ____%, which may be compared with an estimated advance of about ____% from August 1, 1914 to December 31, 1916. It is clear, however, that so far as the year 1917 is concerned, the rise in prices must be attributed more to the relatively decreasing supply of necessary commodities and a greatly increased demand for them because of the war, than to expansion in the volume of currency or bank credits.

Rising prices are an unavoidable outgrowth of a state of affairs throughout the world whereby a very large proportion of artisans and laborers have been transferred from productive occupations into unproductive and destructive work, no longer performing their functions as producers of raw materials and of manufactured articles, but at the same time increasing their demands upon the remaining stock of the available supplies. It seems, therefore, unjust to ascribe the rise in prices entirely to credit expansion or over-activity on the part of the banks. Nor can the increased volume of the Federal Reserve note issues be regarded as inflationary, for not only are these notes not available as legal reserve in the vaults of member banks, but the withdrawal of gold and gold certificates from circulation which has resulted from the efforts of the Board has naturally created a vacuum which could only be filled by additional issues of currency. It may be asserted with confidence that any danger of undue expansion with which the country may be confronted is likely to manifest itself not in an over-issue of circulating notes, but rather in the increase in bank deposits resulting from loans — the creation of demand credits upon the books of the banks. The danger of currency inflation, the evils of which have been felt in all previous wars of long duration, has not, up to this time, been a menacing one in the United States. The fluid condition of our banking resources and the amount of free gold held by Federal Reserve banks, are factors which should be taken into account when the question of note issues is considered.

PRIVATE AND CORPORATE FINANCE.

A feature of the banking and financial situation which has been developing during the past year, and to which the attention of the Board has been frequently directed, is the position of firms and private corporations having short term obligations maturing in the near future, and who have been accustomed to procure banking accommodations upon terms which are now impossible. The action of the President in taking over control of the railroads and of their financing has apparently solved the most serious problem with which the country had been confronted, but there remains to be considered the requirements of various public utilities corporations, as well as of some of the larger concerns which have been accustomed to borrow heavily at banks for the purpose of carrying large stocks or of providing themselves with working capital. The effect of public borrowing on a very large scale has been a withdrawal from the market of a large proportion of the funds available for short term loans, or for private investment on long term. While every effort has been made to transfer government obligations speedily and effectively to private ownership, in order to withdraw them from the market, and to prevent their accumulating in the portfolios of the banks, it is nevertheless true that during the process of distribution, large amounts are necessarily carried by the banks for their account, as well as for their customers.

The influence thus exerted upon the loan and investment market is necessarily incidental to operations of this kind. The resulting situation is more or less inconvenient for all who have been accustomed to resort to banks for loans on collateral, but it is particularly distressing to the larger borrowers. The situation has been further complicated by the comparatively large volume of obligations of foreign governments which are being carried by the banks against short term notes, resulting in a diminution of their percentage of liquid assets. These conditions are reflected in the requests which the Board has for some time past received from many quarters that the rediscount privilege be extended to paper of a character and form which has not been regarded hitherto as eligible. Perhaps the most urgent request of this kind has been that the Board permit Federal Reserve banks to discount notes or acceptances which have been placed upon the market under an agreement between the borrowers and their bankers, which provides for a considerable number of successive renewals. Had the Board permitted such paper to be rediscounted, Federal Reserve banks would have been burdened with paper which the makers would not expect to liquidate at maturity. The discount of paper based upon an agreement for repeated renewals is not consistent with the underlying principles of the Federal Reserve Act, and the Board has had no hesitation in stating that it does not regard paper subject to these agreements as a desirable investment for Federal Reserve banks. The Board's attitude does not imply any doubt or question of the legitimacy of the purposes for which the funds were desired, or of the inherent soundness of the paper itself, but rather that such transactions are not a kind which Federal Reserve banks may properly facilitate, as they should never overlook their obligation to preserve the liquid character of their assets.

Another proposition of a somewhat similar character which contemplated the sale of acceptances designed to finance foreign purchases of goods in the United States, but which had no connection with any specific transaction, was likewise brought to the attention of the Board during the month of November: and for reasons similar to those governing the case of the renewal paper, to which reference has just been made, the Board has found itself unable to look upon such acceptances as eligible for discount at Federal Reserve banks. Another case involving the eligibility of acceptances secured by readily marketable commodities carried in warehouses, was also taken under consideration, and the Board reached the conclusion that acceptances of this kind might be eligible for discount or purchase by Federal Reserve banks, provided the goods were stored in a satisfactory manner, and unquestioned legal title of the property conveyed by the warehouse receipts. While this conclusion is in harmony with the letter of the Federal Reserve Act, it seems, nevertheless, that discounts of paper of this character should be scrutinized closely and that they should not be permitted in very large volume.

The significance of these propositions is that there is pressure on the part of commercial and manufacturing enterprises to gain access to the rediscount facilities of the Federal Reserve banks, and there is evidently a disposition to obtain the privilege upon the terms of technical points of the law rather than its spirit. The policy of the Board, however, must invariably be to interpret and apply the law in accordance with its manifest intent and underlying principles, with the end in view always of safeguarding and maintaining the liquid character of the assets of the Federal Reserve banks/ This duty, always present, has become imperative because of the fact that the entire reserves of the member banks, so far as based upon legal requirements, are now, by the act of June 21, 1917, carried on the books of the Federal Reserve banks. Upon these banks, and upon the Federal Reserve Board, therefore, falls the responsibility for the maintenance of a liquid condition, and upon them will justly fall censure for any improper or imprudent use of these reserve funds which are held under a trusteeship of the highest character.

Therefore, in no circumstances, can the Board admit the eligibility of paper by whomsoever made which, in its essential character, fails to conform to sound banking principles and to the provisions of the Federal Reserve Act. In making this statement of its attitude, however, the Board does not ignore or overlook the very serious problems which now confront private enterprises of providing for their financial requirements. From statistics which have been obtained by the Board, it is evident that there will mature during the year 1918, short term obligations aggregating a large amount, and the Board has no information, up to this time, as to arrangements for their liquidation or renewal.

Reference has already been made to the position of the savings banks and other investment institutions in general. Undoubtedly some effective measure of relief is desirable and if made available will be of great benefit not only to those requiring funds for comparatively long periods, but would also improve indirectly the general banking situation. The resulting problem is one which may perhaps come within the scope of the Board's advisory relationship, but it is not one which can be dealt with by the Board in an administrative way. From a purely advisory standpoint, the Board would suggest the propriety of dealing with this situation through direct governmental aid in some form approved by the Secretary of the Treasury. The Board is, moreover, of the opinion that any plan involving governmental aid is preferable to one which would be dependent upon the use of the resources of the Federal Reserve banks. Such an expedient would be justified, if at all, only after all other means had failed, and as a final and desperate ~~effort~~ resort at a time of the most urgent national necessity. It is particularly recommended also, that any plan which may be adopted for the relief of those desiring long time accommodations upon security of a non-liquid character, should not be made to depend for its success upon any access direct or indirect to the resources of the Federal Reserve banks, or upon the power to issue currency for the purpose of extending credits of this character. It ought to be possible to extend effective aid to those deserving it without jeopardizing our entire financial structure.

CONSERVATION OF GOLD.

The entry of the country into the war was accompanied almost immediately by a cessation of the movement of gold to this country which had been continuous since the early months of the year 1915, and in fact the movement had begin to slacken as early as November 1916. Foreign governments had found it convenient to liquidate their obligations due in other countries by purchase of bills in our own markets, and while the aggregate trade balance has continued in favor of this country, the balance is against us in some cases. During the second quarter of the year there developed a strong tendency to withdraw gold by those neutrals whose supplies of raw materials had been drawn upon by our own governkent and by other governments associated with us in the war, and during the months of June, July, and August, our net loss of gold amounted to about $100,000,000. The movement of gold having already been restricted inall of the belligerent countries, demands for it in settling international accounts, in adjusting exchange rates, and in strengthening reserves, were naturally made in our own markets. As the movemont began to assume larger proportions, the President, on September 7th, issued an executive ordee, attached hereto as Exhibit___, vesting in the Federal Reserve Board, with the approval of the Secretary of the Treasury, the duty of passing upon applications for shipment of coin, bullion, or currency. Acting in conjunction with a representative of the Treasury Department, the Board issued regulations covering the licensing of such shipments, and has since held daily sittings for the purpose of considering applications. It became manifest almost immediately that applications for permission to export gold fall into a few distinct classifications. Applications for permission to ship gold to European neutral countries have, except for a few days following the date of the order, been invariably declined, for obvious reasons which it does not seem necessary to enumerate. A different problem however, presented itself in the case of applications for shipments of gold to the Orient, to Mexico, and to South American countries which had been furnishing necessary raw materials. It was deemed important to continue these trade relationships while reducing shipments of gold to a minimum. For a short time large shipments were permitted to go to India, but as a result of negotiations between the Treasury Department and representatives of the British government, provision has been made fpr rupee exchange resulting from shipments of silver, to be allotted by Federal Reserve banks to importers according to their necessities. In a few cases shipments of gold are being permitted to South American countries, although it is hoped that arrangements can be concluded at an early date which will obviate the necessity of making further shipments in any considerable volume. The Mexican government issued a decree on September ~~7th~~ 27th which requires the payment of export and import duties in gold, the return in gold of the full value of gold ores and bullion exported from Mexico, and the return in gold of 25% of the value of silver ores exported. For a time it was necessary to permit some shipments of gold for payroll purposes, in mining operations controlled by citizens of the United States, and where the products were brought into this country. More recently, however, it has been the policy of the Board to decline to permit exportation of gold to Mexico except for payment of duties, and for the return to Mexico of the value of metallic brought into this country. It has been ascertained that in many instances United States currency can be used in Mexico for payroll purposes, and that in cases where it cannot be used, Mexican gold can usually be purchased. The total amount of gold shipments to various countries which have been authorized since September 7th appears as Exhibit______. Before the executive order was issued, considerable sums of gold had been earmarked ~~for~~ or held in trust for Canadian banks by some of the banks in New York City. The Board has deemed it proper to permit the exportation of this earmarked gold, and has also entered into an agreement with Canadian bankers whereby a total of $25,000,000 of gold may be released up to July 1, 1918. This action was deemed essential in order to finance the movement of Canadian crops which were needed for export to European countries associated with us in the war, and its effect upon sentiment was so favorable that no part of the amount has so far been withdrawn, New York exchange in Canada having now advanced to a considerable premium.

Foreign exchange rates have been abnormal throughout the year and in many of the countries which send us necessary material, American bills are at a heavy discount. The Board is making a close study of our trade relationships with neutral countries and has been fortunate in securing the services of Mr. Frederick I. Kent, of New York as its foreign exchange advisor.

(Statement by Kent)

(Make reference here to the new order which the President is expected to issue giving the Board authority to issue licenses in foreign exchange transactions.)

CLEARING AND COLLECTION.

The volume of checks handled by the Federal Reserve banks during the year has increased enormously, although there has been no material addition to the number of nonmember banks which remit at pa5 to Federal Reserve banks. Section 13 of the Act was amended last June as recommended by the Board, so as to allow Federal Reserve banks to receive accounts for collection and exchange purposes from such nonmember banks and trust companies as may agree to remit to Federal Reserve banks at par for checks drawn upon themselves and which will, in addition, maintain balances with the Federal Reserve bank sufficient to offset the items in transit held for their account by the Federal Reserve bank. Comparatively few nonmember banks have, however, availed themselves of this privilege, and the Federal Reserve banks are still unable to collect checks drawn on many nonmember banks except at heavy expense. An effort was made, on behalf of some of the banks to amend the Act by providing for a standardized exchange charge not to exceed one-tenth of one per cent, to be made by member banks against Federal Reserve banks for checks sent for collection. It was not successful, and the Act as finally amended provides that a member or nonmember bank may make reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed ten cents per hundred dollars or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; <u>but no such charges shall be made against the Federal Reserve banks.</u> The Attorney General has been requested to give his opinion as to whether this proviso applies to nonmember banks. ~~xxxx~~ An affirmative opinion will make possible the establishment of an universal par clearing system, but if, on the contrary, it should be held that it applies to member banks only, the further development of the collection system will necessarily be slow. It seems unfair that small member banks should be obliged to remit at par while their nonmember bank competitors can continue to make their usual charges. The Board feels that all banking institutions should be obliged to remit at par or else that they should all be permitted to make reasonable charges.

In order to complete as far as possible the clearing and collection system, and to render all possible service to the banks and to their customers, the Board authorized the Federal Reserve banks on July 1st, to receive for collection for account of member banks maturing notes and bills, and miscellaneous drafts, subject to a moderate collection charge. Consequently, member banks which were obliged to rely upon other banks for services of this kind, can now depend upon the Federal Reserve banks for such service. There has also been put into operation by all Federal Reserve banks a system of transfer drafts, which enables any member bank to have its drafts, drawn upon the Federal Reserve bank of its own district, paid immediately, without time allowance or deduction at any other Federal Reserve bank, adjustments between the respective Federal Reserve banks being made through the gold settlement fund. In this way, any member bank has, under the proper and necessary restrictions provided, the same exchange facilities it would have by carrying accounts in each of the twelve Federal reserve cities.

GOLD SETTLEMENT FUND.

The operation of this fund has been described, in former reports of the Board, and no extended comments upon it seem necessary at this time. Under the act as amended additional safeguards have been thrown around the fund by permitting the Treasurer of the United States to carry a special account upon his books to the credit of the Federal Reserve Board as agent for the respective Federal Reserve banks and Federal Reserve agents. Settlements are now made by warrant, signed by officials of the Board and the practice of issuing gold order certificates in denominations of $10,000, representing gold deposited with the Treasurer by Federal Reserve banks, and which were held in the custody of the Federal Reserve Board pending transfers between the banks and the Treasury, has been discontinued.

The operation of this fund, which is in effect a clearing house between the twelve Federal Reserve banks, has been particularly useful during the past year by reason of the continuous transfers for very large amounts which have grown out of the sale of government bonds and Treasury certificates and the redistribution and disbursement of the funds realized. Without such an arrangement, our own operations would have been accompanied with great expense and much inconvenience, but by its aid, transfers have been instantaneous and automatic, and have been made without the inconvenience and expense which would have been unavoidable had physical transfers or shipments of money been necessary.

BRANCHES OF FEDERAL RESERVE BANKS.

During the year, branches have been established at Omaha, by the Federal Reserve Bank of Kansas City, at Louisville by the Federal Reserve Bank of St. Louis, and at Portland, Oregon, Seattle and Spokane, Washington, by the Federal Reserve Bank of San Francisco, and are in satisfactory operation. The Board has, in addition, authorized the establishment of branches at Pittsburgh, and Cincinnati by the Federal Reserve Bank of Cleveland; at Detroit by the Federal Reserve Bank of Chicago; at Baltimore by the Federal Reserve Bank of Richmond, and at Denver by the Federal

Reserve bank of Kansas City. It is expected that all of these branches will begin business during the months of January or February.

Questions relating to the establishment and operation of branch banks have been simplified by the amendment to Section 3 of the Federal Reserve Act. As originally enacted, this section provided that each Federal Reserve bank "shall establish branch banks" to be "operated by a board of directors under rules and regulations approved by the Federal Reserve Board," and provided also that there be seven directors and that they should possess the same qualifications as directors of Federal Reserve banks. The Section as now amended provides that the Federal Reserve Board may permit or require any Federal Reserve bank to establish branches within its district, and that such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven or less than three directors, of whom a majority shall of one shall be appointed by the Federal Reserve bank of the district, and the remaining directors by the Federal Reserve Board.

The policy of the Board in the establishment of these new branches, has been to recognize the unity and paramount responsibility of the Federal Reserve bank, while extending to the banks in the territory served by the branch full facilities. By avoiding duplications in bookkeeping, and by a consolidated control of accounts at the Federal Reserve bank, it is believed that branches can be operated at a comparatively small expense.

The branch of the Federal Reserve Bank of Atlanta, at New Orleans, which, at the date of the Board's last annual report, was the only one in operation, has, during the past year, again demonstrated its usefulness and has been, or soon will be, supplemented by the ten just referred to.

INTERLOCKING DIRECTORATES.

In its report for the year 1916, the Board gave full details of its work in the application of the provisions of Section 8 of the Clayton Act and the Kern amendment thereto. During the year 1917, _____ applications were received for permission to serve as joint directors, and of this number _____ have been granted, and _____ have been refused.

FIDUCIARY POWERS.

On June 11, 1917, the Supreme Court of the United States handed down its decision in the case of Bank vs Fellows* appealed from the Supreme court of Michigan, which was referred to in the Board's last annual report to Congress. The lower court was reversed, and the court sustained the constitutionality of Section 11 (k) of the Federal Reserve Act which authorizes the Federal Reserve Board "to grant by special permit to national banks applying therefor when not in contravention of state or local law the right to act as trustee, executor, administrator, and registrar of stocks and bonds under such rules and regulations as the said Board may prescribe." The decision in this case is of far-reaching and vital importance to the Federal Reserve system in that it not only sustains the right of Congress to vest in national banks the powers enumerated in Section 11 (k), but fully recognizes the right of Congress to grant to such banks any and all powers that are necessary to enable them to meet the competition of corporations organized under state law.

* First National Bank of Bay City, v Grant Fellows, Attorney General, and others.

Prior to this decision the Federal Reserve Board had granted permits to applicant banks except in those cases where the laws of the state in which the bank was located expressly or by necessary implication prohibited such banks from exercising these powers. The language of the court, in the decision handed down on June 11th, was apparently susceptible of the interpretation that these permits might be granted in any case in which the state laws permitted competing banks to exercise such powers. In view of its importance the matter was referred to the Attorney General who reached the conclusion that while Congress is fully empowered to authorize the Board to grant permits under such circumstances, the Act as it now stands does not vest this authority in the Board. There are some states, which authorize banks or trust companies created and organized under their own laws to exercise such powers but which expressly prohibit any other corporations from doing so. In order to coordinate the powers of national with state banks it is recommended that section 11 (k), should be amended so as to permit the granting of these powers to national banks in any case in which the competing corporation organized under state laws are permitted to exercise such powers.

By direction of the Board its counsel, with the consent of the Court, took part in the proceedings both in the Supreme Court of Michigan and on appeal before the Supreme Court of the United States. The Board has granted during the year 1917, 112 permits for the exercise of fiduciary powers, making a total to date of 481.

EARNINGS AND EXPENSES.

The rediscount demands which have been made upon the Federal Reserve banks during the past year, and the greater employment of their funds, have been reflected in very greatly increased earnings. The combined net earnings of the twelve banks for the year, were at the rate of ______% on the aggregate capital, and the total net earnings for the entire year were $______________________.

Section 7 of the act provides that "after all necessary expenses of a Federal Reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank."

The Board construes the foregoing as meaning that no contingent funds can be set up against future expenditures or as a reserve for unforeseen losses, but that the surplus fund which, under the law, can accumulate until it reaches forty per centum of the capital of the Federal Reserve bank, is intended to take care of all such contingencies. The Board has, however, advised the banks that provision for apparent or temporary depreciation in securities should be made, before any sum is transferred to surplus account or any payment is made to the United States government. It has also permitted banks to charge off furniture and fixture accounts in full, and a reasonable proportion of the cost of vaults. It has authorized the writing off of the amounts actually paid for the printing of Federal Reserve notes, whether the notes have been put in circulation by the bank or held by the Federal Reserve agent. It has also authorized those banks which own their premises to write off five per cent of the total cost per annum as a depreciation allowance. The gross and net earnings of all the banks for the calendar year 1917, and the dividends declared by them from the date of their organization to the end of 1917, are shown in the following table:

not yet available

(Insert table — See page 13 annual report 1916)

It will be seen from the foregoing that the Federal Reserve Bank of San Francisco and St. Louis has paid its accumulated dividends up to December 31, 1916, and that five others - the Federal Reserve banks of Philadelphia, ~~St. Louis~~, Kansas City, Cleveland, and Dallas, have paid their accumulated dividends up to June 30, 1917, and that six banks, those of Boston, New York, Richmond, Atlanta, Chicago, and Minneapolis, have paid all accumulated dividends to the end of 1917. These banks, after charging off their expenses and making the depreciation allowances, which have beem previously described, have set aside surplus funds and have paid equal amounts to the government as a franchise tax, making the total return to the government $1,134,234.

The Board wishes to repeat the statements made in previous reports that the banks are not operated primarily for profit, but in meeting the demands which are expected to be made upon them during the coming year their earnings will undoubtedly continue to be large. It is expected that all accumulated dividends will be paid during the year, and that the excess to be paid to the government as a franchise tax, at the beginning of 1919, will be very much greater than the payment which has just been made.

ADMINISTRATIVE POLICIES.

During the period of organization and of development which extended over the first two years of the operation of the system, the Board deemed it advantageous to obtain frequent suggestions from the officials of the Federal Reserve banks, and to have them confer with each other in order that definite understandings might be reached, and uniform methods of operation determined upon. Many of the problems which had to be worked out were entirely new, and because of widely different conditions in the various districts, frequent consultations seemed necessary to ensure a better knowledge of administrative details. Thus frequent conferences with the Federal Reserve agents and governors of the banks, were deemed advisable, in order to secure more speedily an effective organization. The banks had, however, by the end of the year 1916, become well established, and having had two years of actual experience to guide them in the future conduct of their business, these frequent conferences have become no longer necessary.

The Federal Advisory Council, composed of twelve members, chosen by and representative of the Federal Reserve banks, has held, in conformity with the requirements of Section 4 of the Act, four meetings during the year, thus giving the Board at frequent intervals the benefit of its views as to the trend of the money market, and the proper adjustment of discount rates. Members of the Council have reported also upon the general financial, agricultural, commercial and industrial conditions in their respective districts.

There have been no meetings of the Federal Reserve agents during the year, but the Board, in anticipation of the first Liberty bond campaign, held a meeting with the governors of the Federal Reserve banks in April, and requested them to confer with it, in Washington, again in November. The activities of the year have been so great as to require the constant presence of the executive officers at their banks. The Board now exercises broader administrative functions, and makes final decisions on all questions of policy calling for prompt action, without awaiting an opportunity for consultation and development of opinion on matters of detail, as has been customary in the beginning. The functions of the Board as the co-ordinating body for all the banks, and as the directors of the Federal Reserve system, are now well defined, and the line of distinction between the local management of the banks and their operation as a system, has become more clearly marked. The Board has, on two occasions during the year, exercised its power of requiring Federal Reserve banks to make rediscounts for other Federal Reserve banks without submitting the question to their directors for determination. This has been done for the sake of greater ~~proportionx~~ promptness and efficiency in securing the adjustments desired, and not because there was any doubt about favorable action being taken upon the suggestions of the Board, as the banks have all responded promptly in cases where the Board has made its wishes known.

RESERVE CITIES.

The Federal Reserve Act confers authority upon the Federal Reserve Board to add to the number of cities classified as reserve and central reserve cities, or to reclassify existing reserve and central reserve cities or to terminate their designation as such. As the reserves of member banks are now carried exclusively with the Federal Reserve banks, the designation of any city as a reserve city relates ~~in~~ only to the percentage of reserve which must be carried by the member banks located therein. The Board has retained the old classification of central reserve and reserve cities, and has also designated as reserve cities, making the banks therein subject to

increased reserve requirements, the cities of Buffalo, N. Y., ~~and~~ Peoria, Ill
Grand Rapids, Mich. Memphis, Tenn; Oakland Cal;
Toledo, O; Ogden, Utah; (Insert balance)

The cities so designated all have a population in excess of 100,000 and are banking centers. Without this classification, the banks in those cities would have continued to carry the reserve prescribed for country banks - 7%, and the Board deemed it equitable to bring their reserves up to the requirements of other cities of their class. The three central reserve cities under the old national banking laws - New York, Chicago, and St. Louis, have been continued in that classification, and the member banks of those cities are required to carry the maximum reserve of 13%. Philadelphis and Boston, although important banking centers, and each having a greater population than the city of St. Louis, continue to be classified as reserve citites, and reserves of 10% only are required of the banks located therein. It is difficult to make an equitable and uniform adjustment of reserves under the present law, and the Board is making a careful study of the subject, with a view of recommending to Congress at a later date a change in the law which would provide for a differential in ~~xxxxxxxxx~~ reserves to be carried in all towns and cities alike upon certain classes of deposits, with a minimum for time deposits, a maximum for bank deposits, and an intermediate figure, to be determined upon, for individual or commercial deposits subject to check. This is a matter however, which will require careful study and analysis, and the Board is not prepared as yet to make a recommendation for any change in the reserve requirements.

SUGGESTIONS FOR AMENDMENTS.

The Board sees no occasion at this time for any sweeping changes in the Act. It would suggest, however, the following for the consideration of Congress:

(1) An amendment of Section 4 relating to the election of directors. The law provides that the member banks shall be classified into three general groups or divisions, each group to contain as nearly as may be one-third of the aggregate number of member banks of the district, and to consist as nearly as possible of banks of small capitalization, and that each member bank shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal Reserve bank of the district, who shall make lists of the district reserve electors thus named by banks in the three groups and shall transmit one list to each elector in the group. Each member bank is permitted to nominate to the chairman one candidate for a director of Class A and one candidate for director of Class B. Candidates so nominated are listed by the chairman and a copy of the list is furnished by him to each elector, who, within fifteen days after the receipt of the list certifies to the chairman a second or other choice of directors of Class A and Class B respectively, upon a preferential ballot. Any candidate having a majority of all votes cast in the column of the first choice is declared elected and if no candidate have a majority of all the first choice votes, then there is added the votes cast by the electors for such candidates in the second choice column. Any candidate having a majority of the electors' vote by adding together the first and second choices, is declared elected. Should no candidate have a majority

in this way, then the third choice votes are added. This system, which is designed to secure a representative board of directors, is complicated and has resulted in many cases in the choice of directors by a very small minority of the banks. A majority of the banks has never since 1914 chosen a district elector and there seems to be no reason why the directors of the banks should not be permitted to authorize the President or Cashier of the bank to cast the vote of the bank. The Board has ruled that electors once chosen may continue to serve until their successors are elected, but since the first year the banks have not as a rule participated fully in these elections. In the election held in December 1917 by the various groups in the respective districts, in nearly every case less than one-half of the banks participated. In the New York district 84 votes were cast out of a total of 224; in the Richmond district 72 out of 172; in the Atlanta district 66 out of 140; in the Chicago district 86 out of 360; in the St. Louis district 35 out of 162; in the Minneapolis district 45 out of 283; in the Dallas district 15 out of 201; in the San Francisco district 71 out of 178; and in one instance the successful candidate was chosen by 15 votes out of a total of 201, and in another by 28 votes out of 162.

The Board would suggest that this section be changed so as to simplify elections by permitting each bank through its President or Cashier to cast one vote for director regardless of its capitalization, and by providing that one additional vote may be cast by a bank for each $10,000 of stock held by it in the Federal Reserve bank, the total number of votes cast by any bank not to exceed ten. It is also suggested that the banks be permitted to elect three Class B directors, but only two Class A directors, and that one Class A director be appointed by the Board in addition to the three Class C directors now appointed by it. The member banks would still elect a majority of the Board, five against four appointed by the Federal Reserve Board, which in being permitted to appoint the third Class A director, would have an opportunity of rectifying any inequalities which might result from the election by the member banks.

(2) An amendment to Section 9 to permit state banks already in operation, having an aggregate capital and surplus of not less than $100,000 to become members of the Federal Reserve system at the discretion of the Federal Reserve Board. This section as it is now written requires that no applying bank should be admitted to membership in a Federal Reserve bank unless it possesses a paid-up and 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.

The attention of the Board has been directed, in many cases, to state banks otherwise eligible for membership, which cannot apply because of this restriction, and which do not feel warranted in asking their stockholders to increase their capital to the requisite amount. There are several national banks located in towns or cities whose population has been greatly increased by annexations or otherwise, which are now operating with a smaller capital than would be required of new banks in these cities, under charters granted before this increase in population took place, and the Board does not believe that any injustice would be done by modifying this section in the manner suggested so as to be applicableonly to existing banks.

(3) An amendment to Section 9 to authorize mutual savings banks having no capital stock, to become associate members of the Federal Reserve system under certain prescribed conditions. This was suggested by the Board in its annual report for the year 1916, and its consideration at this time seems more important than was the case a year ago, as many savings banks now have eligible paper in the form of notes secured by obligations of the United States. The principal beneficiaries would be the mutual savings banks of the Eastern and New England states which cannot become members of the Federal Reserve system under the present law because of the lack of any provision enabling them to subscribe to capital stock in a Federal Reserve bank, as they have no capitalization of their own upon which a percentage could be based. The accommodation proposed limits mutual savings banks strictly to the discount of customers' notes secured by notes or bonds of the United States maturing within thirty days, or of their own promissory notes secured in like manner running not longer than fifteen days.

(4) An amendment of Section 16 which now permits Federal Reserve notes to be issued in denominations of $5, $10, $20, $50, and $100 only, so as to permit their issue in the larger denominations of $500, $1,000, $5,000, and $10,000. It is thought that such an amendment would tend to increase the gold holdings of the Federal Reserve banks, particularly those in the larger financial centers. The Federal Reserve banks receive gold at the present time chiefly from two sources: by registered mail or express from national or state banks, and over the counter in cases where new currency in convenient denominations is required for payrolls or for other purposes. All avenues for loss of gold are now under control except

direct withdrawals over the counter, and an analysis of counter transactions at some of the larger Federal Reserve banks discloses the fact that from $100,000 to $1,000,000 of gold certificates are paid out every business day mainly because many member banks prefer to keep as part of their vault money notes of large denominations which can now be furnished only in the form of gold certificates.

(5) An amendment of Section 22. This is a penal section, not altogether definite in its terms, and the Board is constantly receiving requests for a proper construction of it. It has, however, uniformly adhered to the view that a section of this character can be construed only by the courts, and has declined in all cases to express any opinion as to the liability which might be incurred by any bank which acted upon an incorrect interpretation. As amended on June 21st this section permits transactions relating to the discount of notes, drafts, or bills of exchange by a director with his own bank, upon the affirmative vote or written consent of at least a majority of the board of directors of the bank; but there are other transactions such as the purchase by directors of goods or property taken by the bank for debt, which might well be permitted under the same conditions. It is not inconceivable that there may be occasions where a bank can best save itself from loss by being permitted to have a transaction of this kind with one of its own directors.

(6) An amendment to Section 25 to provide for the Federal incorporation of banking corporations whose stock is owned by national banks which operate under the control of the Federal Reserve banks and which are engaged solely in international and foreign banking. The present law permits any national

bank to invest an amount not exceeding in the aggregate ten per centum of its paid in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or any state thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States. This language appears to indicate an intention by Congress to permit incorporation under the laws of the United States, and several national banks have become stockholders in banks which have been organized under state laws for the purpose of carrying on a foreign banking business in accordance with the terms of this section. The arguments in favor of Federal incorporation are:

(1) The time will probably come when the conflict of the dual control exercised by the Federal Reserve Board and by the banking department of a state may be a matter of embarrassment or unduly restrict the activities of the banking corporation.

(2) Such a banking corporation, being essentially a national enterprise, whose stock ownership by national banks was authorized by an act of Congress, is subjected to unfavorable comment by foreigners, in that it is incorporated under local rather than national laws.

(7) An amendment to Sections 5208 and 5209 of the Revised Statutes. These are penal sections relating to the overcertification of checks, to embezzlement, abstraction or wilful misapplication of moneys, funds, or credits of national banks by officers, directors, agents, or employes of national banks, and to false entries in books, reports, or statements of national banks with intent to injure or defraud on the part of any officer, director, agent or employe of a national bank. It is suggested that these sections be

amended so as to apply to similar acts committed by officers, directors, agents, or employes of Federal Reserve banks and member banks.

ORGANIZATION, STAFF, AND EXPENDITURES.

There have been no changes in the organization of the Board during the past year. The growth of the system and the expansion of the work of the Board have required some additions to its clerical and examining force. There have been some minor changes due mainly to the fact that several of the Board's staff have engaged in military service, but the Board has thus far been able to fill their places satisfactorily. There are now ____ on the staff of the Board. The total cost of conducting its work during the year 1917, including xxxxxxxx printing of the Bulletin and salaries of members, was $______________, which was defrayed by assessments levied upon the Federal Reserve banks amounting to $xxxxxxx ______% of their capital. The volume of clearings through the gold settlement fund has greatly increased, the total during the year having amounted to $________________ as compared with $__________________ during 1916. The cost of operating the gold settlement fund for the year 1917 was $_____________ as compared with $________ in 1916, the net cost being ________ cents per $1,000 as against ________ cents the previous year. The net balances, representing the change of ownership between the Federal Reserve banks of gold held in the fund were $______________, which represents the amount of currency or coin which would, without the facilities of the gold settlement fund, have been transported between the banks. Further details relating to the operation of the Federal Reserve banks and of the system, will appear as exhibits in the appendix of this report, as will the annual reports of the Federal Reserve agents.

FEDERAL RESERVE BOARD

WASHINGTON

3160

X-623

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

December 31, 1917.

Dear Sir:

It is especially desirable that your member banks take a more active interest in the United States Treasury certificates of indebtedness maturing June 25, which are now being offered. It was not expected that sales of these certificates could be made in large volume during the closing days of December, but there ought to be a much greater demand for them during the first half of January. The Board has no doubt that you are doing all in your power to induce good subscriptions in your district, and deems it unnecessary to point out further the importance of anticipating tax payments in order that congestion may be avoided in June. It would be well for the banks to bear in mind that upon the extent to which these certificates are taken will depend the date of new Treasury financing.

This letter is, of course, not for publication, and is intended for the attention only of yourself and of your directors.

Very truly yours,

Governor.