FEDERAL RESERVE BULLETIN

ISSUED BY THE

FEDERAL RESERVE BOARD

AT WASHINGTON

APRIL, 1917

WASHINGTON
GOVERNMENT PRINTING OFFICE
1917

FEDERAL RESERVE BOARD.

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 ALLEN, *Assistant Secretary and Fiscal Agent.*

M. C. ELLIOTT, *Counsel.*

SUBSCRIPTION PRICE OF BULLETIN.

The Federal Reserve Bulletin is distributed without charge to member banks of the system and to the officers and directors of Federal Reserve Banks. In sending the Bulletin to others the Board feels that a subscription should be required. It has accordingly fixed a subscription price of $2 per annum. Single copies will be sold at 20 cents. Foreign postage should be added when it will be required. Remittances should be made to the Federal Reserve Board. Member banks desiring to have the Bulletin supplied to their officers and directors may have it sent to not less than ten names at a subscription price of $1 per annum.

No complete sets of the Bulletin for 1915 are available. Bound copies of the Bulletin for 1916 may be had at $5 per copy.

TABLE OF CONTENTS.

FEDERAL RESERVE BULLETIN

VOL. 3 | APRIL 1, 1917. | No. 4

REVIEW OF THE MONTH.

Proposed legislation.

Congress adjourned on March 4 without having taken any action on the amendments to the Federal Reserve Act which had been recommended by the Board and had been approved with modifications and reported by the Committees on Banking and Currency of the two Houses. In neither House was there debate on the subject matter of the amendments. The failure to bring them to a vote was due to the congestion of business and the differing views of opposing groups as to the measures which should be given precedence during the last days of the short session. The President has, however, summoned the new session of Congress to meet on April 2, and it has been agreed to make a fresh recommendation at that time in the expectation that Congress will resume consideration of the subject and take action with respect to the proposed legislation. The desirability of placing the member banks as soon as possible upon their final reserve basis has become increasingly evident, while the urgency of the need for the changes in the act has become more and more obvious, due to the further development of international difficulties and the expectation that domestic financial and banking problems growing out of them will necessarily have to be provided for. Other considerations due to the necessities which would in any event have manifested themselves have likewise become more and more urgent. Particularly is this true of the collection situation. Experience is making it plainer from day to day that the extension of the system upon equitable terms so as to include more of the State banks and trust companies of the country will be facilitated by the adoption of the proposed legislation authorizing such State institutions to maintain balances with Federal Reserve Banks. It is confidently expected that discussion and action upon the amendments proposed by the Board will take place at an early date in the new session of Congress.

Readjustment of discount rates.

It has been thought wise to bring about a general revision and standardization of discount rates in view of the increase in the number and complexity of the rates previously established, and accordingly the matter has been taken up with the various Federal Reserve Banks, and a new schedule developed. This schedule is as follows:

1. Paper maturing within 15 days, including collateral notes.
2. Paper maturing within 16 to 60 days.
3. Paper maturing within 61 to 90 days.
4. Trade acceptances maturing within 60 days.
5. Trade acceptances maturing within 90 days.
6. Bankers' acceptances maturing within 90 days.
7. Commodity paper maturing within 90 days.
8. Agricultural paper maturing within 90 to 180 days.

It will be observed that whereas, under conditions existing on March 1, there were thirteen classifications of paper of various kinds and maturities, the number is now reduced to eight. Minor changes have been made in the periods for which paper runs, but no general or far-reaching alterations of policy have been introduced. The rates applied to paper at the various banks are substantially the same as those previously charged for paper of the same varieties and maturities. Only in the case of bankers' acceptances has there been a change, the "spread" within which bankers' acceptances may be taken having been changed from 2–4 per cent to 2½–4 per cent. This, however, is not an increase in effect, inasmuch as the prevailing rate for bankers' acceptances is now about 3 per cent. Practically all of the Federal Reserve Banks have either adopted or will shortly adopt the new schedule of rates, and the result will be a much more complete and thorough standardization than has existed in the past. The rates themselves are likewise tending more strongly toward a uniform basis.

Foreign loans as bank investments.

On March 8 the Federal Reserve Board gave to the press for publication on the following morning a statement, elsewhere reprinted in this issue, further explaining the position it had assumed with reference to the purchase of foreign securities in this country. The statement was intended as an amplification and explanation of the statement issued on November 28, 1916, under the head of "Bank investments in foreign securities." In the latter statement it was pointed out that proposed issues of so-called short term notes were not suitable as permanent investments for banks, and could not be regarded in any true sense of the term as short-term paper, while the Board further noted that investors should take pains to assure themselves of the soundness of foreign issues that might be offered to them. In the statement of March 9 the Board again reaffirms its original position, but points out that misunderstanding has apparently arisen with reference to the whole subject, the statement having been interpreted in some quarters as a caution against the taking of any foreign securities either by the banks or investors. The Board wished to make it clear that it did not seek to create an unfavorable attitude on the part of American investors toward desirable foreign securities, and to emphasize the point that American funds available for investment may, with advantage to the country's foreign trade and the domestic economic situation, be employed in the purchase of such securities.

Changes in reserves.

Clearing-house reports received during March from principal eastern centers, on the whole indicate a slight improvement in the reserve situation of the larger banks. Thus the reserve percentage of the 60 banks forming the New York Clearing House Association, as gauged by the ratio of their total reserves to their net demand deposits, from 22.9 per cent on February 17 and 24, went up to 23.7 per cent on March 17. It is notable that the decline from 23 per cent on March 3 to 22.3 per cent on March 10 followed a week during which the outward gold movement was in excess of the inward movement. The reserve percentage of the trust companies in Greater New York, as computed by the State Banking Department, between February 17 and March 17, shows the following changes: February 17, 25.3 per cent; February 24 and March 3, 26.1 per cent; March 10, 27.2 per cent, and March 17, 27.6 per cent. On the other hand, the reserve ratio for the State banks in Greater New York, whose resources represent, however, but a small proportion of the city's combined banking resources, shows a decline during the same period from 29.3 to 29.1 per cent.

Average excess reserves of the 41 national banks and trust companies forming the Philadelphia Clearing House Association show a decline from $29,910,000 for the week ending February 17 to $29,572,000 for the week ending March 17. Similar figures for the 10 national banks and the Old Colony Trust Co., constituting the Boston Clearing House Association, indicate a movement of excess reserves more in harmony with the movement shown for the New York Clearing House banks, the published figures indicating an increase in excess reserves from $26,110,000 to $35,787,000 for the week ending February 24, and to $37,079,000 for the week ending March 3, a decline to $36,524,000 for the week ending March 10, and a rise to $40,293,000 for the week ending March 17.

Security issues and imports of gold.

The past month has seen a resumption of offerings of foreign securities in the United States; some protected by collateral, others not. Prominent among the issues which have been placed on this market during March are the following:

Central Argentine Railway gold notes......	$15,000,000
10-year 6 per cent gold bonds of the Province of Buenos Aires, transferred from London to New York...........................	8,098,000
12-year 6 per cent bonds of the Bolivian Government...........................	2,400,000

Moreover, $100,000,000 of two-year 5½ per cent convertible notes of the French Government are offered. These notes, dated April, 1917, are secured by State, municipal, and corporate securities, issued in American and neutral countries.

The large gold imports for the four-week period ending March 16 came chiefly from Canada and to a smaller extent via the Far East. Gold imports were particularly heavy for the weeks ending February 23 and March 16.

The country's stock of gold has increased by $114,774,000 between February 17 and March 16, 1917, the total gold imports for the four weeks under discussion amounting to $135,574,000 and the total gold exports to $20,800,000. The net addition to the country's stock of gold through net imports since August 1, 1914, is shown in the following exhibit:

Gold imports and exports of the United States from Aug. 1, 1914, to Mar. 16, 1917.

[000 omitted.]

	Imports.	Exports.	Excess of imports over exports.
Aug. 1 to Dec. 31, 1914............	$23,253	$104,972	a $81,719
Jan. 1 to Dec. 31, 1915............	451,955	31,426	420,529
Jan. 1 to Dec. 31, 1916............	685,745	155,793	529,952
Jan. 1 to Mar. 16, 1917............	248,041	50,857	197,184
Total........................	1,408,994	343,048	1,065,946

a Excess of exports over imports.

Investments of the banks during March.

Investment operations of the Federal Reserve Banks during March, as indicated by the several classes of earning assets held on March 2 and 23, were on a smaller scale than during the immediately preceding month. Liquidation (on a considerable scale) of acceptances and of discounts account largely for the decrease in total earning assets held by the banks on March 23, as compared with like holdings on March 2.

The following table shows the bill holdings of each Federal Reserve Bank and holdings of other investments for all the banks on March 2 and 23, 1917:

Bank.	Mar. 2.	Mar. 23.	Decrease.
Boston........................	$14,271,000	$12,481,000	$1,790,000
New York......................	31,564,000	22,288,000	9,276,000
Philadelphia..................	14,482,000	11,873,000	2,609,000
Cleveland.....................	11,113,000	8,782,000	2,331,000
Richmond......................	10,701,000	10,786,000	[1] 85,000
Atlanta.......................	5,546,000	5,689,000	[1] 143,000
Chicago.......................	11,334,000	11,011,000	323,000
St. Louis.....................	8,253,000	5,353,000	2,900,000
Minneapolis...................	8,955,000	6,263,000	2,692,000
Kansas City...................	4,974,000	2,815,000	2,159,000
Dallas........................	3,381,000	3,169,000	212,000
San Francisco.................	8,324,000	5,761,000	2,563,000
Total bills................	132,898,000	106,271,000	26,627,000
Total municipal warrants.....	16,798,000	15,761,000	1,037,000
Total United States bonds and Treasury notes.............	48,118,000	48,093,000	25,000
Total investments on hand.................	197,814,000	170,125,000	27,689,000

[1] Increase.

Furthering and protecting note issues.

The distribution of notes to subtreasuries and mints announced in the last issue of the Bulletin has been successfully carried through, and new notes are now lodged at points where they will be most conveniently accessible. It has been the view of the Board that two main objects were to be attained in connection with the handling of the Federal Reserve notes—one the elimination of delay in present methods of distribution at every point where such delay could be avoided, the other the careful safeguarding of the notes and the protection of the conditions under which they were released. When notes are issued only occasionally and in limited amounts, and when such issues are made by direct shipments from Washington to designated persons under all of the usual safeguards concerning the transmission of registered mail accompanied by insurance, practically every known requirement of protection has been complied with. In sundry cases, however, where under present conditions a quick release of notes by telegraph from a subtreasury is called for, there is possibility of error. In order to guard against any such event new regulations, framed with a view to the new conditions made, have been adopted by the Board, the purpose being that already explained. It is believed that what has thus far been done in this direction has resulted in maintaining the protection of the notes under practically all conceivable conditions while at the same time greatly expediting the process of rendering the notes available when needed.

Use of gold settlement fund.

During the past month the question of using the gold settlement fund as a means of making transfers for the benefit of individual banks —that is to say, transfers originating with one member bank in the interest of another member bank at a distance, has been presented to the Board, but it has been decided that for the present at least no such extension shall be given to the fund. As things now stand, the gold settlement fund is carefully protected, and it would seem that no possible loss could be incurred under the plan of operation in effect to-day. The suggested use of the fund would be extremely serviceable in many cases, but would involve the application of new safeguards and the alteration of conditions concerning its management. From time to time it has been suggested that the gold settlement plan be extended by the establishment of an additional fund including all forms of lawful money, but thus far nothing has been done to bring such a modification into use, due to a variety of considerations. It would seem that the extension of the use of the fund to cover transfers between banks in the way already suggested should, if decided upon at all, be simultaneous with the establishment of the additional fund already spoken of. Preliminary to either of these changes it is believed that there might well be an increase in the frequency of the settlement, possibly placing it upon a daily instead of a weekly basis. The general desire to extend the applicability of the gold settlement fund and the great increase in the amount of the weekly clearings and in the total of the fund itself testify strongly to the success of the plan.

Purchase and conversion of bonds.

In accordance with the provisions of the Federal Reserve Act, the regular quarterly allotment of bonds for conversion and purchase has been made as of April 1, and in consequence $10,877,500 of 2 per cent bonds have been allotted to Federal reserve banks for purchase by them under the terms of the law. Only in one case—that of the Federal Reserve Bank of San Francisco—did it appear that the bank had purchased up to, or in excess of, its proportion of $25,000,000—the theoretical aggregate for the year—and only in that case, therefore, was it necessary to relieve the reserve bank of the obligation to purchase a pro rata share of the bond offerings of member banks. The total offerings, as above stated, were consequently apportioned on the basis of eleven banks, each institution being assigned its pro rata on that footing, the result being a distribution detailed elsewhere in this issue of the Federal Reserve Bulletin. In making actual assignments of specific lots of bonds, it was, of course, necessary to designate specific bond offerings to be taken over by specified reserve banks, and this was done, the designation being, however, so far as possible, made from the offerings presented by member banks in the district of the reserve bank to which such bonds were allotted. Minor variations from the theoretical allotment of bonds based on capital consequently occurred in the case of most of the banks, they being asked to take over slightly more than their actual allotment, or to accept slightly less, as the case might be, in order to bring about an even adjustment between offerings and assignments.

As the total of open market purchases of bonds since the beginning of the year reported by the several banks up to the close of business on March 21, was $3,140,350, and as the total offerings of member banks now allotted have been $10,877,500, as already stated, the aggregate amount of bonds absorbed by the reserve banks up to March 21 is shown to have been $14,017,850, the difference between this figure and $25,000,000 remaining for purchase or allotment during the remainder of the year.

The Philippine bank.

The Philippine National Bank has been designated by the Federal Reserve Bank of San Francisco as its agent and correspondent for the Philippine Islands, and similar action is expected to be announced shortly by one or more other Federal Reserve Banks. The basis of the actual arrangement between the Federal Reserve Bank of San Francisco and the Philippine National Bank includes the maintenance of reciprocal accounts, the collection of drafts and claims, and when desired, the purchase of bills by either institution for the other or by either from the other for its own account if conditions favor and such business is mutually deemed desirable. While the Philippine Islands are under the control of the United States, they are to all intents and purposes foreign territory, and the Philippine National Bank is, therefore, designated as agent under the provisions of section 14, relating to agencies in foreign countries. Business with the Philippines, however, has this advantage over other foreign business, that it eliminates all danger of exchange fluctuations, the currency of the islands being maintained on a gold basis at a rate of two for one, the Government undertaking to sustain this parity between local currency and American money.

Relations between the Philippine National Bank and the Federal Reserve System are those which adjust themselves readily and directly to one of the essential functions of the Federal Reserve System, that of facilitating the growth of foreign trade. The Philippine National Bank is vested with large powers by the terms of its charter, being authorized to issue notes, make ordinary commercial loans, buy paper, establish foreign branches, deal in foreign exchange, and in general transact all classes of legitimate banking business. It is besides a designated depositary and fiscal agent both of the insular government and of provincial and municipal governments in the Philippine Islands.

Investments in Foreign Loans.

The following statement for the press was issued by the Federal Reserve Board on March 8:

From statements which have been published from time to time, both in the American and foreign press, there appears to be a misunderstanding of the attitude of the Federal Reserve Board with respect to investments in foreign loans in the United States. On more than one occasion the Board has endeavored to remove this misunderstanding. So far from objecting to the placing of foreign loans in the American market, it regards them as a very important, natural, and proper means of settling the balances created in our favor by our large export trade. There are times when such loans should be encouraged as an essential means of maintaining and protecting our foreign trade.

The Board has already stated that its announcement of November 28, 1916, did not deal with the finances or the credit of any particular country, but only with banking principles which it seemed desirable to emphasize under the conditions existing at that time. The objection then made by the Board was to the undue employment by our banks of their funds in the purchase of foreign loans and not to the merits of foreign loans as investments. The Board was then, and is now, of the opinion that the liquid condition of our banks should not be impaired through undue or unwise use of their resources for investment operations. The position of the Board with respect to this principle has not changed. It still takes the view that foreign borrowings should appeal

87199—17——2

primarily to the investor and not involve the use of banking resources beyond the limits of sound practice. In view, however, of existing conditions, especially as they affect our foreign trade, the Board deems it desirable and in the public interest to remove any misconception that may be left in the minds of those who read the statement issued on the 28th of November, 1916. Since that date the country's gold reserve has been further materially strengthened and supplies a broad basis for additional credit. The Board considers that banks may perform a useful service in facilitating the distribution of investments, and in carrying out this process they may, with advantage, invest a reasonable amount of their resources in foreign securities. So long as this does not lead to an excessive tying up of funds and does not interfere with the liquid condition of the banks, there can not be any objection to this course.

The Board did not, of course, undertake to give advice concerning any particular loan. It desires, however, to make clear that it did not seek to create an unfavorable attitude on the part of American investors toward desirable foreign securities, and to emphasize the point that American funds available for investment may, with advantage to the country's foreign trade and the domestic economic situation, be employed in the purchase of such securities.

Issue of Certificates.

In a statement to the press on March 28 the Secretary of the Treasury said:

In anticipation of the payment of the corporation and individual income taxes due in June, 1917, I have determined to borrow at this time on 90-day Treasury certificates of indebtedness $50,000,000, with interest at 2 per cent per annum. These certificates were offered on the 27th of March to the 12 Federal Reserve Banks, which are fiscal agents of the Government. Before 3 o'clock to-day these banks subscribed for more than the entire issue.

This is extremely gratifying, and shows not only a fine spirit on the part of the Reserve Banks but is an additional demonstration of the usefulness of the new Reserve System to the country. A statement of the allotments to the subscribing banks will be given out as soon as the details are completed.

It is possible that an additional issue of $50,000,000 of these temporary certificates of indebtedness may be issued before the end of the present fiscal year. No statement can be made about possible issues of Government bonds until further developments in the international situation.

The allotment was as follows:

Boston, $3,000,000; New York, $20,000,000; Philadelphia, $3,500,000; Cleveland, $3,500,000; Richmond, $2,000,000; Atlanta, $1,500,000; Chicago, $5,000,000; St. Louis, $2,500,000; Minneapolis, $2,000,000; Kansas City, $2,500,000; Dallas, $2,000,000; San Francisco, $2,500,000.

Purchase of Bonds from Member Banks.

On January 8 the Federal Reserve Board sent out to member banks a letter, as follows:

The Federal Reserve Board has to-day determined, in the exercise of the discretion vested in it under the provisions of section 18 of the Federal Reserve Act, that it will not require Federal Reserve Banks to purchase during the year 1917 more than $15,000,000 of United States bonds offered for sale by member banks through the Treasurer of the United States. It will require Federal Reserve Banks to purchase on April 1, 1917, the full amount of this $15,000,000, or so much thereof as may be offered for sale on or before March 21.

Under the provisions of section 18 Federal Reserve Banks are not permitted to purchase from member banks through the Treasurer more than $25,000,000 of bonds in any one year, less the amount of bonds bearing the circulation privilege acquired in the open market during that year. If, therefore, Federal Reserve Banks are desirous of giving member banks an opportunity to sell the full amount of $15,000,000 under the provisions of section 18, they should refrain from investing in the open market during the first quarter anything in excess of the difference between $15,000,000 and $25,000,000.

Please bring this to the attention of your executive committee.

Pursuant to the plan outlined in this letter, the receipt of applications from member banks for the sale of bonds was closed on March 21, and the Treasury Department at that time notified the Board of the aggregate amount of such allotments received. This aggregate was

$10,877,500. The Board then, as previously announced, proceeded to the allotment of the offerings upon the basis of the relative capitalization of the several reserve banks. Each bank was requested to state the total amount of its open-market purchases of bonds, which turned out to be as follows:

Purchases of United States bonds with circulation privilege in open market from Jan. 1 to Mar. 21, 1917, in accordance with telegrams from each Federal Reserve Bank.

Boston	
New York	$80,000
Philadelphia	
Cleveland	26,400
Richmond	48,250
Atlanta	[1] 170,000
Chicago	
St. Louis	
Minneapolis	70,700
Kansas City	475,000
Dallas	
San Francisco	1,795,000
Total	2,665,350

As it appeared that the Federal Reserve Bank of San Francisco had purchased in the open market an amount of bonds which represented slightly more than its proportionate share of the total of $25,000,000 required to be taken over during the year, it was omitted from the allotment of bonds which had been offered by member banks, and the proposed allotment was computed upon the basis of 11 banks according to capitalization. The allotment was made as follows:

Amounts and percentages of paid-in capital of all Federal Reserve Banks except San Francisco[2]; also proportions of total offerings of $10,877,500 allottable to each of the 11 banks.

Bank.	Paid-in capital, Mar. 16, 1917.	Per cent of total paid-in capital.	Amount allottable to each Federal Reserve Bank.
Boston	$5,068,000	9.7248	$1,057,800
New York	11,880,000	22.7962	2,479,700
Philadelphia	5,260,000	10.0933	1,097,900
Cleveland	6,089,000	11.6840	1,270,900
Richmond	3,405,000	6.5338	710,700
Atlanta	2,418,000	4.6398	504,700
Chicago	6,999,000	13.4302	1,460,900
St. Louis	2,795,000	5.3632	583,400
Minneapolis	2,413,000	4.6302	503,600
Kansas City	3,089,000	5.9274	644,800
Dallas	2,698,000	5.1771	563,100
Total	52,114,000	100.0000	10,877,500

[1] Purchases of bonds with circulation privilege by the Atlanta bank since Jan. 1, as per schedules received by the statistical division, total $645,000.

[2] San Francisco having purchased in open market up to Mar. 21, a total of $1,795,000, has exceeded its quota of the entire year's allotment and has, therefore, been left out of the above calculation.

Minor variations from these figures were necessary in order to distribute the offerings of bonds without breaking up denominations, and the several banks were at once advised of these minor variations above or below their allotments. In general terms, however, no material variation was made from the figures set forth above. Payment for these bonds and accrued interest and for $1,732,000 of one-year 3 per cent notes of certificates of indebtedness which had been sold by banks, and, therefore, did not cancel with reissue, was made through the gold settlement fund on March 31. The total payment was $12,616,090.15.

Revision of Discount Rate Schedules.

For some time past it has been noted that the discount rate classifications of the Board were growing in number and complexity and the matter was recently placed in the hands of a committee of the Federal Reserve Board for investigation. The committee, after reviewing the discount rates in effect at Federal Reserve Banks, found that there was a considerable lack of uniformity among them, while in some cases the policy followed by one bank was slightly opposed to that of others. A summary of the situation showed that there were in effect 13 different discount rates, as follows:

1. Collateral notes, 1 to 15 days.
2. Paper maturing within 10 days.
3. Paper maturing within 15 days.
4. Paper maturing between 11 and 30 days.
5. Paper maturing between 16 and 30 days.
6. Paper maturing between 31 and 60 days.
7. Paper maturing between 61 and 90 days.
8. Agricultural paper within 90 days.
9. Trade acceptances between 1 and 30 days.
10. Trade acceptances between 31 and 60 days.
11. Trade acceptances between 61 and 90 days.
12. Commodity paper within 90 days.
13. Bankers' acceptances.

The committee consequently recommended that an attempt be made to simplify these rates by suggesting to the various banks the adoption in lieu thereof of eight standard quotations, as follows:

1. Paper maturing within 15 days, including collateral notes.

2. Paper maturing within 16 to 60 days.
3. Paper maturing within 61 to 90 days.
4. Trade acceptances maturing within 60 days.
5. Trade acceptances maturing within 90 days.
6. Bankers' acceptances maturing within 90 days.
7. Commodity paper maturing within 90 days.
8. Agricultural paper maturing within 90 to 180 days.

Replies were received from practically all the banks expressing cordial approval of the Board's suggestion, and in some cases immediately adopting the revised classification and submitting it for formal approval by the Board. On March 20 telegrams of advice were sent out to all the banks which had taken such action advising them of the approval of the schedule in its revised form, and the terms of the schedule itself were thereupon made public. Since then other Federal Reserve Banks have taken similar action, and the schedule as above indicated may accordingly be regarded as practically in force throughout the system. Little or no change in rates of importance was made at any of the banks except the uniform action in raising the rate on bankers' acceptances by limiting the spread formerly 2–4 per cent to 2½–4 per cent. This, however, was a technical increase only, inasmuch as the actual rate for bankers' acceptances in the market was already about 3 per cent.

Shipment of Unfit Notes.

It has been decided that in the case of shipments of unfit notes to Washington, Federal Reserve notes should be included with classes of currency on which the transportation charges should be assessed against the sender. Hitherto charges have been paid by the Government on unfit national bank notes, Federal Reserve notes, and Federal Reserve bank notes when shipped in "collect." A change in this plan has now been authorized by the Treasury Department, the facts in the case being conveyed to Federal Reserve Banks under date of March 19, in a letter addressed to them:

Dear Sir: By direction of the Federal Reserve Board, you are advised that the Board is in receipt of a letter from Hon. B. R. Newton, Assistant Secretary of the Treasury, reading as follows:

"Referring to the recommendation of the Federal Reserve Board to the effect that the transportation charges on all Federal Reserve notes, whether fit or unfit, sent to the Treasurer of the United States for redemption be assessed against the sender, you are advised that the Secretary has approved the recommendation and has directed a change in department practice to accord thereto. Paragraph 20 in Section IX of department circular No. 55–A (1916), regarding the issue, exchange, and redemption of money, will be amended by the omission of the words "Federal Reserve notes." The change, for convenience of the Treasurer in order to permit the proper adjustment of his accounts and in order to give due notice to all parties concerned, will be made on April 15, 1917, and will not be retroactive."

Attention is especially called to the date named by Mr. Newton upon which the new plan becomes effective.

Section IX of Department Circular No. 55–A referred to by Assistant Secretary Newton, when amended in the way directed by him will now read as follows:

IX.—Shipment of unfit notes to Washington.

20. Charges are paid by the Government on unfit national-bank notes, and Federal Reserve bank notes when sent to the department at Washington, charges collect. No charges are paid by the Government on any other kind of currency sent for redemption.

21. All charges must be prepaid by the sender on shipments for exchange or redemption of gold coin, standard silver dollars, subsidiary silver coin, and minor coin.

22. National-bank depositaries must pay all charges incurred by them on account of transfer of public funds.

23. In order to save time and expedite shipments in return for currency redeemed when the amounts are large, orders should be for original packages of 4,000 notes each of the same denomination; that is, ones in packages of $4,000; twos, $8,000; fives, $20,000; tens, $40,000; and so on.

24. The Government has no contract for carrying money or other securities, and shipments will be made as herein provided unless specific instructions are received designating the particular manner in which the same is desired.

Conference on Trade Acceptances.

On March 9 the National Credit Men's Association held a conference on trade acceptances at the Hotel Astor, in New York City, at which the trade acceptance question was discussed from a variety of angles. Extracts from the addresses of some of the speakers are herewith presented:

Mr. R. H. Treman, acting governor of the Federal Reserve Bank of New York, said in part:

"It is difficult in a period like the present, when credit can be easily secured at low rates and banks are seeking loans, properly to appreciate the necessity of providing ways and means for making credit more easily available at reasonable rates when we shall have entered upon a period of restricted and contracted credits with a certainty of higher rates for loans.

"One of the main objects of the introduction of trade acceptances in place of open-book accounts is to make those open-book accounts—which, until maturity, are 'dead' accounts—available as 'live' capital, thus making the credit represented by the book accounts immediately available for discount, if needed, at one's bank, and furnishing that bank with paper which can be readily discounted at a preferential rate with its Federal Reserve Bank.

"The demands for credit from other nations upon us unquestionably will grow more and more, even after war has ceased, at least for some time, and in addition we shall have to furnish credit for our own commercial needs, the demands being greater by reason of the very much higher prices for all commodities and material, as well as labor. So that to-day the average manufacturer and distributor needs from 50 to 100 per cent more capital to handle the same amount of business than was the case in 1914 at prices then ruling.

"These facts emphasize the wisdom at the present time, when financial conditions are comparatively easy, of having an educational campaign and of using every other influence available to induce the commercial interests of the country wherever possible to consider and inaugurate the use of the trade acceptance plan in their own business. While at first such effort will probably meet with objections and the use of the trade acceptance be only gradual, the fact that the system is being inaugurated—the testimony of those who are using it being favorable—will help much when the period of strain does come.

"One of the difficulties is that manufacturers and merchants have become so accustomed to their present methods that many believe these can not be bettered. There is a traditional aversion to making any change, as it is easier to adopt the laisser-faire method and postpone any new method, even if it is better, until the necessity is upon them.

"A recent canvass of the extent to which the terms of payment are observed by manufacturers and jobbers in one line resulted in showing that many manufacturers' usual terms are 60 days net, 2 per cent allowed for cash payment in 10 days. The facts show that if the bill is discounted the buyer generally takes an average of 15 or more days instead of the 10 days under the contract. As to those who elect to take the option of the 60-day credit, payment is made generally in from 75 to 80 days, fully 10 per cent of the customers taking more than 90 days to pay.

"Among jobbers in this line the results vary according to their location in the United States. It is safe to say that probably 40 to 50 per cent discount their bills, but generally the discount is taken in from 12 to 20 days after the date of the bills, and some try to take the discount even later. Of those electing the 60-day option about 20 per cent pay within 75 days, about 20 per cent pay in from three to four months, and 10 per cent take four months or even longer.

"As one writer has recently stated, 'The system of open accounts and cash discount is wasteful and inefficient. The cash discount is shamefully abused by some buyers, who take unearned discount after the 10 days allowed and manage to retain the advantage because sellers dislike to antagonize customers.' Under our system of granting easy and generous credits, buyers have become very careless about recognizing and adhering to the strict terms of payment, and some overlook the fact that when the cash discount is deducted contrary to the terms it is, in essence, a form of graft, and this practice has an unfavorable effect on business ethics."

Mr. D. C. Wills, chairman of the board, Federal Reserve Bank of Cleveland, Ohio, said, in part:

"A recent writer on trade acceptances states that 'fundamentally' the proposition is a 'general financing and sales problem' and 'is of interest to the banks only so far as they are striving to better serve their commercial depositors.' Acknowledging that those first concerned are sellers and buyers of goods, it is, nevertheless, a problem which vitally and fundamentally affects the business of banking, and the writer above quoted proceeds to enumerate several important benefits to banking that the general use of trade acceptances will accomplish.

"Three of the most vital factors in the successful conduct of the business of banking are: (1) Assurance of an elastic and responsive currency; (2) proper separation of investment and commercial credit; (3) safety in making loans. All three of these are favorably influenced through the introduction and establishment of settlements by trade acceptances, as compared with the open account system.

"(1) *Elastic and responsive currency.*—Federal Reserve notes and coin certificates eventually will be our only forms of currency. If the amount of Federal Reserve notes be increased and diminished only by the supply of instruments representing actual sales, it would truly be responding to the real needs of commerce and industry with all fictitious elements eliminated. Trade acceptances, superseding single-name direct notes of borrowers, and constituting the one class of paper to be hypothecated by Federal Reserve Banks with their agents for the issue of Federal Reserve notes, will mean that the amount of Federal Reserve notes outstanding will depend on the demands created by the business being done in the country. This seems so obvious that further explanation and enlargement appear unnecessary.

"(2) *Separation of investment and commercial credit.*—A noticeable weakness in the plan of making advances to commercial customers on their direct unsecured single-name notes is the tendency to confuse fixed needs with current requirements. A 60-day, 90-day, or four months' note, while ostensibly a liquid note to be paid at maturity, may be dependent for payment on the ability of the maker to obtain a renewal, at least in part, through placing his paper in other quarters. The necessity for renewal is usually due to the fact that part of the permanent financing is being carried in short-time obligations. Persistent carrying of fixed requirements in debts of short maturities is always fatal. Bankers know how such a course terminates, and use every means at their command to discover when a customer is getting into this danger zone. No method of analyzing credit now available is so conclusive as to the commercial character of any desired loan as the evidence presented by a trade acceptance. Every element of doubt except the possibility of actual fraud is removed; and a fraudulent trade acceptance is so dangerous that the possibility is remote. Surely this is worth while.

"There are two weak links in the credit chain set up by present banking methods:

"When a bank's customer borrows for a stated time $5,000 to buy certain goods, the bank must depend on the good faith of the borrower to use the money borrowed for the purpose stated. (Weakness No. 1.)

"Frequently the goods are received, sold, and payment obtained before the note is matured. The proceeds remain in the hands of the borrower for a time, therefore, with the temptation to make another investment without the knowledge or consent of the lending bank. (Weakness No. 2.)

"With universal giving and getting acceptances both these weaknesses will be eliminated, and when the buyer pays for his goods all parties to the transaction are released and paid at the same time, including the very much interested banker who advanced the funds.

"(3) *Increased safety in credits.*—It was very illuminating to me as a banker when I learned how mercantile credit men rate the different classes of credit information. The order of their importance and value, I am informed, is as follows: (1) Ledger information (preferably through interchange bureaus); (2) property or financial statement; (3) trade opinions; (4) mercantile or attorneys' reports; (5) bank replies. The banker should be flattered to find that he ranks first, in the reverse order.

"Bank credit men rate their sources of information, I am told, as follows: (1) Property or financial statement; (2) ledger information; (3) bank replies; (4) trade opinions; (5) mercantile or attorneys' reports.

"One feature asserts itself in these lists. Ledger information is the most important data obtainable in order to determine intelligently the value of a credit risk. Bankers usually have to depend on second-hand sources in getting ledger information. It is true that a bank is enabled to obtain a fairly reliable line on a customer's methods and financial habits by experience and observation in handling his business, and, if the borrower be not an active customer of that particular bank, the information can be obtained by inquiry. However, the items on his financial statement of 'Accounts receivable' and 'Accounts payable' are not very capable of scrutiny and continuous observation by the banker. The ledger information a bank has on its customer is: 'Does he keep a satisfactory balance?' 'Does he overcheck?' 'Does he meet his notes promptly?' The very important questions of whether the people to whom this customer sells pay him promptly, and whether he pays his own bills when due to the parties from whom he buys, are not covered in a bank's everyday ledger dealings with a depositor or borrower.

"The issuing and obtaining of trade acceptances do give the banker this line on its customers. The acceptances he issues instead of accounts payable will be collected through the bank, and the acceptances he carries instead of accounts receivable will be deposited for collection or discounted at the bank. Thus the bank will know how promptly he pays and the character of the houses he patronizes, and also will know the class of customers who purchase his goods and their methods of payment. Trade acceptances automatically furnish that highest class of credit data—namely, accurate ledger information, enabling bankers to estimate more intelligently the responsibility of of their borrowers.

"A fourth advantage which I have carefully avoided mentioning, for reasons which need not be elaborated, is, nevertheless, one that should appeal to every ambitious banker as well as to the ambitious business man.

"It is indisputably true that Great Britain does a vastly greater volume of business in proportion to its fixed capital investment, and with unquestioned safety, than does the United States, and the principal reason is that English business is transacted on the acceptance principle. It is therefore certain that we can vastly increase our volume of business without proportionate increase in capital investment when the regular method of payment for all goods becomes the trade acceptance instead of cash or open account.

Mr. Beverly D. Harris, vice president of the National City Bank of New York, said in part:

"We have for long years operated under a system in which the cash discount has been a basic principle, and under business standards growing out of this fundamental fact. It is desirable as a basis of sound trade and credit conditions that cash payments should be encouraged in the case of those who are in a position to pay cash for their purchases. Evidently until very radical and universal changes are effected in the matter of selling terms, cash discounts and the long established customs and ethics, as well as the practical machinery of doing business, the financing of a very large proportion of the commercial business of the country will continue to be done, as at present, through the medium of single name paper. There are unassailable elements of merit in a properly adjusted system of cash discounts, and in my opinion it would be unwise for the present to make any effort to supplant single name paper with trade acceptances, in the case of those who borrow in this way for the purpose of discounting their bills.

"Even if it were desirable—which I am very much inclined to question—it is safe to say there is no immediate prospect that single name paper could be universally supplanted by double name paper. It is obvious the merchant who can go to his bank and discount his plain paper at rates ranging all the way, say, from 3 to 6 per cent, as the case may be, will continue to do so, when he can use the proceeds to discount his bills and take advantage of a cash discount out of all proportion to current interest rates. Under the present sales system there is an abnormal and unwarranted difference between the cash discount allowed in trade and current interest rates for money. This is an exorbitant, inconsistent, and unnecessary tax which merchants are offering to pay to avoid tying up working capital in open book accounts, and as it stands, is not so much an element of strength as an admission of weakness in existing collecting methods, which the general adoption of trade acceptances ought to gradually correct. This constitutes one of the principal sources of profit to firms who are in a position to discount their bills, and strong opposition may naturally be expected to changing it. It goes without saying that the selling price on goods must be correspondingly increased to bear this burden, as well as the loss and expense of doing business under a system of this kind. The accumulated burden falls on the ultimate consumer in the end, and is one of the factors in the high cost of living in this country. The attitude of the trade on this matter, however, will probably be found to be averse to any immediate radical changes in methods, and my feeling is that the readjustment of the cash discount system can only be accomplished, or partially accomplished, through the process of time and a gradual readjustment in sales terms, possible only through general cooperation.

"My feeling and conviction, after looking at it from all angles, is, that for the present no particular occasion exists to seek to change the practices of those who discount their bills, in putting out single-name paper. It is a question for the future to determine as to whether it may at some time appear expedient and desirable, in connection with the workings of our Federal Reserve System, in the development of broad domestic and international markets for commercial paper, to gradually bring about, partially or wholly, the substitution of trade acceptances, in the operations of firms of this character. Should this be accomplished it will come through a developed comprehension of the matter, not as of any individual necessity, but in the furtherance, completion, and rounding out, as a measure of broad public policy, of a new system which has been tried out successfully in its initial stages, and which has established beyond peradventure that the trade acceptance system, as a uniform system for the country at large to operate under, would afford better safeguards, more liquid and convertible assets, a more sound, stable, and scientific basis for our credit and currency system, less loose credit, less opportunity for inflated and falsified statements, better collections, less losses, greater economy of operation, and less capital to do a given amount of business, and a far greater potentiality and stability in the general credit situation.

"The primary problem to which our efforts should first be directed is that of putting the country's mass of book credits into liquid and negotiable form through the adoption of trade acceptances in transactions with buyers who do not discount their bills. An acceptance verifies the account, puts unmatured credit into negotiable form, and is a strong lever on the debtor to meet obligations promptly, for the protection of his signature and his credit, with many other advantages, too numerous to mention, but which have been within the last year convincingly presented through the efforts of your association.

"As I view it, our daily experience is demonstrating that we can use to advantage three distinct types of credit instruments, each serving its appointed function, without usurping the functions of the other, i. e., single-name paper, bank acceptances, and trade acceptances.

"A bank acceptance—which is nothing more than single-name paper indorsed by one bank and discounted by another—is invaluable to the Federal Reserve System as a means of standardizing credit in international and open market transactions, through which the country's foreign exchanges and domestic money markets may be stabilized and regulated. It is especially useful in foreign transactions and in domestic transactions between distant points, particularly in carrying the heavy burdens of the country's products—cotton, grain, and other commodities—on a large scale. The exigencies of war conditions have given immediate impetus to this form of financing, and its great value is evidenced in the published statements of the banks of this city, and of open market transactions of the Federal Reserve Banks, indicating a continually increasing volume of banker's acceptances, running in the last year into hundreds of millions of dollars. While of the highest value and usefulness, however, in serving its appointed function, the bank acceptance does not strengthen the credit situation in the same way that it is strengthened by the trade acceptance. That is to say, except where secured by commodities, the banks accepting the paper have no further security for their own protection, in so doing, than the credit of the drawer, to whom they are in the same attitude as lending directly on his single-name paper, so far as security is concerned, the difference being that they guarantee his obligation in the open market instead of lending him their own funds.

"The third class—trade acceptances—when developed as they should be, will strengthen the general underlying situation in making book credits liquid and available, and creating a large volume of self-liquidating paper, arising from actual transactions in consumable merchandise, available for discount with the Federal Reserve Banks, and not previously available. This will have not only the advantage of two-name paper, but the added advantage of representing actual transactions in commodities. A trade acceptance is an *order* to pay. A note is a *promise* to pay either a debt or a loan, and its self-liquidating character is not prima facie.

"In the face of the fact that trade acceptances in the New York market, the operations of the Federal Reserve Banks, and the banks and money markets of the country in general, have so far appeared only in limited volume, evidence is nevertheless accumulating that this movement is now in process of steady development. In the cotton trade particularly, in the past year, its development has been rapid, in financing cotton going into consumption, both in the New England and Southern mills. There is no doubt both trade acceptances and bank acceptances will continue to grow in favor and usefulness, in connection with the financing of the important cotton industry to which both are so well adapted. Cotton mill acceptances, secured by the cotton going into consumption, are now appearing in the open market, and are readily absorbed.

"To obtain effective cooperation and successful results, I think the following things should be established by common consent:

"Credit should be graded in three divisions—

"*First grade.*—Buyers who discount their bills.

"*Second grade.*—Buyers who avail themselves of trade terms, closing with acceptance and meeting their obligations promptly.

"*Third grade.*—The remainder, which will, by this process, classify themselves into the least desirable element of trade credit.

"It should be thoroughly established and understood that both giving and rediscounting acceptances are in furtherance of a new and broader financial policy, designed to give scope and effectiveness to the workings of the Federal Reserve Banking System, the creation of broad discount markets, and putting the underlying credits of the country on a liquid and sound basis, for the encouragement of which all interests should cooperate in recognizing that such transactions are entirely legitimate and in the line of advanced public policy, and to remove the impression of any impairment of credit. As trade acceptances come into general use this feeling will disappear, and a new standard should be established, under which buyers who are not disposed to put their debts into definite and acknowledged form through trade acceptances, or sellers who do not safeguard their credit by closing invoices with acceptances, will have a less favorable credit rating on that account.

"As to the obstacles which stand in the way of a general adoption of trade acceptances, my correspondence develops a practical unanimity of opinion, as I have said, that the general introduction of trade acceptances in many lines of business is regarded as desirable and practicable, and that there are no obstacles which can not be overcome by combined effort and a more general understanding of the advantages to be gained, and particularly the value of this movement in supplementing the Federal Reserve System and strengthening the general credit situation.

"The principal obstacles at present are—

"(1) Lack of sufficient initiative and combined effort on the part of wholesalers; the feeling that trade might be offended or lost, and the disposition to hang back until others have tried it out; and not enough backbone in the matter. The feeling is general that as the movement gains ground through the satisfactory experience of those taking the initiative, the impetus thus given will help the whole thing along. Numerous firms advise me that they are making satisfactory headway and are pleased with their experience with it, and the additional expense and inducements offered in some cases to obtain trade acceptances are more than offset by the preferential rates at which they can discount such receivables, in connection with many other advantages gained;

"(2) Other things being equal, customers prefer the open account system because of the leeway and indulgence it has afforded in meeting their obligations, and the fear that their credit might be impaired by giving acceptances. There is also a feeling that if an acceptance is given it would be to their disadvantage in case they should later desire to either make prepayment or need some additional time. In dealing with this there is, or should be, a real test of credit, in which the dealer who buys on certain terms should find his credit greatly strengthened by putting the obligation in definite and businesslike shape, according to contract. Those who meet their bills promptly and deserve credit should be made to realize how much their credit is strengthened thereby, and should be shown every consideration in consequence. In the case of prepayment it would be good policy to allow them to take up their acceptances, with a rebate for the unexpired time. On the other hand, where conditions justify it, there is no reason why additional time should not be granted. The wholesaler would have the management of this in his own hands, taking up the acceptance at maturity and either carrying it past-due, or taking a renewal obligation. The latter should always be by note, however, as obviously the trade acceptance should be only used in the original transaction.

The Revenue Act.

In view of the interest which the so-called revenue bill, passed by the last session of Congress, has for business men and bankers generally, the act is here reprinted in full, together with the House report on the bill:

[Public, No. 377—64th Congress. H. R. 20573.]

AN ACT To provide increased revenue to defray the expenses of the increased appropriations for the Army and Navy and the extensions of fortifications, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Title I.—Special Preparedness Fund.

Section 1. That the receipts from the tax imposed by Title II and one-third of the receipts from the tax imposed by Title III of this act shall constitute a separate fund in the Treasury to be used only for the expenditures incurred under the act entitled "An act making appropriations for the support of the Army for the fiscal year ending June thirtieth, nineteen hundred and seventeen, and for other purposes," approved August twenty-ninth, nineteen hundred and sixteen; the act entitled "An act making appropriations for the naval service for the fiscal year ending June thirtieth, nineteen hundred and seventeen, and for other purposes," approved August twenty-ninth, nineteen hundred and sixteen; and the act entitled "An act making appropriations for fortifications and other works of defense, for the armament thereof, for the procurement of heavy ordnance for trial and service, and for other purposes," approved July sixth, nineteen hundred and sixteen, or any other act or acts subsequent thereto making appropriations for Army, Navy, or fortification purposes. In addition to such receipts from the taxes imposed under Titles II and III of this act, there shall be credited annually, beginning with the fiscal year ending June thirtieth, nineteen hundred and eighteen, to such separate fund, the sum of $175,000,000, such sum being the estimated additional revenue to be derived under the act entitled "An act to increase the revenue, and for other purposes," approved September eighth, nineteen hundred and sixteen, in excess of the revenue to be derived under then existing laws: *Provided,* That the Secretary of the Treasury may use such fund for other purposes, but such fund shall be reimbursed for any portion thereof so used.

Title II.—Excess Profits Tax.

Sec. 200. That when used in this title—

The term "corporation" includes joint-stock companies or associations, and insurance companies;

The term "United States" means only the States, the Territories of Alaska and Hawaii, and the District of Columbia; and

The term "taxable year" means the twelve months ending December thirty-first, except in the case of a corporation or partnership allowed to fix its own fiscal year, in which case it means such fiscal year. The first taxable year shall be the year ending December thirty-first, nineteen hundred and seventeen.

Sec. 201. That in addition to the taxes under existing laws there shall be levied, assessed, collected, and paid for each taxable year upon the net income of every corporation and partnership organized, authorized, or existing under the laws of the United States, or of any State, Territory, or District thereof, no matter how created or organized, excepting income derived from the business of life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, a tax of eight per centum of the amount by which such net income exceeds the sum of (a) $5,000 and (b) eight per centum of the actual capital invested.

Every foreign corporation and partnership, including corporations and partnerships of the Philippine Islands and Porto Rico, shall pay for each taxable year a like tax upon the amount by which its net income received from all sources within the United States exceeds the sum of (a) eight per centum of the actual capital invested and used or employed in the business in the United States, and (b) that proportion of $5,000 which the entire actual capital invested and used or employed in the business in the United States bears to the entire actual capital invested; and in case no such capital is used or employed in the business in the United States the tax shall be imposed upon that portion of such net income which is in excess of the sum of (a) eight per centum of that proportion of the entire actual capital invested and used or employed in the business which the net income from sources within the United States bears to the entire net income, and (b) that proportion of $5,000 which the net income from sources within the United States bears to the entire net income.

Sec. 202. That for the purpose of this title, actual capital invested means (1) actual cash paid in, (2) the actual cash value, at the time of payment, of assets other than cash paid in, and (3) paid in or earned surplus and undivided profits used or employed in the business; but does not include money or other property borrowed by the corporation or partnership.

Sec. 203. That the tax herein imposed upon corporations and partnerships shall be computed upon the basis of the net income shown by their income tax returns under Title I of the act entitled "An act to increase the revenue, and for other purposes," approved September eighth, nineteen hundred and sixteen, or under this title, and shall be assessed and collected at the same time and in the same manner as the income tax due under Title I of such act of September eighth, nineteen hundred and sixteen: *Provided*, That for the purpose of this title a partnership shall have the same privilege with reference to fixing its fiscal year as is accorded corporations under section thirteen (a) of Title I of such act of September eighth, nineteen hundred and sixteen: *And provided further*, That where a corporation or partnership makes return prior to March first, nineteen hundred and eighteen, covering its own fiscal year and includes therein any income received during the calendar year ending December thirty-first, nineteen hundred and sixteen, the tax herein imposed shall be that proportion of the tax based upon such full fiscal year which the time from January first, nineteen hundred and seventeen, to the end of such fiscal year bears to the full fiscal year.

Sec. 204. That corporations exempt from tax under the provisions of section eleven of Title I of the act approved September eighth, nineteen hundred and sixteen, and partnerships carrying on or doing the same business shall be exempt from the provisions of this title, and the tax imposed by this title shall not attach to incomes of partnerships derived from agriculture or from personal services.

Sec. 205. That every corporation having a net income of $5,000 or more for the taxable year making a return under Title I of such act of September eighth, nineteen hundred and sixteen, shall for the purposes of this title include in such return a detailed statement of the actual capital invested.

Every partnership having a net income of $5,000 or more for the taxable year shall render a correct return of the income of the partnership for the taxable year, setting forth specifically the actual capital invested and the gross income for such year and the deductions hereinafter allowed. Such returns shall be rendered at the same time and in the same manner and form as is prescribed for income-tax returns under Title I of such act of September eighth, nineteen hundred and sixteen. In computing net income of a partnership for the purposes of this title there shall be allowed like deductions as are allowed to individuals in sections five (a) and six (a) of such act of September eighth, nineteen hundred and sixteen.

Sec. 206. That all administrative, special, and general provisions of law, including the laws in relation to the assessment, remission, collection, and refund of internal-revenue taxes not heretofore specifically repealed and not inconsistent with the provisions of this title are hereby extended and made applicable to all the provisions of this title and to the tax herein imposed, and all provisions of Title I of such act of September eighth, nineteen hundred and sixteen, relating to returns and payment of the tax therein imposed, including penalties, are hereby made applicable to the tax required by this title.

Sec. 207. That the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall make all necessary regulations for carrying out the provisions of this title, and may require any corporation or partnership subject to the provisions of this title to furnish him with such facts, data, and information as in his judgment are necessary to collect the tax provided for in this title.

Title III.—Estate Tax.

Sec. 300. That section two hundred and one, Title II, of the act entitled "An act to increase the revenue, and for other purposes," approved September eighth, nineteen hundred and sixteen, be, and the same is hereby, amended to read as follows:

"Sec. 201. That a tax (hereinafter in this title referred to as the tax), equal to the following percentages of the value of the net estate, to be determined as provided in section two hundred and three, is hereby imposed upon the transfer of the net estate of every decedent dying after the passage of this act, whether a resident or nonresident of the United States:

"One and one-half per centum of the amount of such net estate not in excess of $50,000;

"Three per centum of the amount by which such net estate exceeds $50,000 and does not exceed $150,000;

"Four and one-half per centum of the amount by which such net estate exceeds $150,000 and does not exceed $250,000;

"Six per centum of the amount by which such net estate exceeds $250,000 and does not exceed $450,000;

"Seven and one-half per centum of the amount by which such net estate exceeds $450,000 and does not exceed $1,000,000;

"Nine per centum of the amount by which such net estate exceeds $1,000,000 and does not exceed $2,000,000;

"Ten and one-half per centum of the amount by which such net estate exceeds $2,000,000 and does not exceed $3,000,000;

"Twelve per centum of the amount by which such net estate exceeds $3,000,000 and does not exceed $4,000,000;

"Thirteen and one-half per centum of the amount by which such net estate exceeds $4,000,000 and does not exceed $5,000,000; and

"Fifteen per centum of the amount by which such net estate exceeds $5,000,000."

SEC. 301. That the tax on the transfer of the net estate of decedents dying between September eighth, nineteen hundred and sixteen, and the passage of this act shall be computed at the rates originally prescribed in the act approvde September eighth, nineteen hundred and sixteen.

TITLE IV.—MISCELLANEOUS.

SEC. 400. That the Secretary of the Treasury is hereby authorized to borrow on the credit of the United States from time to time such sums as in his judgment may be required to meet public expenditures on account of the Mexican situation, the construction of the armor-plate plant, the construction of the Alaskan Railway, and the purchase of the Danish West Indies, or to reimburse the Treasury for such expenditures, and to prepare and issue therefor bonds of the United States not exceeding in the aggregate $100,000,000, in such form as he may prescribe, bearing interest payable quarterly at a rate not exceeding three per centum per annum; and such bonds shall be payable, principal and interest, in United States gold coin of the present standard of value, and both principal and interest shall be exempt from all taxes or duties of the United States as well as from taxation in any form by or under State, municipal, or local authority, and shall not be receivable by the Treasurer of the United States as security for the issue of circulating notes to national banks: *Provided*, That such bonds may be disposed of by the Secretary of the Treasury at not less than par, under such regulations as he may prescribe, giving all citizens of the United States an equal opportunity therefor, but no commissions shall be allowed or paid thereon; and a sum not exceeding one-tenth of one per centum of the amount of the bonds herein authorized is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to pay the expenses of preparing, advertising, and issuing the same: *And provided further*, That in addition to such issue of bonds, the Secretary of the Treasury may prepare and issue for the purposes specified in this section any portion of the bonds of the United States now available for issue under authority of section thirty-nine of the act entitled "An act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes," approved August fifth, nineteen hundred and nine: *And provided further*, That the issue of bonds under authority of this act and any Panama Canal bonds hereafter issued under authority of section thirty-nine of the act entitled "An act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes," approved August fifth, nineteen hundred and nine, shall be made redeemable and payable at such times within fifty years after the date of their issue as the Secretary of the Treasury, in his discretion, may deem advisable.

CERTIFICATES OF INDEBTEDNESS.

SEC. 401. That section thirty-two of an act entitled "An act providing ways and means to meet war expenditures, and for other purposes," approved June thirteenth, eighteen hundred and ninety-eight, as amended by section forty of an act entitled "An act to provide revenue, equalize duties and encourage the industries of the United States, and for other purposes," approved August fifth, nineteen hundred and nine, be, and the same is hereby, amended to read as follows:

"SEC. 32. That the Secretary of the Treasury is authorized to borrow, from time to time, at a rate of interest not exceeding three per centum per annum, such sum or sums as, in his judgment, may be necessary to meet public expenditures, and to issue therefor certificates of indebtedness in such form and in such denominations as he may prescribe; and each certificate so issued shall be payable, with the interest accrued thereon, at such time, not exceeding one year from the date of its issue, as the Secretary of the Treasury may prescribe: *Provided*, That the sum of such certificates outstanding shall at no time exceed $300,000,000, and the provisions of existing law respecting counterfeiting and other fraudulent practices are hereby extended to the bonds and certificates of indebtedness authorized by this act."

RETURNS OF DIVIDENDS.

SEC. 402. That Title I of the act entitled "An act to increase the revenue, and for other purposes," approved September eighth, nineteen hundred and sixteen, be amended by adding to Part III a new section, as follows:

"SEC. 26. Every corporation, joint-stock company or association, or insurance company subject to the tax herein imposed, when required by the Commissioner of Internal Revenue, shall render a correct return, duly verified under oath, of its payments of dividends, whether made in cash or its equivalent or in stock, including the names and addresses of stockholders and the number of shares owned by each, in such form and manner as may be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury."

Approved, March 3, 1917.

HOUSE REPORT.

[64th Congress, 2d Session. House of Representatives. Report No. 1366. Revenue bill to provide funds to meet the additional extraordinary appropriations for the Army and Navy and fortifications. January 29, 1917.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed. Mr. Kitchen, from the Committee on Ways and Means, submitted the following report, to accompany H. R. 20573.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 20573) to provide increased revenue to defray the expenses of the increased appropriations for the Army and Navy and the extensions of fortifications, and for other purposes, having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

NECESSITY FOR THIS LEGISLATION.

This legislation is made necessary because of the urgent need of funds with which to meet the extraordinarily large appropriations for the military and naval establishments and fortifications.

Taking the appropriations for the fiscal year ending June 30, 1916, carried in the Army, Navy, and fortifications appropriation bills, together with the appropriations for arsenals and military posts carried in the sundry civil appropriation bill, as representing the normal appropriations for national defense, the like appropriations for the fiscal year ending June 30, 1917, and the similar estimates for the fiscal year ending June 30, 1918, will show an increase in the appropriations for national defense during these two years amounting to over $873,000,000.

The following table shows the appropriations carried by the Army, Navy, and fortifications bills and the appropriations for arsenals and military posts carried in the sundry civil appropriation bill for the fiscal years ending June 30, 1916 and 1917, and the like estimated appropriations for the fiscal year ending June 30, 1918.

Item.	Appropriations, fiscal year ending June 30—		
	1916	1917	1818 [1]
Appropriation bill:			
Army	$101,974,195.87	$267,596,530.10	$298,636,011.28
Navy	149,661,864.88	313,300,555.84	379,151,701.67
Fortifications	6,060,216.90	25,747,550.00	56,999,481.21
Sundry civil—			
Arsenals	653,600.00	5,214,395.00	6,435,700.00
Military posts	570,924.99	1,727,859.99	8,841,890.23
Supplemental estimates for Army and Navy			27,500,000.00
Total	258,920,802.64	613,586,890.93	[2] 777,564,784.39

[1] Estimates.
[2] Does not include any estimate for the Mexican situation.

ESTIMATED APPROPRIATIONS, DISBURSEMENTS, AND RECEIPTS FOR THE FISCAL YEAR ENDING JUNE 30, 1918.

The regular annual estimates and the supplemental estimates of appropriations for the fiscal year ending June 30, 1918, amount to $1,711,000,000. In this total is included $60,748,000 for the sinking fund, which is merely a bookkeeping account, and $325,355,820 for the Postal Service, which takes care of itself. In estimating the necessary revenue to meet appropriations it is therefore proper to deduct both of these estimates. The amount for which it is necessary to provide revenue after deducting the aforementioned estimates is therefore $1,324,896,180.

During the fiscal year ending June 30, 1918, the Secretary of the Treasury estimates that because of the expenditures to meet authorizations under existing law the total disbursements will be $1,368,445,910, or $43,549,730 greater than the estimated appropriations after deducting the estimates for the sinking fund and the Postal Service.

The following statement shows the estimated disbursements for the fiscal year ending June 30, 1918, the estimated revenue to be collected under existing law, the estimated excess of disbursements over receipts, and the amount necessary to be raised by bond issues or new revenue legislation:

Total estimated disbursements for the fiscal year ending June 30, 1918		$1,368,445,910
Estimated revenue under present law:		
Customs	$230,000,000	
Internal revenue—		
Ordinary	325,000,000	
Emergency revenues and receipts from munition manufacturers' and estate taxes	134,000,000	
Income tax—		
Corporation	133,000,000	
Individual	111,750,000	
Miscellaneous	56,000,000	
Panama Canal tolls, etc.	10,000,000	
Deposits for postal savings bonds	2,000,000	
Total		1,001,750,000
Estimated excess disbursements over receipts		366,695,910
Deduct estimated balance in general fund, June 30, 1917		64,305,971
Estimated deficit in general fund, June 30, 1918		302,389,939
For necessary working balance in the Treasury		100,000,000
Estimated amount necessary to be raised by bond issues or new revenue legislation		402,389,939

THE PROBLEM PRESENTED.

The question that immediately arises is, how shall this money be raised? After carefully considering the various available sources of additional revenue, your committee recommends that the necessary funds to meet the extraordinary appropriations for the Army and Navy and fortifications be secured by additional internal taxation upon excess profits and by increasing the estate tax. Your committee also recommends that the expenditures incident to the Mexican situation, the construction of the armor-plate plant, the Alaskan railway, and the purchase of the Danish West Indies be met by the receipts from bonds. The amount of Panama bonds unissued being insufficient, your committee recommends that a new issue of bonds similar to the Panama bonds be authorized. In the opinion of your committee it is an unwise and unsound policy to issue bonds to meet current expenditures of the Government, and it believes that we should pay as we go. Your committee, however, believes that it is proper to issue bonds to meet expenditures for permanent improvements, in the nature of permanent investments, such as the construction of the Alaskan railway, the construction of the armor-plate plant, and the purchase of the Danish West Indies. It also believes that extraordinary expenditures, due to national emergencies, which are impossible to anticipate in revenue legislation, such as the Mexican situation, should also be financed by bond issues, as is always done by this and other nations under similar circumstances.

THE PROPOSED BILL.

The proposed bill is divided into four separate parts called titles, viz, Title I, which specifies that the revenue collected under Title II of this act and one-third of the receipts collected under Title III, together with the additional revenue collected under the act of September 8, 1916, to the extent of $175,000,000, shall constitute a special preparedness fund; Title II, the excess profits tax; Title III, the amended estate tax; and Title IV, miscellaneous, which provides (1) for a bond issue, (2) for the issue of additional certificates of indebtedness, and (3) that the Commissioner of Internal Revenue may have authority, within his discretion, to require a corporation to state in its return to whom it has paid dividends and the amount thereof.

TITLE I.—SPECIAL PREPAREDNESS FUND.

This title provides that the receipts from the excess profits tax and one-third of the receipts from the estate tax provided in this bill, together with $175,000,000, the additional revenue collected from the taxes levied in the revenue act of September 8, 1916, shall be set aside as a special preparedness fund to be used toward defraying the expenses for the Army and Navy and fortifications. It is provided, however, that should there be no other money available in the Treasury to meet current obligations that the Secretary of the Treasury may use this fund for other purposes, but any sums so disbursed must be returned to this fund.

TITLE II.—EXCESS-PROFITS TAX.

This title places a tax of 8 per cent on the net profits of corporations, joint-stock companies or associations, insurance companies, and partnerships, which are in excess of $5,000 and in excess of an amount equivalent to 8 per cent of the actual capital invested. That is, before the tax attaches there is a flat deduction of $5,000 from the total net profits and a further deduction of 8 per cent on the actual capital invested.

Section 202 of this title defines "actual capital invested" to mean (1) actual cash paid in, (2) the actual cash value, at the time of payment, of assets other than cash paid in, and (3) paid in or earned surplus and undivided profits used or employed in the business. Money borrowed through bonds or otherwise is not included in the actual capital invested.

This title also provides that the excess tax upon corporations shall be computed upon the corporation returns made in accordance with the corporations' income tax returns. It requires partnerships to make returns and gives them the privilege of selecting their fiscal year, giving them the same privilege as is now allowed to corporations. Corporations, joint-stock companies or associations, and insurance companies exempt under section 11 of the income tax, and partnerships carrying on or doing the same business, and the income of partnerships derived from agriculture or from professional services, are exempt from the excess-profits tax. The income derived from the business of life, health, and accident insurance combined in one policy under the weekly premium plan is also exempt from this tax.

The tax imposed upon corporations and partnerships is to be computed upon the basis of the net income shown by their income-tax returns made under the income-tax law, and is to be assessed and collected at the same time and in the same manner as the income tax. Every corporation having a net income of $5,000 or more is required to return a detailed statement of its actual capital invested. Partnerships are required to make a return of the income of the partnership for each taxable year setting forth the actual cash invested and the gross income for such year. In determining the net income, partnerships will be allowed the same deductions as are allowed individuals under sections 5 (a) and 6 (a) of the income-tax act.

It is estimated that the proposed tax upon excess profits will yield during a 12-month period $226,000,000, distributed as follows: Upon corporations $170,000,000 and upon partnerships, $56,000,000.

Title III.—Estate Tax.

This title increases the present estate-tax rates 50 per cent. The proposed rates are as follows:

1½ per cent of the amount of the net estate not in excess of $50,000.
3 per cent of the amount by which the net estate exceeds $50,000 and does not exceed $150,000.
4½ per cent of the amount by which the net estate exceeds $150,000 and does not exceed $250,000.
6 per cent of the amount by which the net estate exceeds $250,000 and does not exceed $450,000.
7½ per cent of the amount by which the net estate exceeds $450,000 and does not exceed $1,000,000.
9 per cent of the amount by which the net estate exceeds $1,000,000 and does not exceed $2,000,000.
10½ per cent of the amount by which the net estate exceeds $2,000,000 and does not exceed $3,000,000.
12 per cent of the amount by which the net estate exceeds $3,000,000 and does not exceed $4,000,000.
13½ per cent of the amount by which the net estate exceeds $4,000,000 and does not exceed $5,000,000.
15 per cent of the amount by which the net estate exceeds $5,000,000.

It is estimated that the proposed increase in the estate tax will yield during the first 12-month period $22,000,000 additional revenue.

Title IV—Miscellaneous.

BONDS.

This title gives the Secretary of the Treasury authority to issue an additional $100,000,000 worth of bonds to meet public expenditures on account of the Mexican situation, the construction of the armor-plate plant, the construction of the Alaskan railway, and the purchase of the Danish West Indies, or to reimburse the Treasury for such expenditures.

The Secretary of the Treasury at the present time has authority to issue $222,000,000 worth of Panama Canal bonds to reimburse the Treasury.

The act commonly known as the "shipping bill" authorizes the issuance of $50,000,000 worth of Panama Canal bonds, the proceeds from which are to be used for the construction or purchase of ships. The act authorizing the construction of the nitrate plant also authorizes the sale of $20,000,000 worth of Panama Canal bonds and the use of the proceeds for the construction of the nitrate plant. In addition to meeting these extraordinary appropriations by bonds, your committee recommends that the disbursements incident to the Mexican situation and to the construction of the armor-plate plant, the Alaskan railway, and the purchase of the Danish West Indies, be met by the issuance of bonds. Your committee therefore recommends the following bond issues:

Bond issues:		
To meet the expenditures incident to the Mexican situation to June 30, 1917, estimated at	$162,418,000	
Construction of Alaskan railway	35,000,000	
Armor-plate plant	11,000,000	
Danish West Indies	25,000,000	
Total		$233,418,000
Bonds already authorized:		
Shipping act	$50,000,000	
Nitrate plant	20,000,000	
Total		70,000,000
Total proposed bond issue		303,418,000
Panama Canal bonds which can be issued at this time		222,000,000
Addition authorization of bonds necessary		81,418,000

CERTIFICATES OF INDEBTEDNESS.

Under the present system of taxation a considerable portion of the receipts are not due and payable until the last month of each fiscal year. It is therefore deemed advisable to increase the authority of the Secretary of the Treasury to issue certificates of indebtedness for a period not exceeding one year from the date of issue. At the present time the Secretary of the Treasury has the power to issue $200,000,000 worth of such certificates. This act proposes to give the Secretary of the Treasury authority to issue an additional $100,000,000 worth of such certificates.

RETURN OF DIVIDENDS.

Section 402 of this act merely provides that the Commissioner of Internal Revenue may at his discretion require a corporation to include in its return a statement of its dividend payments, stating whether the same are made in cash or its equivalent, or in stock, and may require the names and addresses of the stockholders and the number of shares owned by each. The purpose of this provision is merely to enable the Commissioner of Internal Revenue to check doubtful individual returns.

RECAPITULATION.

Estimated amount necessary to be raised by bond issues and new revenue legislation		$402,389,939
Bond issues to reimburse the Treasury:		
For expenditures incident to the Mexican situation to June 30, 1917	$162,418,000	
For construction of Alaskan railway to June 30, 1918	21,838,292	
For construction of armor-plate plant	11,000,000	
Total		195,256,292
Estimated amount to be raised by taxation.		207,133,647
Estimated additional receipts under proposed bill:		
Excess-profits tax	$226,000,000	
Estate tax	22,000,000	
Total		248,000,000

Your committee believes that the margin of $41,000,000 above shown, between the estimated receipts under the proposed bill and the estimated revenue required, is necessary in order to be on the safe side. Allowance must be made for the fact that the amount of revenue which it is estimated the excess-profits tax will yield is after all only an estimate, and because of this a substantial margin is advisable.

Claude Kitchin, chairman; Henry T. Rainey, Lincoln Dixon, Cordell Hull, John N. Garner, James W. Collier, Clement C. Dickinson, Michael F. Conry, William A. Oldfield, Daniel J. McGillicuddy, Alfred G. Allen, Charles R. Crisp, John T. Casey, Guy T. Helvering.

Fiduciary Powers of National Banks.

The case of Bank *v.* Fellows, brought to test the constitutionality of section 11(k) of the Federal Reserve Act, was argued before the Supreme Court of the United States on March 22, and submitted. The case was argued orally by the Solicitor General of the United States, appearing for the United States, by counsel for the Board, and counsel for the bank, appearing on behalf of the plaintiff in error, and by Mr. Henry M. Campbell, of Detroit, and Mr. John G. Johnson, of Philadelphia, appearing for defendants in error.

The brief prepared by counsel for the Board, acting in conjunction with the Solicitor General of the United States, which was filed on behalf of the United States in the relation of *amicus curiæ*, was in substance as follows:

STATEMENT OF THE CASE.

This case involves the validity of section 11(k) of an act of Congress approved December 23, 1913, known as the Federal Reserve Act. (38 Stat., 251, 262, c. 6.) That section gives to the Federal Reserve Board created by the act the following power:

"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."

The First National Bank of Bay City, Mich., plaintiff in error, was chartered as a national bank on December 1, 1882, under the National Bank Act of June 3, 1864. (13 Stat., 99, c. 106, as amended; see the National Bank Act of June 20, 1874, 18 Stat., 123, c. 343; Rev. Stat., sec. 5133, 5136.) After the passage of the Federal Reserve Act it became a member of the system of banks therein established, and, on application, was granted by the Board the right to act as trustee, executor, administrator, and registrar of stocks and bonds. On the relation of five trust companies the attorney general of Michigan filed an information in the nature of *quo warranto* in the Supreme Court of Michigan to prevent plaintiff in error from thus acting. The respondent bank pleaded the statutes and the authority granted in pursuance thereof. The State attorney general demurred to the plea on the grounds (1) that section 11 (k) is unconstitutional in that it is beyond the authority of Congress to confer the power specified upon national banks; (2) that even if Congress possessed such authority it can not delegate it to the Federal Reserve Board; (3) that the granting of the corporate power specified is in contravention of the laws of the State. The State court sustained the demurrer on the first ground, six of the eight justices expressly finding no contravention of State law. By writ of error the case comes before this court on the pleadings.

Leave having been obtained, the United States files this brief as *amicus curiae*.

SPECIFICATION OF ERROR.

The second assignment of error is as follows:

The Supreme Court of Michigan erred in entering a judgment of ouster against the above-named respondent, said judgment being based solely upon the decision that the act of Congress above mentioned [sec. 11k] was and is void as beyond the powers conferred upon the Congress of the United States by the Constitution of the United States.

Two issues are thus raised:

1. Has Congress power to authorize a national bank to act as trustee, executor, administrator, or registrar of stocks and bonds?

2. Does the Federal Reserve Board in granting the permission authorized by section 11 (k) exercise nondelegable powers of Congress?

ARGUMENT.

I. JURISDICTION.

A State court is without jurisdiction to enjoin the operation of a Federa agency.

In the case of *Ableman* v. *Booth* (21 How., 506), the Supreme Court of Wisconsin held that the fugitive slave law was unconstitutional and discharged a prisoner held under a warrant issued by a United States commissioner for aiding and abetting the escape of a fugitive slave, and also discharged the same person from confinement after indictment and conviction in the United States District Court. This judgment of the Supreme Court of Wisconsin was reversed by the Supreme Court of the United States.

The same question was presented in *Tarble's* case (13 Wall., 397), where a soldier in the United States Army was discharged on habeas corpus by a supreme court commissioner of the State of Wisconsin on the ground that he had been unlawfully enlisted while a minor without the consent of his guardian.

In both cases the courts of the State were declared by the Supreme Court of the United States to have been without jurisdiction.

The fundamental proposition upon which the *Ableman* and *Tarble* cases rest is that no State has power to obstruct a Federal officer in the discharge of his duties. It is true, as was argued in the *Ableman* case, that the Supreme Court of Wisconsin had general jurisdiction to pass upon the constitutionality of the fugitive slave law; it had power to do this in any proceeding which did not directly interfere with or arrest the functions of the

Federal Government, but no State can lawfully do an act which will suspend the machinery of the Federal Government. As stated by the court in Tennessee *v.* Davis (100 U. S., 257, 262)—

"The General Government must cease to exist whenever it loses the power of protecting itself in the exercise of its constitutional powers."

The principle of these cases would seem to apply to an attempt by the State to enjoin or restrain any Federal agency from the exercise of a right or the performance of a duty arising under a Federal statute.

"The right of Congress to determine to what extent a State court shall be permitted to entertain actions against national banks and how far these institutions shall be subject to State control, is undeniable. National banks are quasi-public institutions, and for the purpose for which they are instituted are national in their character, and, within constitutional limits, are subject to the control of Congress and are not to be interfered with by State legislative or judicial action, except so far as the lawmaking power of the Government may permit." (Van Reed *v.* People's National Bank, 198 U. S., 554, 557.)

Whether the Federal or State courts have jurisdiction in quo warranto proceedings against national banks was the subject of discussion in the case of State ex rel Wilcox *v.* Curtis (35 Conn. 374), in which it was held that an information in the nature of a quo warranto would not lie in a State court to try the right to the office of director in a national bank.

II. CONSTITUTIONALITY OF SECTION 11 (K) OF THE FEDERAL RESERVE ACT.

(1) Every intendment is in support of the constitutionality of the act. The courts invariably hold that an act of Congress is constitutional unless its repugnancy to the Constitution is clearly apparent. (Several cases cited.)

(2) It is well settled that Congress has the power to incorporate banking associations to be used as instrumentalities of the Government in the conduct of its fiscal affairs. (Numerous cases cited.)

(3) The power to create carries with it the power to preserve. Congress may vest national banks with any powers it deems necessary to preserve the national banking system or the corporate entity of individual banks.

(a) The powers granted to such an association may be either public or private in nature.

This question was considered by this court when the constitutionality of the act of Congress creating the first bank of the United States was before it. An effort was made at that time to sustain the contention that while Congress might have the power to incorporate a bank to be used as an instrument of the Government in the conduct of its fiscal affairs it could not vest corporations so created with the capacity to engage in private business, but could only authorize the exercise of functions to be performed for the Government. (Osborn *v.* U. S. Bank, 9 Wheat., 738, 861; McCulloch *v.* Maryland, 4 Wheat., 316, 401.)

It is clear that a banking corporation created by Congress may be vested with powers of a private nature to be used for its own advantage as well as with the power to perform public functions.

(b) Every banking association organized under Federal law since 1791 has been endowed with powers purely private in nature, which powers have been exercised for its own advantage in legitimate competition with other corporations.

When the first Bank of the United States was organized (1791), powers of the most general character were conferred upon it. It was enacted (Feb. 25, 1791, 1 Stat., 191, 192, c. 10) that a bank of the United States should be established with a prescribed capital stock, the subscribers to which were made a corporation, with power to take personal property, to sell and dispose of it, and to "put in execution such by-laws, ordinances, and regulations as shall seem necessary and convenient for the government of the said corporation, not being contrary to law, or to the constitution thereof," and "generally to do and execute all and singular acts, matters, and things which to them it shall or may appertain to do," subject to the restrictions prescribed by the act. Those restrictions limited the real estate holdings of the bank, prohibited the purchase of public debts and trade in commodities, and limited the amount of indebtedness which could be incurred. The bank was thus clothed with general powers to transact a banking business subject to few restrictions.

The charter of the second United States Bank (1816) was of a similar broad and comprehensive nature. (Act Apr. 10, 1816, 3 Stat., 266, 269, c. 44.)

While the powers granted to national banks by the act of 1864 were more restricted than the powers granted to the first and second banks of the United States, they were, nevertheless, intended to enable such associations to engage in the banking business to the same extent as other banking corporations organized at that time under State laws.

(c) These powers, though private in nature, need not be even incidental to the conduct of the Government's fiscal affairs. It is sufficient if they are necessary to the successful operation of the bank. The character of the powers and the degree of their necessity are matters of legislative discretion.

It is not essential that any particular power vested in a national bank shall be incidental or necessary to the conduct of the Government's fiscal affairs, but it is sufficient *if such power is, in the discretion of Congress, necessary to the successful operation of the bank.* (Osborn *v.* U. S. Bank, supra.)

It is clear that Congress not only has authority to grant to national banks powers which in themselves are not incidental to the performance of a public function, but it is necessary that it should do so in order that the agency selected by it may efficiently serve the Government when called upon to render any public service.

When national banks were created the powers vested in them were designed to enable them to perform public services and to engage in private business for their own advantage. In their public capacity they may be used as fiscal agents of the Government, as Government depositories, and can and do help materially in the emission of currency and in the transfer of Government funds from one part of the country to another.

It is at once manifest, however, that if Congress had limited the powers of national banks to the exercise of these functions they could not have existed as corporations, and hence could not have performed the services required of them.

The deposit of Government funds in a national bank designated as a depository involves an expense to the bank, which is required to pay interest on such deposits, and unless it is permitted to lend these funds to its customers it will receive no compensation for the service of acting as a Government depository. Its revenue is earned from the use of its funds. It must, of necessity, derive its sustenance primarily from its banking operations conducted for its own advantage, as distinguished from its banking operations conducted as an agent or instrument of the Government, and since this is true those powers which are necessary to preserve and sustain the corporation are to that extent necessary to the Government, and the grant of such powers has been repeatedly held to be within the constitutional power of Congress.

That Congress in the exercise of reasonable discretion must determine what means are necessary to accomplish the proper execution of any power conferred on it by the Constitution, is settled beyond all dispute. (Cases cited.)

That the addition of the powers specified in section 11 (k) does not constitute an unreasonable exercise of this discretion, will appear from a consideration of the character of such powers.

(d) While it is not essential that the powers conferred be incidental to the ordinary banking functions, nevertheless the powers specified in section 11 (k) are, in fact, exercised quite generally by corporations which also exercise commercial banking powers and are similar in many respects to other corporate powers exercised by commercial banks, including national banks.

While Congress is given a wide discretion in determining what means shall be employed to preserve the integrity of the national-banking system and the several national banks, and might, if it deemed necessary, vest in such banks powers not ordinarily exercised by banking corporations, in the present case the powers added are peculiarly appropriate to banking institutions.

It is probably true that at the time the national-bank act was passed the right to act in the capacity of trustee, executor, or administrator was not regarded as a banking function nor as incidental to any banking power.

It is probably equally true, however, that this right was not then generally regarded as a corporate function at all, since the selection of corporations to act in fiduciary capacities is of comparatively recent development in this country. An individual rather than a corporation was then selected and this is still true in many sections of the United States. In so far as these powers have become functions of corporations, other than trust companies organized for the sole purpose of doing a trust business, they may be said to have been confined to that class of corporations the earnings of which are derived from the loan or investment of funds at interest and that they are more nearly allied to the banking business than to any other.

It woud be difficult to define with any degree of accuracy what constitutes "recognized banking powers," since there is little uniformity in the laws of the several States prescribing the powers which may be engaged in by banking institutions. A composite definition of banking, including an enumeration of the charter powers of banks organized under State laws, would include a very large proportion of all corporate powers, and it is this fact that no doubt influenced Congress in determining to extend the powers of national banks in order that they might be placed on a more nearly uniform basis with other banking institutions. In enlarging the powers of national banks, however, it added only those which have in the natural development of banking become incidental to this class of business.

The argument has been made that the relationship which exists between a national bank and its customer is ordinarily that of debtor and creditor; that this relationship differs from that of trustee and *cestui que trust*, and accordingly a national bank can not consistently be vested with the power to act as trustee or in any other fiduciary capacity.

It is somewhat difficult to appreciate the force of this argument when we consider that the relationships of "debtor and creditor," "principal and agent," and "trustee and *cestui que trust*" have been demonstrated by experience to be so interrelated as corporate functions and so frequently incidental each to the other that it is the rule rather than the exception for the same corporation to act in each of these capacities.

Trust companies organized for the purpose of acting only in the capacity of fiduciaries have, as an incident of the performance of some trust function, become debtors or creditors of their customers. Beneficiaries of trust estates have found it advisable or convenient to leave on deposit with the trust company which acted as trustee their share of the proceeds of a distribution of an estate to be held subject to the order of the beneficiary and not for reinvestment by the trustee. In such case the relationship between the trust company and the beneficiary is changed from that of trustee and *cestui que trust* to that of debtor and creditor. It was probably due to a development of this practice that trust companies by a process of evolution gradually entered the field of what was popularly known as commercial banking. That is to say, having received deposits from those for whom they had acted as trustees and having thus been placed in funds held subject to the same conditions as demand deposits held by commercial banks, trust companies naturally sought investments in those short-term self-liquidating securities invested in by commercial banks. This was obviously necessary because the deposits so held were subject to check and were payable on demand. These demands could not be met in due course if such deposits were invested in those long-term securities in which trust funds are ordinarily invested. The practice of receiving funds on deposit from beneficiaries of estates held in trust having proved remunerative to trust companies, it was natural that such companies should solicit similar deposits from others, thus increasing their earning power.

As the demand deposits of such companies increased, the demand on their part for short-term investments in commercial paper and other securities increased as a matter of course, thus bringing them into greater and more active competition with national banks.

The increasing activity of the trust companies in the general commercial banking business is clearly illustrated in one of the exhibits which accompanies the report of the Comptroller of the Currency made to Congress pursuant to the requirements of law for the year 1915. This exhibit consists of an analysis of the business of trust companies made up from reports furnished the comptroller by more than 90 per cent of the trust companies doing business in the United States. From this report it will appear that the aggregate deposits in trust companies have increased from $85,025,371 in 1875 to $4,216,017,244 in 1915. National bank deposits, according to the comptroller's report, increased during the same period from $696,652,020 to $6,611,218,000. The trust companies, therefore, held deposits in 1875 equal to about 12 per cent of the amount held by national banks, while in 1915 the deposits in trust companies amounted to approximately 66 per cent of the deposits held by national banks.

While the trust-company deposits are not classified in this report until 1909, it will be observed that in 1915 demand deposits subject to check amounted to $2,652,323,201, whereas demand certificates of deposit aggregated $94,827,754, certified checks $14,787,783, and cashiers' checks $23,386,418. These figures indicate what a great proportion of the total demand deposits is of the kind formerly considered peculiar to the business of a commercial bank; that is, deposits subject to check without notice. They equal approximately 96 per cent of the total demand deposits of the trust companies exclusive of savings deposits which may be either demand or time deposits.

It thus appears that the commercial banking business has become so closely allied to the other activities of trust companies that it may be said now to be incidental to the business of a trust company.

On the other hand, commercial banks, even prior to the passage of the Federal Reserve Act, were at times required to assume trust relations as an incident of their business.

They not infrequently came into the possession of funds impressed with a trust. For example, in the case of American Can Co. *v.* Williams (178 Fed. Rep., 420) it was held that when sight drafts attached to bills of lading were delivered to a national bank for collection and remittance the relation of trustee and cestui que trust undoubtedly existed. (Other cases cited.)

The powers specified in section 11 (k) of the Federal Reserve Act appear, therefore, to be more nearly incidental and more closely related to the business of banking than to that of any other class of corporations, except those organized solely for the purpose of acting in fiduciary capacities. Such powers do not differ materially from other powers vested in national banks.

Under the provisions of the National Bank Act, banks may receive deposits; may discount notes, drafts, bills of exchange, and other evidences of debt; may lend money on personal security and may make such investments of their funds as are permitted by the National Bank Act. All of these operations are conducted in their private capacity and for their own advantage. They necessarily involve trading with persons and dealing in property within the borders of a State.

The relation created is contractual whether funds are received on deposit subject to investment by the national bank in accordance with the laws of the United States or whether such funds are received in trust subject to investment according to the provisions of the instrument creating the trust or the laws of the State which relate to the administration of the trust estate. But without the aid of section 11 (k) national banks are confined to trusteeships which result from the operation of law, while their competitors—trust companies and many State banks—may voluntarily act in the capacity of fiduciaries and at the same time may compete with national banks in the more limited field of commercial banking.

That there is no inconsistency in combining in one corporation fiduciary powers and commercial banking powers is abundantly illustrated by an analysis of the State laws relating to the incorporation of financial institutions.

(e) The laws of 44 of the 48 States and also of the District of Columbia provide for the formation of corporations with authority to exercise both fiduciary powers and commercial banking powers.

An examination of the laws of the various States shows that though there were very few corporations of any kind possessing fiduciary powers prior to the passage of the National Bank Act in 1864, at the present day the laws of every State in the Union authorize corporations to exercise certain trust powers, and in 44 of the 48 States the laws permit a single corporation to exercise not only fiduciary powers but also commercial banking powers.

Whether commercial banks are allowed to exercise trust powers or trust companies are allowed to exercise commercial banking powers is, for the purpose of this discussion, immaterial. The point to be considered is the competitive force given to a single corporation endowed with both classes of powers. It was that fact which Congress was under the necessity of considering and which not only justifies the action of Congress in giving trust powers to national banks but which made such action imperative.

The court's attention is directed to the fact that in various States corporations may, upon compliance with various rules and regulations dependent upon the laws of each State, exercise at one and the same time both fiduciary powers and general banking powers. (References to State statutes.)

The only States not included are Michigan, Nebraska, Pennsylvania, and Wisconsin. In many of the States, State banks, and in some of them, even national banks are expressly authorized by the State laws to do a trust business; in others the State law provides for the formation of joint banks and trust companies, and in the majority of them the law expressly authorizes trust companies to do a general banking business. The result in all cases, however, is a single corporation, whether called a bank, a trust company, or a bank and trust company, possessing the power to do both a commercial banking and trust business.

(f) In order to compete successfully with corporations organized or operating under State banking laws, national banks must be given powers substantially similar to those enjoyed by such State corporations. It was therefore not an unreasonable exercise of its discretion for Congress to determine that the powers of national banks should be enlarged by the addition of those specified in section 11 (k) of the Federal Reserve Act.

When the act of 1864 became a law a national bank organized under that law was authorized (13 Stat., 101), to exercise by its board of directors, or duly authorized officers or agents, subject to law—

"all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this act."

The genesis of the legislation creating national banks, as well as the subsequent course of such legislation, is consistent only with the theory that Congress intended that these banks should have in general powers similar to those exercised by other banking institutions organized under State laws. The words quoted were not intended as a limitation upon the incidental powers appropriate to a banking business but were intended to confer in broad outline the usual banking powers. (Pattison *v.* Syracuse National Bank, 80 N. Y., 82, 89.)

Since that time a number of powers and privileges have been conferred upon State institutions so that the powers enumerated in section 5136, Revised Statutes, above quoted, can no longer be said to constitute the "usual formula, descriptive of the banking business, contained in bank charters."

Congress has found it necessary from time to time to modify the restrictions imposed upon national banks in order to enable them to compete successfully with State institutions. For example, by the act of June 22, 1906 (34 Stat., 451, c. 3516), it permitted national banks to lend to one person, firm, or corporation an amount equal to 10 per cent of the capital and surplus of the lending bank instead of an amount equal to 10 per cent of its capital. By the act of March 14, 1900 (31 Stat., 45, 48, c. 41), it authorized the incorporation of banks with $25,000 capital under certain conditions, thus reducing the minimum amount ($50,000) required before the passage of this act. By the act of June 20, 1874 (18 Stat., 123, c. 343), it amended section 5191, Revised Statutes, so as to require no reserve to be carried against circulation, thus increasing the lending power of such banks.

Prior to the passage of the Federal Reserve Act, however, Congress had not in any sense kept pace with State legislatures in the extension of corporate banking powers, and the discrepancy between State banking powers and national banking powers had become a source of serious concern to those engaged in the banking business under national charters.

When section 9 was incorporated in the Federal Reserve Act, giving to State banks and trust companies the right to obtain the benefits of the Federal Reserve System, this discrepancy became a matter of even more serious moment, since it deprived national banks of certain advantages which up to that time had served to offset to some extent the broader powers enjoyed by State banks and trust companies. State banks becoming members of the Federal Reserve System under section 9 of the Act are entitled to the privilege of obtaining Federal Reserve notes and of rediscounting commercial paper. They may be designated as Government depositories by the Secretary of the Treasury and enjoy practically all of the privileges of national banks except the privilege of issuing circulating notes against the security of Government bonds, and this is largely offset by the privilege of obtaining Federal Reserve notes.

With these faculties added to the advantages already enjoyed by reason of the broader corporate powers of State banks and trust companies, it became imperatively necessary for Congress, in order to preserve the integrity of the national banking system and of the banks composing this system, to enlarge to some extent the competitive powers of national banks by giving them rights and privileges somewhat similar to those already enjoyed by competing State corporations.

In addition, therefore, to extending the corporate powers of national banks by authorizing them (1) to increase their loaning power (section 19, Federal Reserve Act), (2) to loan money under certain restrictions on the security of real estate (section 24, Federal Reserve Act), and (3) to accept drafts or bills of exchange based on the exportation or importation of goods (section 13, Federal Reserve Act), Congress also provided that, with the permission of the Federal Reserve Board, such banks should have the right to act as trustee, executor, administrator, and registrar of stocks and bonds (section 11 (k), Federal Reserve Act), in order to enable them to compete with those State corporations which possess both fiduciary and commercial banking powers. By an amendment to the act approved September 7, 1916 (39 Stat., 752), Congress has attempted to still further coordinate the powers of national banks and those created and organized under State laws, (1) by authorizing national banks to accept drafts and bills of exchange in certain domestic transactions (section 13, as amended); (2) by authorizing banks under certain conditions to subscribe to stock of banks engaged in international or foreign business; (3) by permitting banks to lend on city real estate under certain conditions and subject to certain restrictions; (4) by permitting those banks located in places of less than 5,000 inhabitants to act as the agent for insurance companies and as broker or agent for others in making loans under certain prescribed conditions.

The burden of showing that Congress has exceeded its powers in enacting section 11 (k) into law rests upon the defendants in error, and (assuming for the moment that there is no question of the delegation of legislative authority) unless proven affirmatively to the satisfaction of the court that Congress has grossly exceeded its discretion in determining that the powers conferred by section 11 (k) are necessary to the successful operation of the national banking system, it is respectfully submitted that there is no basis for the contention that this section is unconstitutional and void.

It is to be noted that, notwithstanding this burden is upon defendants in error, they have failed to present any evidence to indicate that Congress abused its discretion in determining that fiduciary powers were necessary adjuncts to the operations of national banks at the present time.

(4) Section 11 (k) has a direct relation to the underlying purpose of the Federal Reserve Act, to wit, the creation of a new basis for nonmetallic currency, to be supported by a cohesive banking system which should include a majority of the banks of the United States, and insure a currency stable in character and elastic in volume.

While it is in no sense necessary under the decisions of this court that the private powers granted to national banks should be related or incidental to the public functions performed by such banks, nevertheless the grant of powers specified in section 11 (k) was in fact an appropriate means selected by Congress not only of insuring to banks composing the Federal Reserve system an adequate supply of commercial paper to be used as security for Federal reserve notes, but also of establishing the system itself upon the broadest basis of membership. It was designed both to protect banks within the system from unequal competition which might destroy their allegiance, and to induce those without the system to enter it. One of the purposes of the act, which is aided by section 11 (k), was the creation of a new basis of nonmetallic currency to be supported by a cohesive banking system, such system to include a large majority instead of a minority of the banks of the United States as at present. This new system, while insuring by appropriate safeguards the stability of notes circulating as currency, will also provide for elasticity in its volume. In this view the grant of these powers is directly connected with an important governmental function, namely, the creation of a uniform, sound, and stable currency system. An analysis of the purposes of the Federal Reserve Act will show the relation of section 11 (k) to the new currency system. Such an analysis makes necessary a brief review of the history of currency legislation and a consideration of some of the defects of the financial system which the Federal Reserve Act was intended to correct.

(a) The currency system created by the national bank act was made necessary by lack of uniformity and by instability of the State bank note.

After the liquidation of the second bank of the United States in 1836 the fiscal affairs of the Government were conducted without the aid of any banking institution organized under the laws of the United States until the national banking system was created at the close of the Civil War. Collections and disbursements of Government revenues during this period were made in specie.

In the stress of the Civil War, when the Government was under the necessity of borrowing large sums of money and the people at large were struggling with the evils of a depreciated paper currency, consisting of United States notes and notes of some 1,400 State banks, some good and more bad, the national bank system was created.

This system was in brief the incorporation of a number of banks under national charters and under Federal supervision which were authorized to engage in a general banking business in the several States. Each of these national banks was permitted to issue its bank notes, uniform in character, against and based upon an equal amount of United States bonds owned by the banks but deposited with the Treasurer of the United States as collateral security for the notes issued. Two of the main purposes of the act which brought this system into existence were to create an enlarged market for United States bonds and to establish in the country at large a uniform and reliable nonmetallic currency. (Cases cited.)

While the national bank note was issued and permitted to circulate under appropriate safeguards designed to insure its stability, so long as several hundred State banks placed their notes in circulation, without these safeguards, it was of course impossible to bring about uniformity in the value of this form of currency. Accordingly, on July 13, 1866 (14 Stat., 98, 146, c. 184), Congress found it necessary to pass an act which placed a prohibitive tax on all circulating notes of State banks. This act drove many of the State banks into the national system—just as Congress intended. (Veazie Bank *v.* Fenno, 8 Wall., 533, 549.)

The initial failure of the system of national bank currency came from the fact that the

State banks continued to do the main banking business of the country and to be the main handlers of currency. The success of the system was expedited by the statute above referred to, which put the State banks out of business as banks of issue and thus left in circulation only those notes which were issued and redeemed under appropriate safeguards.

(b) Experience has demonstrated that while the national bank act provided a uniform and stable currency system it lacked elasticity and was otherwise defective.

In the period following the Civil War, and particularly in the period from 1885 to 1913, difficulties developed in the national banking system.

The first difficulty lay in the fact, clearly understood by the banking community, that the currency was not sufficiently elastic. Inasmuch as it was based on a nonelastic basis, i. e., the United States bonds owned by the banks, there was no way in which the bank-note currency could quickly and easily adapt itself to the varying demands for a proper circulating medium—as, for instance, in crop-moving periods, when there was need for a much greater amount of currency.

A second defect in the national banking system was the immobility of bank reserves—due to rigid reserve requirements by which each bank kept its metallic reserve against liabilities in its own vaults or with some other bank in the large cities. The result of this system of scattered reserves was that in times of financial stress and falling prices there were likely to occur currency panics, which paralyzed the credit of the whole country and demoralized prices and markets. At such times each bank, selfishly fearing for its own position, hoarded currency and at the very worst of times called loans, with the inevitable result of shaking public confidence in the soundness of the country's financial institutions. This was demonstrated in the panic of 1907. It is needless to describe in detail these currency panics peculiar to the United States. They were rightly attributed to the lack of cohesion in our banking structure and illustrated the worst defect of our currency and banking system.[1]

In addition to these inherent defects the constantly increasing activities of trust companies in the field of commercial banking had proven a serious menace to the national banks. From 1895 to 1907 there had been an enormous and, as compared with the national banks, a disproportionate growth in the commercial banking business done by trust companies which were outside the national-bank system. They shared, and still share, banking predominance with the largest and strongest national banks. The result was that by 1913 the trust companies had become the "department stores of finance."

It was therefore evident that any new banking system which sought to check currency panics like the panic of 1907, by joining the sound commercial banking institutions of the country together, could not leave out of consideration the trust companies which had become such important factors in this field of activity.

(c) The Federal Reserve Act is designed to remedy these defects while preserving uniformity and stability.

In order to remedy these defects in our financial system the Federal Reserve Act provides for (*a*) the creation of a new basis of issue of circulating notes, (*b*) for the mobilization of banking reserves, and (*c*) for the inclusion of State banks and trust companies in the Federal reserve system.

Under the Federal Reserve Act the country is divided into 12 districts. The national banks of each district are compelled to contribute a certain proportion of their capital to form a strong Federal reserve bank, the re-

[1] The reports which accompanied the introduction of the Federal Reserve Act in both the House and Senate show how keenly Congress was alive to these difficulties.

Thus the House report (H. Rept. No. 69, 63d Cong., 1st sess., p. 4) states:

"In view of the lack of any factor of unity the national banks have failed to furnish to the Nation as a whole a single and powerful system of credit. The strength of the credit situation in each community has depended upon the strength of the banks there situated, and, except in times of stress, has even in these communities been measured by the strength not of the strongest, but of the weakest institution there located."

The Senate committee was unable to agree on details and reported the House bill without recommendation. (S. Rept. No. 133, pt. 1, 63d Cong., 1st sess.) The views of the members of the committee were printed as parts 2 and 3 of the report. The report states (pt. 2, pp. 7, 8):

"Both sections of the committee, however, agreed on the great fundamentals of the bill—that is:

"First. On the necessity for greater concentration of the banking reserves of the country.

"Second. The volume of such reserves.

"Third. The volume of the capital of the proposed banks.

"Fourth. The mobilization of such reserves.

"Fifth. The promotion of an open discount market.

"Sixth. The provision for an elastic currency; the issuance of Federal reserve notes.

* * * * *

"The chief purpose of the banking and currency bill is to give stability to the commerce and industry of the United States, prevent financial panics or financial stringencies: make available effective commercial credit for individuals engaged in manufacturing, in commerce, in finance, and in business to the extent of their just deserts; put an end to the pyramiding of the bank reserves of the country and the use of such reserves for gambling on the stock exchange.

"In order to accomplish these results there are certain great fundamentals recognized by all experts as essential and necessary, to wit:

"First. The proper concentration of the bank reserves of the country under the control of the banks themselves, safeguarded by governmental supervision.

"Second. A suitable banking capital as a margin of safety.

"Third. Placing the larger part of the Government funds with such banks, where they may be used in the service of the national commerce.

"Fourth. Authorizing the issuance of elastic currency against liquid commercial bills under proper safeguards." * * *

sources of which are conserved primarily for the member banks of that district. Any member bank may at any time take to its Federal reserve bank sound, short-time commercial paper (which it has discounted for the business community), indorse it, and rediscount it with the Federal reserve bank.

The Federal reserve bank may deposit this paper with its Federal reserve agent (the local representative of the Federal Reserve Board) as security for an issue of Federal reserve notes, and upon setting aside a gold reserve equal to 40 per cent of the amount of commercial paper deposited may obtain Federal reserve notes equal in amount to 100 per cent of the commercial paper deposited. These notes, which are obligations of the United States, are a new form of currency redeemable ultimately by the Federal reserve bank but which are backed by the credit of the United States.

By the scheme thus generally outlined, which is carried on under the supervision of the Federal Reserve Board, a new basis of currency is provided. These notes, instead of being issued against United States bonds, as the national bank notes are, are based upon, and the amount of them is measured by, the commercial paper received by the member banks in the ordinary course of their so-called private business and rediscounted with the Federal reserve banks: Thus, under the new system, because the member bank can always transform its sound commercial paper into currency at the Federal reserve bank, it is expected that the amount of currency outstanding will, as in other countries, automatically vary with the demands of business and will be immediately obtainable at any time it may be needed by the banks.

The volume of Federal reserve notes issued must necessarily depend upon the volume of commercial paper obtainable from member banks.

It is therefore apparent that, in so far as the State banks and trust companies remain outside the Federal reserve system, by so much the Federal reserve system must fail in furnishing a completely elastic currency.

To make the new currency basis efficient it should ultimately include all the sound commercial banks of the country, and to avoid the currency panics, such as the panic of 1907, all the sound commercial banks as opposed to the speculative institutions of the country should be united and their credit and reserves mobilized through the Federal reserve system. The Federal Reserve Act by admitting State banks and trust companies to membership makes them Federal agencies for regulating the currency.

(d) Section 11 (k) is a necessary factor in providing a more elastic currency and in insuring stability of the new currency system provided by the act.

It follows from this review that section 11 (k) is not an unrelated phrase, flung in to please some national bank stockholder so that he may make more profit; it is not simply a scheme to increase the private faculties and private business of the national banks, but it too has a real place and part in the scheme of the Federal Reserve Act. Undoubtedly it tends to enlarge the powers of the national banks, and tends to invade the fields of activity of the State trust companies. Our opponents see in that its vice; on the contrary it is a constitutional justification.

Section 11 (k) is obviously an important factor in the creation of a new basis of currency issue. It is necessary to offset the invitation to State banks and trust companies to join the system. If trust companies become member banks, they receive all the advantages of membership in the system, including the stability and standing that comes from Federal supervision and the ability to obtain currency through their Federal Reserve Banks—and, since they already enjoy broader corporate powers than national banks, will become still more dangerous competitors unless the powers of national banks and trust companies are more nearly coordinated.

On the other hand, even if trust companies do not, in large numbers, join the Federal Reserve System (and as a matter of fact they have not), nevertheless, unless the powers of national banks are enlarged in order that they may compete with the trust companies which remain outside of the Federal Reserve System, these trust companies will continue their growth and the gradual acquisition of the commercial banking business of the country at the expense of the national banks. If this process goes on for the next 10 years as it has in the last 20, then in 10 years the Federal Reserve System may fail or break in a panic—just because the basis of the currency will have become not the commercial paper of the country but only a small part of it, and because there will again be lacking the necessary cohesion among the main banking institutions of the country.

A successful and sound plan to regulate the currency of a country must have the cooperation of the predominant financial institutions

87199—17——5

of the country which are engaged in loaning money and credit. The true purpose of section 11 (k) is to coordinate the powers of national banks and trust companies so that trust companies shall not, by their success and power outside the Federal Reserve System, continue such a menace to the system as to curtail its usefulness.

It may be unimportant to the Federal Government whether or not national banks make any considerable profit from the trust business so long as the profits earned from all sources are sufficient to sustain them and to enable them to perform satisfactorily their public functions. It is important, however, to the Government that national banks shall continue banking preeminence and shall continue to do their share of the commercial banking business. To retain banking preeminence it is most important that the national banks should be able to offer to the general public the same conveniences (as to execution of trusts) afforded by their chief rivals, the trust companies, the "department stores of finance."

The fact that the trust companies have an enormous advantage in gaining commercial banking business is made evident in several ways. First, the stockholders of national banks of the large cities have in many instances united to form a trust company to be operated by the same officers which operate the bank, and have thus practically started trust departments, but with the necessary handicap of maintaining a separate organization. Second, it is notable that some of the States, in order to protect their State banks against the competition of the trust companies (operating under the laws of the same State), have permitted their banks to exercise some or all of the functions of trust companies.

This is true of Illinois, Georgia, Idaho, and Nevada. (See statutes, supra, pp. 28–31.) The same course has been followed in the laws of New Zealand and England. The Federal Government in granting trust powers to national banks by section 11 (k) is simply protecting the banks against trust company competition in the way which the States themselves have pointed out.

It is in the light of that history and those purposes that we must consider the constitutionality of section 11 (k) as a part of a complete scheme wisely adopted by the National Government to regulate the currency of the country, and to protect commerce between the States from the destructive effect of recurrent panics.

(5) The section is not a delegation of the legislative authority. The Federal Reserve Board is not empowered to permit any national bank to exercise any fiduciary power not enumerated in section 11 (k). Its power is administrative, not legislative.

The second ground of demurrer assigned by defendants in error was—

"Because, even if Congress itself possessed the authority to confer upon national banks the corporate powers specified in said section 11 (k), it can not lawfully delegate such authority to the Federal Reserve Board."

It was argued that Congress by this section has not granted any powers to national banks, but has undertaken to delegate to the Federal Reserve Board the power to legislate on this subject. (Many cases cited.)

In the present case the congressional rule is as fully defined as the circumstances will permit. National banks are to have the power to act as executor, administrator, and trustee only when not in contravention of the State or local laws, and when the particular bank is the proper institution to act in the fiduciary capacity. The definite standard is the State law and the fitness of the bank. The banks which may apply are many, and their circumstances varied. Higher capitalization or a larger surplus may be necessary in some communities than in others. The banks in the Federal reserve system, moreover, constitute one single system under the general business and governmental supervision of the reserve board. Discretionary power is appropriately vested in their general managers.

(6) Neither the granting nor the exercise of the powers in question involves any invasion of the sovereign rights of the States. The opinions of the Illinois and Michigan courts in this regard are based upon a manifest misapprehension of the effect of the exercise of these powers.

In declaring section 11 (k) unconstitutional, the Supreme Court of Illinois, like the Supreme Court of Michigan, reached the conclusion that when Congress undertook to vest trust powers in national banks it invaded the rights of the States. (People *v.* Brady, supra.) It is somewhat difficult, however, to determine from either opinion in just what way the rights of the States are supposed to be invaded. The powers specified in the act can not be exercised except "when not in contravention of State or local law," and so no conflict can arise as between any State law and the Federal statute under consideration. The right of a State to legislate on the subject of trust estates is not impaired nor affected. The administration of State laws is in no way interfered with. No State is deprived of any control over persons or corporations acting as trustees, executors, or administrators within its borders. Congress has merely vested in national banks the capacity to act when selected by the parties in interest and when permitted by State or local law. It has expressly given to the State the right to place national banks in the class of those under disability.

It would seem, therefore, that the Illinois and Michigan courts have concluded that national banks vested with trust powers may invade the field of activity of trust companies and that such an invasion constitutes an invasion of the "sovereignty of the States" because trust companies are created by the States. Such a contention is merely a revival of the argument that no Federal agency can be vested with any private power. It is at once manifest that the same argument would apply with equal force to an invasion by national banks of the field of commercial banking, since State banks which engage in this class of business are likewise created by the States. While this appears to be the only basis for the contention that there has been an invasion of the rights of the States, even this theory is not consistent with other parts of the opinions of the Illinois and Michigan courts since both courts concede the right of Congress to create national banks and to vest them with private powers. The underlying thought in both opinions appears to be that in some vague and indefinite way national banks, if vested with trust powers, may prove a menace to the State's control over property within its borders and for this reason the act is unconstitutional.

The Illinois court held that the exercise of trust powers by national banks would contravene the laws of that State. That part of the decision, therefore, which declared section 11 (k) unconstitutional was in the nature of dicta. It might be assumed that under these circumstances it would not have deemed it necessary to consider the constitutional question involved unless it was apparent that Congress grossly abused its authority. An analysis of the opinion, however, makes it clear that there were no facts before the court indicating any such abuse.

It will be observed that after conceding that Congress had the right to grant trust powers to national banks "if they were reasonably necessary to the efficiency of such corporations for the purposes of their creation as governmental agencies," the court says:

"It not being shown such added powers are now necessary to the further success of such purposes * * * we think the act, in so far as it attempted to confer such powers upon national banks, is unconstitutional and void."

It thus appears that the court recognizes that Congress is vested with a discretion in this matter, but contrary to the ordinary rules of evidence, sustained by a long line of decisions of this court, it held that the burden was on the respondent, now plaintiff in error, to show that Congress had not abused this discretion, and not on the relators, now defendants in error, to show that Congress had exceeded its constitutional powers. In other words, it presumed the act to be unconstitutional and in support of its position contended that Congress itself could not have believed these powers to be necessary to national banks because it left it to the banks to determine whether or not they should be exercised. If this test should be applied to all corporate powers of national banks it would be difficult to sustain the constitutionality of any.

It should be borne in mind that in order to obtain the right to exercise the powers specified in section 5136, Revised Statutes, to which the Illinois court referred, it is necessary for those forming an association to comply with certain statutory conditions, which include the filing of an organization certificate with the Comptroller of the Currency; that whenever any corporation so organized desires to change its name, to increase or reduce its capital stock, to change its location, or in any wise to alter or amend its charter, an application must first be made to the Comptroller of the Currency and must be approved by him.

Congress might have provided for a similar procedure on the part of national banks desiring to have trust powers added to their other corporate powers. Inasmuch, however, as the penalty prescribed by section 2 of the Federal Reserve act for the violation of any of the provisions of that act is to be enforced under the direction of the Federal Reserve Board, it was entirely consistent with the purpose and intent of the act to have application made to the board and not to the comptroller for the addition of the powers in question.

The Michigan court likewise concedes the right of Congress to create national banks and to vest them with private powers. Unlike the Illinois court, it holds that "undoubtedly, all presumptions are in favor of the constitutionality of the act in question here and Congress is the judge, within the exercise of its powers, of the functions a national bank should perform."

The court does not suggest that any evidence has been submitted or considered tending to show that Congress has abused the discretion which it recognizes, but in holding the act unconstitutional says:

"But in the reasoning of the judges, in the opinions to which I have referred, I find, I think, a conclusive argument supporting the proposition that Congress has exceeded its constitutional powers in granting to banks the right to act as trustees, executors, and administrators. If for mere profit it can clothe this agency with the powers enumerated, it can give it the rights of a trading corporation, or a transportation company, or both. There is, as Judge Marshall points out, a natural connection between the business of banking and the carrying on of Federal fiscal operations. There is none, apparently, between such operations and the business of settling estates, or acting as the trustee of bondholders. This being so, there is in the legislation a direct invasion of the sovereignty of the State. * * * Such an invasion I think the court may declare and may prevent by its order operating upon the offending agency."

It thus appears that the sole justification for concluding that Congress has abused its discretion in granting to national banks the powers specified in section 11 (k) is an assumption on the part of the court that some natural connection exists between what it terms the business of banking and the fiscal operations of the Government and that none exists between the business of trust companies and the Government's fiscal operations. The court does not point out how any particular private power heretofore exercised by national banks has a closer relationship to the fiscal operations of the Government than the private powers in question.

It is an interesting fact that the reason assigned for its conclusion that Congress has no power to grant trust powers to national banks is substantially similar to one of the reasons advanced by the opponents of the first Bank of of the United States against vesting that bank with any private powers.

As illustrating the similarity between the arguments made at that time and the reasoning of the Michigan court in the present case, it will be observed that in the case of McCulloch *v.* Maryland (supra, p. 364), counsel for defendants in error stated that a banking corporation "in its proper and natural character * * * is a commercial institution, a partnership incorporated for the purpose of carrying on the trade of banking," and, continuing, said: "But what natural connection is there between the collection of taxes and the incorporation of a company of bankers?" (See also Osborn *v.* U. S. Bank, 9 Wheat., 733,860.)

It would have been useless to concede the right of Congress to create a corporation to be used as an agency of the Government but to deny its right to endow this agency with those faculties which are necessary for its existence and support.

By analogy, it is equally useless to concede the right of Congress to endow such an agency with faculties which a half century ago were sufficient to enable it to live and to perform the functions for which it was created, but to deny the right of Congress to add such new powers as may have been made necessary by changed conditions to enable it to meet the increasingly active competition of corporations created and organized under State law.

In the last analysis, the question to be determined is, Has Congress the power to preserve the national banking system? If it can give to national banks powers similar to those enjoyed by their competitors, the national system can be preserved and the banks composing this system can continue to perform the public services for which they were created. On the other hand, if the legislative discretion of Congress is determined to be so limited that it can not coordinate the powers of national banks, State banks, and trust companies, it is inevitable that sooner or later the national system will disintegrate and those who have embarked upon the banking business will seek their charters from that sovereignty which offers the wider field of activity and the more certain source of revenue.

CONCLUSION.

The decision of the Supreme Court of Michigan should be reversed and the cause remanded with instructions to dismiss the information.

New National Bank Charters.

The Comptroller of the Currency reports the following increases and reductions in the number of national banks and the capital of national banks during the period from February 24, 1917, to March 23, 1917, inclusive:

	Banks.	
New charters issued to	12	
With capital of		$1,150,000
Increase of capital approved for	20	
With new capital of		1,519,990
Aggregate number of new charters and banks increasing capital	32	
With aggregate of new capital authorized		2,669,990
Number of banks liquidating (other than those consolidating with other national banks)	8	
Capital of same banks		1,325,000
Number of banks reducing capital	2	
Reduction of capital		50,000
Total number of banks going into liquidation or reducing capital (other than those consolidating with other national banks)	10	
Aggregate capital reduction		1,375,000
The foregoing statement shows the aggregate of increased capital for the period of the banks embraced in statement was		2,669,990
Against this there was a reduction of capital owing to liquidations (other than for consolidation with other national banks) and reductions of capital of		1,375,000
Net increase		1,294,990

Fiduciary Powers.

The applications of the following banks for permission to act under section 11 (k) of the Federal Reserve Act have been approved since the issue of the March BULLETIN.

DISTRICT No. 1.

Trustee, executor, administrator, and registrar of stocks and bonds:
Home National Bank, Brockton, Mass.

DISTRICT No. 2.

Trustee, executor, administrator, and registrar of stocks and bonds:
Farmers National Bank, Sussex, N. J.
Second National Bank, Somerville, N. J.
Registrar of stocks and bonds:
First-Bridgeport National Bank, Bridgeport, Conn.
Oneida Valley National Bank, Oneida, N. Y.

DISTRICT No. 3.

Trustee, executor, administrator, and registrar of stocks and bonds:
Maytown National Bank, Maytown, Pa.
West Branch National Bank, Williamsport, Pa.
Trustee, executor, and administrator:
National Bank of Topton, Topton, Pa.

DISTRICT No. 5.

Trustee, executor, administrator, and registrar of stocks and bonds:
National Bank of New Berne, New Bern, N. C.

DISTRICT No. 6.

Trustee, executor, administrator, and registrar of stocks and bonds:
Lowry National Bank, Atlanta, Ga.
Trustee, executor, and administrator:
Central National Bank, St. Petersburg, Fla.

DISTRICT No. 7.

Trustee, executor, administrator, and registrar of stocks and bonds:
Merchants National Bank, Muncie, Ind.
First National Bank, Mishawaka, Ind.
First National Bank, Council Bluffs, Iowa.

DISTRICT No. 8.

Trustee and registrar of bonds:
American National Bank, Bowling Green, Ky.

DISTRICT No. 10.

Trustee, executor, administrator, and registrar of stocks and bonds:
First National Bank, Kansas City, Mo.
Trustee, executor, and administrator:
First National Bank, Hugo, Colo.

DISTRICT No. 11.

Trustee, executor, and administrator:
Citizens National Bank, Roswell, N. Mex.

DISTRICT No. 12.

Trustee, executor, administrator, and registrar of stocks and bonds:
Continental National Bank, Salt Lake City, Utah.

Commercial Failures During February.

Commercial mortality in the United States during the month of February not only showed the customary falling off from the previous month, but displayed a most gratifying improvement, both in number and amount of liabilities as compared with the corresponding month for several years past. The total number of failures in the past month reported by R. G. Dun & Co. was 1,165, as against 1,540 in January, 1,688 in February last year, 2,278 the same month two years ago, which was the maximum for that month, and 1,505 for the corresponding period in 1914, while the liabilities were $16,617,883 and $18,283,120, respectively, for February and January this year, and $18,744,-165 in February, 1916.

Separation of these statistics into Federal districts reveals sharp contraction in number in every instance, with the falling off especially pronounced in the second, third, fifth, seventh, and eighth districts. On the other hand, liabilities show gain over last year in three districts, an increase of approximately $567,000 appearing in the fourth, $122,000 in the tenth, and $1,709,000 in the twelfth. The remaining districts, however, all report substantial improvement, notably the first, with a contraction amounting to about $691,000; the third, $767,000; the sixth, $1,226,000, and the eleventh, $694,000.

The number of commercial failures and liabilities in each district for the month of February, this year and last, are compared below:

District.	Number.		Liabilities.	
	1917	1916	1917	1916
No. 1	99	137	$657,828	$1,348,200
No. 2	204	298	3,891,882	4,194,990
No. 3	65	138	470,444	1,237,250
No. 4	90	127	1,461,654	894,500
No. 5	58	139	934,923	1,138,600
No. 6	114	157	1,098,938	2,224,850
No. 7	141	185	1,871,188	2,253,800
No. 8	90	130	770,043	976,075
No. 9	51	62	375,790	527,670
No. 10	51	65	680,471	553,010
No. 11	50	88	518,042	1,212,720
No. 12	152	162	3,886,680	2,177,500
Total	1,165	1,688	16,617,883	18,744,165

Operation of the Clearing Plan.

The following table shows briefly the clearing operations of the Federal Reserve System for the monthly period ending March 15, 1917, with comparative figures for each of the seven preceding months:

Operations of the Federal Reserve clearing system, February 16 to March 15, 1917.

	Average number of items handled daily.	Average amount of daily clearing.	Member banks in the district.	Nonmember banks from which checks are collected at par.
Boston	37,565	$13,156,973	402	242
New York	43,565	28,526,564	625	311
Philadelphia	32,898	17,164,282	632	240
Cleveland	15,730	6,949,218	753	487
Richmond	16,799	7,873,139	518	269
Atlanta	13,359	3,906,719	389	394
Chicago	19,872	12,043,131	1,045	1,445
St. Louis	10,030	6,102,359	467	867
Minneapolis	13,308	6,333,553	718	1,042
Kansas City	12,885	7,545,391	941	1,398
Dallas	12,691	5,035,821	619	214
San Francisco	5,773	1,767,280	521	1,098
Total, Feb. 16 to Mar. 15, 1917	234,475	116,404,430	7,630	8,007
Jan. 16 to Feb. 15, 1917	220,421	110,188,028	7,630	8,086
Dec. 16, 1916, to Jan. 15, 1917	241,933	121,814,589	7,622	8,130
Nov. 16 to Dec. 15, 1916	236,038	125,603,732	7,627	8,065
Oct. 16 to Nov. 15, 1916	227,489	115,061,224	7,623	8,059
Sept. 16 to Oct. 15, 1916	204,891	97,666,107	7,618	7,459
Aug. 16 to Sept. 15, 1916	177,397	78,559,704	7,618	7,449
July 16 to Aug. 15, 1916	133,113	59,301,596	7,624	7,032

GOLD SETTLEMENT FUND.

For the present, at least, payments from credit balances of Federal Reserve Banks in the Gold Settlement Fund will not be made directly to member banks of the system or to individuals. This question was raised early in March through the request of a Federal Reserve Bank that its account be charged with a stated amount and payment made to a designated member bank. After consideration the Board voted not to authorize payments of this character.

There has been an increasingly large volume of transactions between the Federal Reserve Banks through the Gold Settlement Fund during March. The settlement of March 22 amounted to $297,765,000, the largest weekly settlement yet made. An unusually large number of transactions between Federal Reserve Banks and Federal Reserve Agents has occurred.

Below are the figures covering the period between the settlements of February 23 and March 22. They show obligations settled amounting to $1,080,800,000 by means of the weekly settlement, and $15,839,000 by means of transfers between the banks during the week. Changes in ownership in the fund amounted to 5.12 per cent of the total obligations settled. Boston, Philadelphia, and San Francisco show the largest increases.

Amount of clearings and transfers, Federal Reserve Banks, from Feb. 24, 1917, to Mar. 22, 1917, inclusive.

[000 omitted.]

	Total clearings.	Balances adjusted.	Transfers.
Settlement of—			
Mar. 1, 1917	$244,625	$17,906	$500
Mar. 8, 1917	282,950	16,237	9,550
Mar. 15, 1917	255,460	9,316	1,000
Mar. 22, 1917	297,765	18,376	4,789
Total	1,080,800	61,835	15,839
Previously reported for 1917	2,141,068	121,036	54,643
Total since Jan. 1, 1917	3,221,868	182,871	70,482
Total transfers Jan. 1, 1917, to date	70,482		
Total for 1916, including transfers	5,633,966		
Total for 1915, including transfers	1,052,649		
Total clearings and transfers, May 22, 1915, to Mar. 22, 1917	9,978,965		

Changes in ownership of gold.

[000 omitted.]

Federal Reserve Bank of—	Total to Feb. 23, 1917.		From Feb. 24, 1917, to Mar. 22, 1917, inclusive.[1]				Total changes from May 20, 1915, to Mar. 22, 1917.[2]	
	Decrease.	Increase.	Balance to credit, Feb. 23, 1917, plus net deposits of gold since that date.	Balance Mar. 22, 1917.	Decrease.	Increase.	Decrease.	Increase.
Boston		$25,595	$11,825	$21,015		$9,190		$34,785
New York	$305,232		73,768	20,241	$53,527		$358,759	
Philadelphia		65,435	8,245	17,441		9,196		74,631
Cleveland		28,790	22,200	26,017		3,817		32,607
Richmond		23,106	18,406	17,085	1,321			21,785
Atlanta		22,957	5,497	4,431	1,066			21,891
Chicago		2,954	25,514	43,870		18,356		21,310
St. Louis		5,122	3,482	4,240		758		5,880
Minneapolis		5,457	4,577	8,641		4,064		9,521
Kansas City		48,750	22,227.5	26,152.5		3,925		52,675
Dallas		32,117	7,749.5	7,567.5	182			31,935
San Francisco		44,949	7,779	14,569		6,790		51,739
Total	305,232	305,232	211,270	211,270	56,096	56,096	358,759	358,759

[1] Changes in ownership of gold during period Feb. 24, 1917, to Mar. 22, 1917, equal 5.12 per cent of obligations settled.
[2] Totalchanges in ownership of gold since May 20, 1915, equal 3.60 per cent of total obligations settled.

Gold settlement fund—Summary of transactions from Feb. 24, 1917, to Mar. 22, 1917, inclusive.

[000 omitted.]

Federal Reserve Bank of—	Balance Feb. 23, 1917.	Gold.		Transfers.		Weekly settlements from Feb. 24, 1917, to Mar. 22, 1917.				Mar. 22, 1917, balance in fund at close of business.
		With-drawn.	Depos-ited.	Debit.	Credit.	Total net debits.	Total debits.	Total credits.	Total net credits.	
Boston	$17,825	$6,000			$1,000		$87,139	$95,329	$8,190	$21,015
New York	53,768		$20,000	$13,589	250	$40,188	282,101	241,913		20,241
Philadelphia	10,855	4,300	1,690				159,994	169,190	9,196	17,441
Cleveland	26,460	4,310	50				76,815	80,632	3,817	26,017
Richmond	16,826		1,580	2,000			67,689	68,368	679	17,085
Atlanta	5,197	530	830	250		816	37,397	36,581		4,431
Chicago	32,694	8,680	1,500		14,089		134,308	138,575	4,267	43,870
St. Louis	1,802	200	1,880		500		99,126	99,384	258	4,240
Minneapolis	4,457		120				23,369	27,433	4,064	8,641
Kansas City	27,357.5	5,300	170				65,570	69,495	3,925	26,152.5
Dallas	7,659.5	80	170			182	28,559	28,377		7,567.5
San Francisco	8,409	1,000	370				18,733	25,523	6,790	14,569
Total	213,310	30,400	28,360	15,839	15,839	41,186	1,080,800	1,080,800	41,186	211,270

Federal Reserve Agents' Fund—Summary of transactions, Feb. 24, 1917, to Mar. 22, 1917, inclusive.

[000 omitted.]

Federal Reserve Agent at—	Balance to credit Feb. 23, 1917.	With-drawn.	De-posited	Balance Mar. 22, 1917.	Federal Reserve Agent at—	Balance to credit Feb. 23, 1917.	With-drawn.	De-posited.	Balance Mar. 22, 1917.
Philadelphia	$12,130	$390	$4,150	$15,890	Minneapolis	$3,250	$120		$3,130
Cleveland			4,000	4,000	Kansas City	13,380	620	$4,900	17,660
Richmond	10,000	1,000		9,000	Dallas	9,330	450		8,880
Atlanta	13,450	430	400	13,420	San Francisco	15,380	370		15,010
Chicago	13,210	600	7,680	20,290					
St. Louis	6,430	380		6,050	Total	96,560	4,360	21,130	113,330

Uniform Accounts.

The following tentative proposal has been submitted by the Federal Reserve Board for the consideration of banks, bankers, and banking associations; of merchants, manufacturers, and associations of manufacturers; and of auditors, accountants, and associations of accountants:

Through the courtesy of the Federal Trade Commission the Federal Reserve Board has been enabled to take advantage of a large amount of information and data which the Trade Commission acquired in connection with the study of the statements made by merchants, manufacturers, etc., as showing the condition of their business. Because this matter was clearly of importance to banks and bankers, and especially to the Federal Reserve Banks which might be asked to rediscount commercial paper based on borrowers' statements, the Federal Reserve Board has taken an active interest in the consideration of the suggestions which have developed as a result of the Trade Commission's investigation, and now submits in the form of a tentative statement certain proposals in regard to suggested standard forms of statements for merchants and manufacturers.

The problem naturally subdivides itself into two parts. (1) The improvement in standardization of the forms of statements; (2) the adoption of methods which will insure greater care in compiling the statements and the proper verification thereof.

In recent years bankers through their associations and otherwise have made rapid progress in the direction of more uniform and complete forms of statements. Much has also been accomplished in the improvement of the quality of the statements rendered and in securing statements which do not depend for their accuracy on the borrowers' statement alone but are verified to a greater or less extent by independent scrutiny and audit. The advantage of a statement certified by trustworthy public accountants over an unverified statement is evident. At the present time, however, there is no uniformity as to the extent of verification in the case of statements put forward as having been verified.

The Federal Trade Commission in the course of its investigation of business conditions has been strongly impressed with the lack of uniformity and has enlisted the aid of the American Institute of Accountants with a view to remedying the condition. It has found that verified statements may be divided broadly into—(*a*) Those in which the certificate is based on an examination of the books without personal superivsion of inventories and independent appraisal of all assets with the aid of technical appraisers, and (*b*) statements verified with the personal supervision of inventories and independent appraisal of all assets.

The value of the two classes of audits and their relation to each other depends to a great extent upon the character and magnitude of the business involved.

In some cases method (*b*) has advantages over method (*a*). In other cases, notably those of large companies in which personal supervision of inventories is arduous and perhaps impracticable and the value of an independent appraisal of assets is liable to be considerably exaggerated, the reverse may be true. That is to say, a verification based upon the books themselves without an appraisal may be and often is the safer method of procedure. It is highly desirable gradually to educate the business world to the great importance of a complete form of audit statement, although any plan for immediate adoption intended to produce practical results must recognize that under present practice probably more than 90 per cent of the statements certified by public accountants are what are called balance-sheet audits, such as are described in paragraph (*a*) above referred to.

As a first step toward the standardization of balance-sheet audits and to insure greater care in compiling and verifying statements the Federal Trade Commission requested the American Institute of Accountants to prepare a memorandum on balance-sheet audits. This memorandum was duly prepared and approved by the council of the institute representing accountants in all sections of the country.

After approval by the Federal Trade Commission the memorandum was placed before the Federal Reserve Board for consideration. The Federal Reserve Board, after conferences with representatives of the Federal Trade Commission and the American Institute of Accountants, and a careful consideration of the memorandum in question, has accepted the memorandum, given it a provisional or tentative indorsement, and submitted it to the banks, bankers, and banking associations throughout the country for their consideration and criticism.

The recommendations in the memorandum apply primarily to what are known as balance-sheet audits. This is an initial step which may easily be succeeded by future developments tending still further to establish uniformity and covering more fully the field of financial statements.

GENERAL INSTRUCTIONS FOR A BALANCE SHEET AUDIT OF A MANUFACTURING OR A MERCHANDISING CONCERN.

The scope of a balance sheet audit for a fiscal year or other operating period of an industrial or mercantile corporation or firm comprises a verification of the assets and liabilities, a general examination of the profit and loss account, and, incidental thereto, an examination of the essential features of the accounting.

Trial balances of the general ledger, both at the beginning and end of the period under review, should be prepared in comparative form and checked with the ledger. The items in the trial balances should be traced into the balance sheets before the assets and liabilities are verified, to prove, among other things, that no "contra" asset or liability has been omitted from the accounts, that the assets and liabilities have been grouped in the same manner at the beginning and end of the period, and also that the balance sheets are in accordance with the books. The disposition of any general ledger assets and liabilities that may have been scrapped, sold, written off, or liquidated during the period under review should be traced and noted in the working papers. Furthermore, a general scrutiny of the general ledger should be made to see that the accounts, if any, that have been opened and closed during the year have no bearing on the company's financial position at the close of the fiscal period.

The auditor should obtain a copy each of the balance sheet at the beginning and the end of the period to be audited, and should make a comparison between them, so that a comprehensive view may be had by him of the changes in the figures during the period under review. A statement of the disposition of the profits should then be prepared from this comparative balance sheet as a further aid in impressing the meaning of the figures upon the mind of the auditor.

The verification of assets and liabilities for convenience will be considered in the order in which the items appear in the form of balance sheet attached hereto. This form of statement has been determined by the desire to meet as nearly as possible the requirements and practice of Federal Reserve Banks.

SPECIFIC INSTRUCTIONS AND SUGGESTIONS RELATING TO THE SEPARATE HEADINGS.

CASH.

The cash on hand preferably should be counted after banking hours on the last day of the fiscal period to be covered by the audit, and the amount thereof, together with the cash stated to be in the bank, reconciled with that shown by the cashbook. The cash, bills receivable, and investments must be examined on the same day, so as to make it impossible for a treasurer to make up a shortage in one asset by withdrawing negotiable funds temporarily from another.

In counting the cash on hand the auditor must see that all customers' checks produced to him as part of the cash balance have been duly entered in the cashbook prior to the close of the period and should note the dates and descriptions of such checks, and also the dates and descriptions of all advances made from cash and not recorded on the books. Advances to employees should be strictly investigated, and if any are secured by personal checks the auditor should see that the checks are certified by the bank on which they are drawn before the close of the audit.

Certificates must be obtained, as of the evening of the closing date, from the banks in which cash is deposited, by or mailed directly to, the auditor himself. The balances as shown by the certificates must be reconciled with those shown on either the cashbook, the checkbook stubs, or bank registers, taking into consideration outstanding checks.

In verifying the outstanding checks there is only one safe and satisfactory method of proving their accuracy, and that is to compare the credit side of the cashbook from the last day of the fiscal period backward, item by item, with the checks returned from the bank for such period as may be necessary to account for all current outstandings. Any old checks not yet cashed by banks should be made the subject of special inquiry. When this work is completed, a list of the outstanding checks so ascertained should be prepared, showing the dates of the checks and compared with the actual checks returned from the bank at a later date, and any not so returned should be specially investigated. Special care is necessary to see that no checks for cash purposes are drawn at the close of the period and entered in the next period.

Where the currency and bank transactions are kept together in the cashbook and the auditor does not count the cash until a date subsequent to the close of the fiscal year, he must, in addition to verifying the bank balances as of the close of the year, verify them as of the date of the count of cash. This is absolutely essential when it is considered that, although the cash on hand, which forms only part of the balance, at the date of the count is correct, it does not follow that the total cash is correct.

When receipts are shown in the cash books as being deposited in the bank on the last day of the fiscal period, but are included in the reconciliation statement on account of their not being paid into the bank until the next day, the auditor must obtain letters from the banks acknowledging such deposits.

The deposits shown in the pass books should be checked in detail for the last two or three days of the fiscal period from the books to prove that they were composed of bona fide checks, and that no check drawn by the company was deposited in a bank without being credited to the bank on which it was drawn prior to the close of the fiscal period.

So that the auditor may satisfy himself that deposits are promptly made in bank each day, and that the same checks are paid into bank as are received, it is advisable to call for a number of deposit slips and compare them with the receipts as shown by the cashbook for the days in which the deposits are made. To make such verification absolute the deposit slips should be obtained from the banks.

When the practice of a company is to pay all of its cash receipts into bank, they should be compared and reconciled with the total deposits, as shown by the bank books, and similarly the disbursements should be reconciled with the total checks drawn.

Outstanding checks not examined at a previous audit on account of not having been returned by the banks must be called for and traced into the cashbook at the beginning of the current audit.

NOTES RECEIVABLE.

A list of notes receivable outstanding at the end of the fiscal period should be prepared showing the dates the notes are made, the customers' names, the date due, the amounts of the notes and the interest, if any, contained in the notes. If discounted the name of the discounting bank should be noted and verification obtained from the bank.

The outstanding notes must be carefully examined with the notes-receivable book, and with the list prepared by or produced to the auditor, the due dates and the dates of making the notes being carefully checked, and when notes have been renewed the original dates should be recorded. When notes have been paid since the close of the fiscal year, the cash should be traced into the books of the company, and when they are in the hands of attorneys or bankers for collection certificates should be obtained from the depositaries.

When notes receivable are discounted by banks the company has a liability therefor which should appear on the balance sheet. Lists of discounted notes not matured at the date of the audit should be obtained from the banks as verification and their totals entered under 20a if the cash therefor is shown as an asset.

The value of collateral, if any, held for notes should be ascertained, as it frequently happens that the notes are worth no more than the collateral.

Notes due by officials and employees must always be stated separately from customers' notes, as must also notes received for other than trade transactions.

Notes due from affiliated concerns must not be included as customers' notes, even though received as a result of trading transactions. Affiliated companies' notes should be shown as a separate item of current assets or as other assets as the circumstances warrant. They may be fairly included in current assets if the debtor company has ample margin of quick assets over its liabilities, including such notes.

The term "Quick assets" is used here in the sense in which it is used by Federal reserve practice. "Current assets" is used to comprise these assets and other assets which though current are excluded in determining the eligibility of the paper for Federal Reserve purposes.

Optional.—The best verification of notes receivable is an acknowledgment by the party named in each note as the payor on the due date that the note is a bona fide obligation. Therefore if time permits, and the client does not object, it is advisable to obtain such written confirmation for each note. The auditor should personally mail the letters, inclosing stamped envelope for reply addressed direct to himself.

ACCOUNTS RECEIVABLE.

The bookkeepers of the accounts-receivable ledgers should be asked to draw off lists of the open balances at the end of the fiscal period, and distributions of the total columns should be shown on the lists according to the age of the accounts, e. g., not yet due, less than 30 days past due, more than 30 days past due. The accounts paid since the close of the fiscal period should be noted in the lists before taking up the matter of past due accounts with the credit department, as payment is the best proof that an account was good at the date of the audit.

The totals of the lists of outstanding accounts should agree with the controlling account in the general ledger if separate ledgers are kept. When credit balances appear on customers' accounts they should be shown on the balance sheet as a separate item and not deducted from the total of debit balances; and debit balances on the accounts-payable ledgers should be treated in the same manner.

The lists must be footed and compared in detail with the customers' accounts in the ledgers.

The composition of outstanding balances should always be examined, as it frequently happens that while a customer may be making regular payments on his account, old items are being carried forward which have been in dispute for a considerable period of time. Such items and accounts which are past due should be taken up with the credit department or some responsible officer, and the correspondence with the customers examined, so that the auditor may form an opinion of the worth of the accounts and satisfy himself that the reserve for bad and doubtful accounts set up by the company is sufficient.

Trade discounts (and also so-called cash discounts, if exceeding 1 per cent) and freights allowed by the company should be inquired into, and if they have been included in the accounts receivable a reserve therefor should be set up in the balance sheet. Also inquiries should be made regarding customers' claims for reductions in prices and for rebates and allowances on account of defective materials, so that it may be seen that a sufficient reserve has been established therefor.

Inquiry must be made as to whether any of the accounts receivable have been hypothecated or assigned, and the sum total of accounts so listed entered under 20b.

The auditor should satisfy himself that the bad debts written off have been duly authorized by responsible officials.

Accounts due from directors, officers, and employees must be stated in the balance sheet separately and not included as trade accounts. This applies also to deposits as security, guaranties, and other extraordinary items not connected with sales.

Accounts due from affiliated concerns must not be included as customers' accounts, even though arising as a result of trading transactions. Affiliated companies' accounts should be shown as a separate item of "current assets" or as "other assets," as the circumstances warrant. They may be fairly included as "current assets" if the debtor company has ample margin of quick assets over its liabilities, including such accounts.

Optional.—The best verification of an open balance is a confirmation by the customer; therefore, if time permits and the client does not object, it is advisable to circularize the customers. The auditor should personally see the circulars mailed after comparing them with the lists of outstanding accounts. The envelopes for replies sent with the circulars should be addressed direct to the auditor.

In large concerns the system of accounting is generally so arranged that it would be almost impossible for accounts to be paid and not correctly credited on the accounts-receivable ledgers, but in small concerns, with imperfect systems, such occurrences are quite possible, so much so, in fact, that it is generally admitted that the risk of errors and omissions decreases in direct proportion to an increase in bookkeeping.

SECURITIES.

Under this caption must be listed securities in which surplus funds of the company or firm have been temporarily invested and which are considered as available as "quick assets," i. e., can be turned into money in time of need. Where stocks or bonds represent control or a material interest in other enterprises the ownership of which carries more or less value to the holder outside of the return thereon they should be considered as fixed assets.

A list of investments should be prepared showing—

The dates of purchases.
Descriptions of the investments.
Par value of the investments.
The denomination of the shares.

The number of shares or bonds owned.
The total capital stock of the various companies.
The amounts paid for the investments.
The interest and dividends received.
The market values of the investments.
The surplus or deficit shown by the balance sheets of the companies where no market quotations are available.
If hypothecated, with whom and for what purpose.

This list must be compared with the ledger accounts concerned and the total of amounts paid according to the list must agree with the balance of the investment account or accounts.

The securities must be examined by the auditor in person or he must secure confirmation of their existence from those who hold them as collateral. Those in possession of the company must be counted and examined as soon as possible after the audit starts, and all of them must be submitted to him at one time. It is much more satisfactory to see the actual securities than to verify cash receipts and other evidences therefor after the audit has progressed some time.

Certificates out for transfer must be verified by correspondence.

Where the market values of securities are less than the book values, save where the variation is so small as to be trifling, a reserve for loss in value on the balance sheet date must be set up.

Care must be taken to see that the certificates are made out in favor of the company, or that they are indorsed or accompanied by powers of attorney when they are in the names of individuals.

Coupons on bonds must be examined to see that they are intact subsequent to the latest interest payment date.

The investment schedule must show that the total interest and dividends receivable by the company have been duly accounted for; the income from the investments shown in the profit and loss account must be in accord with this schedule.

When market quotations can not be obtained for investments, the balance sheets of the companies in which investments are held must be examined so that the auditor may form an idea of their value.

In verifying purchases of stock exchange securities the brokers' advices must in all cases be examined in connection with the verification of the purchase price.

Investments in deeds and mortgages must be supported by both the mortgages and insurance policies, and, furthermore, it must be shown that all assessed taxes on the property have been duly paid, that the mortgages have been properly recorded, and that the insurance policies are correctly made out to the company.

If any of the securities have been hypothecated the fact and amount (book value) must be stated under 20d of the balance sheet.

INVENTORIES.

Under this caption must be included only stocks of goods owned and under control of the owner. Stocks are often hypothecated and if this is the case the fact should be stated on the balance sheet.

Inasmuch as the accuracy of the profit and loss account is absolutely dependent upon the accuracy of the inventories of merchandise at the beginning and end of the period under review, this part of the verification should receive special attention. When a balance-sheet audit is being made for the first time, the inventory at the beginning of the period should receive as much attention as that at the end, and the auditor should take every precaution to satisfy himself that both inventories were taken on the same basis.

An acceptable program of audit for inventories is as follows:

(1) Secure the original stock sheets if they are in existence and carefully test the typewritten copies with them and with tickets, cards, or other memoranda that show the original count.

(2) See that the sheets are certified to or initialed by the persons who took the stock, made the calculations and footings, and fixed the prices, and satisfy yourself that they are dependable and responsible persons. Obtain a clear and detailed statement in writing as to the method followed in taking stock and pricing it; also a certificate from a responsible head as to the accuracy of the inventory as a whole.

(3) A thorough test of the accuracy of the footings and extensions should be made, especially of all large items.

(4) The inventories should be compared with the stores ledger, work in progress ledgers and finished product records and stock records as to quantities, prices, and values, and any material discrepancy should be thoroughly traced.

(5) Where stock records are kept and no physical inventory is taken at the time of the audit, ascertain when the last physical inventory was taken and compare it with the book records. If no recent comparison is possible, select a few book items of importance and personally compare with the actual stock on hand.

(6) Where no stock records are kept, a physical inventory should be taken preferably under the general direction of the auditor. After the inventory is completed, he should apply the same tests to verify its accuracy as if the inventory had been taken before his arrival upon the scene.

(7) When the cost system of a company does not form a part of the financial accounting scheme there is always a chance that orders might be completed and billed, but not taken out of the work in progress records. Especially is this the case when reliance is placed on such records to the extent that a physical inventory is not taken at the end of the period to verify the information shown therein. In these cases the sales for the month preceding the close of the fiscal period should be carefully compared with the orders in progress as shown by the inventory, to see that nothing that has been shipped is included in the inventory in error. Cost systems which are not coordinated with the financial accounts are unreliable and frequently misleading. Special attention should be called to every case in which the cost system is not adequately checked by the results of the financial accounting.

(8) Ascertain that purchase invoices for all stock included in the inventory have been entered on the books. Look for postdated invoices and give special attention to goods in transit.

(9) See that nothing is included in the inventory which is not owned but is on consignment from others. If goods consigned to others are included, see that cost prices are placed thereon, less a proper allowance for loss, damage, or expenses of possible subsequent return. This does not include goods at branches, as the valuing of such stocks will be governed by the same principles as apply at the head office.

(10) Ascertain that nothing is included which has been sold and billed, and is simply awaiting shipment.

(11) If duties, freight, insurance, and other direct charges have been added, test them to ascertain that no error has been made. Duties and freight are legitimate additions to the cost price of goods, but no other items should be added except under unusual circumstances.

(12) As a check against obsolete or damaged stock being carried in the inventory at an excessive valuation, the detailed records for stores, supplies, work in progress, finished products, and purchased stock in trade, should be examined and a list prepared of inactive stock accounts, which should be discussed with the company's officials and satisfactory explanations obtained.

(13) The auditor should satisfy himself that inventories are stated at cost or market prices, whichever are the lower at the date of the balance sheet. No inventory must be passed which has beem marked up to market prices and a profit assumed that is not and may never be realized. If the market is higher than cost it is permissible to state that fact in a footnote on the balance sheet.

(14) It may be found that inventories are valued at the average prices of raw materials and supplies on hand at the end of the period. In such cases the averages should be compared with the latest invoices in order to verify the fact that they are not in excess of the latest prices, and also with the trade papers, when market prices are used, to see that they are not in excess of market values.

(15) Make an independent inspection of the inventory sheets to determine whether or not the quantities are reasonable, and whether they accord in particular instances with the average consumption and average purchases over a fixed period. Abnormally large quantities of stock on hand may be the legitimate result of shrewd foresight in buying in a low market, but may, on the other hand, arise from serious errors in stock taking.

(16) Always attempt to check the totals by the "gross profit test" and compare the percentage of gross profit shown with that of previous years. In a business where the average gross profit remains fairly constant this test is a dependable one, because, if the rate of gross profit is apparently not maintained and the discrepancy can not be satisfactorily accounted for by a rise or fall in the cost of production or of the selling price, the difference will usually be due to errors in stock taking.

(17) In verifying the prices at which the work in progress is included in the inventory, a general examination and test of the cost system in force is the best means of doing this work satisfactorily. In a good cost system little difficulty will be found with the distribution of

the raw materials, stores, and pay roll, but the distribution of factory overhead cost is one that should receive careful consideration, the main points to be kept in view being:

(a) That no selling expenses, interest charges, or administrative expenses are included in the factory overhead cost.

(b) That the factory overhead cost is distributed over the various departments, shops, and commodities on a fair and equitable basis.

(18) No profit should be included in the price of finished products or stock in trade. The price list should be examined to see that the cost prices of stock are below the selling prices after allowing for trade discounts, and if they are not a reserve should be set up on the balance sheet for this loss. If the company takes immediate steps to increase the selling price, however, the amount of this reserve may be limited to the loss on goods which may have been sold since the close of the period to the date of the discovery.

(19) In the case of companies manufacturing large contracts it is frequently found necessary to make partial shipments thereof. The question then arises as to whether it is permissible to include the profits on these partial shipments in the profit and loss account. As a matter of fact, it is evident that the actual cost can not be known until the order is completed. It may be estimated that a profit will ultimately be made, yet unforeseen conditions, such as strikes, delays in receiving material, etc., may arise to increase the estimated cost. It is better not to include the profits on partial shipments, but information of this character which may have its influence in the decision of the banker upon a proposed loan may properly be laid before him. Of course, an exception should be made in cases where the profit on the partial shipments largely exceeds the selling price of the balance of the order.

(20) The selling prices for contract work in progress should be ascertained from the contracts, and where it is apparent that there will be a loss on the completed contract a due proportion of the estimated loss should be charged to the period under audit by setting up a reserve for losses on contracts in progress.

(21) If a company has discontinued the manufacture of any of its products during the year, the inventory of such products should be carefully scrutinized and, if unsalable, the amount should be written off.

(22) The inventory should be scrutinized to see that no machinery or other material that has been charged to plant or property account is included therein.

(23) Partial deliveries received on account of purchase contracts for material, etc., should be verified by certificates from the contractors, both as to quantities and prices.

(24) Advance payments on account of purchase contracts for future deliveries should never appear in an inventory, but be shown on the balance sheet under a separate heading.

(25) Trade discounts should be deducted from inventory prices, but it is not customary to deduct cash discounts. However, this may be done when it is the trade practice so to do.

(26) While the inventory is being verified, the auditor should ascertain the aggregate sales for the last year. If the turnover has not been rapid, it may be due to a poor stock of goods. Some business men dislike to sell below cost and would rather accumulate a big stock of old goods than dispose of the old and unseasonable stock at a sacrifice. The usual outcome is that the stock becomes unwieldy and funds are lacking to purchase new goods. The inventory and the gross sales may, therefore, have a direct connection.

(27) It may be well to reiterate that interest, selling expenses, and administrative expenses form no part of the cost of production, and therefore should not be included in the inventory in any shape.

COST OF FIXED PROPERTY.

In preparing the leading schedules for the accounts grouped under this heading, such as real estate, buildings, plant, machinery, etc., the balances at the beginning of the period, the additions to or deductions from the accounts during the year, and the balances at the end of the period must be shown.

The total of the balances at the beginning of the period must agree with the cost of property figures given in the balance sheet at that date, and the balances at the end of the period with the amount shown in the balance sheet that is being audited. The charges entering into the additions must be verified in detail, and in this connection the following notes are of value:

(1) Authorizations for the expenditure made during the year should be examined, and where the costs of the additions have overrun the sums authorized, inquiries should be made in regard thereto. The authorizations should show the accounts to which the expenditures are chargeable, the amounts thereof, the ap-

provals of the comptroller and manager, and descriptions of the jobs. When the authorizations are not specific as to the work done, the actual additions should, if possible, be inspected.

(2) The auditor should satisfy himself before approving additions that they were made with the object of increasing the earning capacity of the plant, and that they are not of the nature of either renewals or improvements, and in this connection changes in the production and capacity of the plant should receive consideration.

(3) To verify the pay roll and store and supply charges to jobs, one or two pay roll distribution reports should be examined in detail, and also one or two storehouse reports. In cases where large purchases have been made from outside parties for capital construction work, the vouchers therefor should be examined and the usual precautions taken to see that they are properly approved for the receipt of materials, prices, etc.

(4) For purchases of real estate the title deeds should be examined, together with the vouchers, and it should be seen that the deeds have been properly recorded.

(5) While it may be considered permissible to make a charge for factory overhead cost to additions to property such as, e. g., time of superintendent and his clerical force employed on construction work, etc., it can not be deemed conservative business practice, inasmuch as the probabilities are that the overhead charges of a plant will not be decreased to any extent even though additions are not under way, and, therefore, the absorption of part of these charges when additions are in progress, has the effect of reducing the operating costs, as compared with months in which no construction work is under way.

(6) Construction work in progress at the end of the fiscal period should be shown in the balance sheet under the heading of fixed assets and not as part of the inventories. This is important to bear in mind because construction work is not an asset that can be quickly turned into money, while everything in the inventory is supposed to be realizable in cash within a reasonably short time.

(7) The auditor should inquire as to whether any installments are due on account of construction work in progress which is being carried on by outside parties; and if so, the liabilities for these installments should be included in the balance sheet, as they may have a direct bearing on the amount of available cash on hand.

(8) When a company uses leasehold properties the leases should be examined and notes made of the periods covered, so that it may be seen that improvements, etc., on such properties are written off over the periods covered by the leases.

(9) The auditor should satisfy himself that the reserves for depreciation of buildings, machinery, equipment, etc., are adequate to reflect the deterioration in the value of the fixed properties. If in his opinion the reserves shown on the balance sheet are insufficient, he should call attention to the matter in his certificate.

(10) Care should be taken to insure that property destroyed by fire or otherwise prematurely put out of service is correctly treated in the books. Any portion of the original charge for such property which is not recoverable through insurance, as salvage or otherwise, and has not been provided for by the depreciation scheme should be written off.

It is to be observed that the foregoing notes are to be applied only to cost of properties incurred during the period under audit. In addition, information may usefully be obtained on broader lines in regard to the composition of the real estate, building, and machinery accounts, and showing what principal property is represented thereby and how the accounts have been built up from year to year for a reasonable time past if not from the inception of the business. The information derived therefrom is valuable only in indicating the progressive policy of the concern, the extent to which it reinvests undivided surplus in its plant, etc. Beyond these facts the banker who is asked for ordinary discounts or short-term loans is not interested; he looks more to the quick assets for his security.

Optional.—When the loan is greater than the quick assets seem to justify the auditor should suggest a reliable verification of the cost of property prior to the period under audit. Such action may become necessary even to the extent of calling for an appraisement by disinterested outside experts.

DEFERRED CHARGES TO OPERATIONS.

Under this heading in the balance sheet are grouped such items as unexpired insurance, bond discounts applicable to a future period, prepaid royalties, experimental charges, etc. After the clerical accuracy of the deferred charges has been verified the auditor should satisfy himself that they are properly carried forward to future operations.

Wherever possible, documentary proof must be produced in support of the items carried forward, as, for example, with unexpired insurance the policies must be examined to verify the dates of expiration, the amounts covered, and the proportion of the premiums carried forward; with royalties the agreements must be examined; with experimental charges the vouchers and particulars of the work done must be looked into, etc.

The examination of the deferred charges will usually furnish the auditor with valuable information in regard to the accounts of the company, as, e. g.:

(1) The verification of experimental charges carried forward will generally furnish information as to the production and future policy of the company.

(2) Royalty vouchers will generally furnish a check on the production of mines.

(3) An examination of the insurance policies will show if the properties are mortgaged or covered by lien, and thus be an additional verification of the liability for mortgages on real estate, buildings, etc., shown in the balance sheet.

(4) The assets covered by insurance will be ascertained and if any omissions are discovered they should be mentioned.

NOTES AND BILLS PAYABLE.

Under this caption appear notes payable and drafts accepted. Schedules should be prepared under the subcaptions, and in columns headed:

- Date of making the notes or drafts.
- Due dates.
- Names of creditors.
- Collateral hypothecated.
- Additional indorsers.
- Interest accrued to date of audit.
- Notations of renewals (as information of this nature furnishes a guide to the state of the concern's credit).

The schedule must be compared with the notes-payable book and the total of the aggregate must agree with the balance of the ledger account of notes payable.

Statements must be obtained from all banks and brokers with whom the concern does business, showing all notes and drafts discounted or sold by them for the benefit of the concern. These statements when received must be checked against the loans shown on the concern's books and approved in the minutes of a company.

Inasmuch as a note is a negotiable instrument, care must be taken to see that all of those recorded as paid during the year under audit have been properly discharged, and the canceled notes are the best evidence of this fact.

Careful attention should be given to the collateral deposited for loans and statements as to the existence of such collateral should be obtained from the holders thereof. Such hypothecation of any of the concern's assets should be accounted for on the balance sheet.

When practicable the auditor might suggest to the client the advisability of drawing notes payable on blanks bound in a book, like a check book, with a stub for each blank, the blank and the stub to bear identical numbers. The officer, or officers, signing the notes could, in such case, initial the stub as a certificate to the amounts, payees, and terms of the notes issued. If this were done, the auditing of bills payable would be greatly facilitated.

ACCOUNTS PAYABLE.

A list of balances due on open accounts must be prepared and carefully checked with the ledger accounts, care being taken to see that no open account on the ledger has been omitted from the list. It should be ascertained that the balances represent specific and recent items only. When any account does not appear regular a statement from the creditor should be obtained. If there are many such accounts in dispute, and they amount to so large a sum as to affect appreciably the total of current liabilities, the general causes for the disputes should be inquired into and note made of the matter for the consideration of the banker.

In concerns with modern voucher systems accounts payable are easily verified, as all liabilities are then included in the books when incurred. Care should be taken, however, to see that all goods received on the last day of the fiscal period, as shown by the receiving records, and also all goods that were in transit and belonged to the concern on that date, are included as liabilities, and the corresponding assets included in the inventories. This test is necessary, as an increase in the accounts payable may have a very important bearing on the financial position of the concern if the cash on hand is small.

Monthly expenses outstanding can usually be ascertained by a comparison of the expenses of the last month of the fiscal period with previous months, and those of the year with the previous year. The voucher record should, however, be examined for the months subsequent to the close of the fiscal year, in case any expenses included therein are applicable to the fiscal period under audit.

When a first-class voucher system is not in operation the auditor must take additional precautions to satisfy himself that all liabilities are included in the accounts, among which may be mentioned:

(1) Payments made in the months subsequent to the date of the fiscal period as shown by the cashbook, which should be carefully scrutinized to see that none of them is applicable to the period under review.

(2) The file of bills not vouchered or entered on the books should be examined to see that none of them belongs to the period under audit.

(3) A careful perusal of the minutes of a company may further assist the auditor in determining liabilities.

When a company has large purchase contracts in force for future deliveries they should be examined, for if the contract prices are greater than market prices, it might be necessary to set up a reserve for this loss. Any debit balance due to advance payments on such contracts or to any other cause should be shown on the balance sheet under a separate heading.

If the business under audit is one where there is any possibility of goods having been received on consignments, and part or all of such goods having been sold without a liability therefor having been shown in the books, the auditor must use all due diligence to cover the point fully. This may readily happen, as consignment accounts are usually treated as memoranda only.

If inquiry develops the fact that goods have been received on consignment, all records in connection therewith should be called for. If the goods have all been sold, the consignor's account should show the full amount due, and if the debt is a current one, the amount will appear among accounts payable due to trade creditors. Where only part of the goods have been sold, the net proceeds due to the consignors should be shown on the balance sheet under the caption of "Accounts payable consignors."

As an additional precaution against the omission of liabilities a certificate should be obtained from the proper officer or member of the concern stating that all outstanding liabilities for purchases and expenses have been included in the accounts of the period under review or of former periods. In many cases it is also advisable to obtain a certificate from the president stating that all liabilities for legal claims, infringements of patents, claims for damages, bank loans, etc., have been included, as he may be the only executive officer of the company to know the extent of such obligations.

CONTINGENT LIABILITIES.

It is not enough that a balance sheet shows what must be paid; it should set forth with as much particularity as possible what may have to be paid. It is the duty of an auditor who makes a balance sheet audit to discover and report upon liabilities of every description, not only liquidated debts but possible debts. The following are the usual forms under which contingent liabilities will be found:

Indorsements.—Inquiry of the officers or partners of the concern should be made as to whether any indorsement of outside paper has been made and as to any security received to protect the concern. Such inquiry should be particularly strict if it is known that any of the officers or partners are interested in other enterprises. Similar action should be taken in the matter of—

GUARANTIES.

Unfulfilled contracts.—Contracts to accept the delivery of goods contracted for before the date of the balance sheet, may call for the payment of large sums of money within a short time. In the case of raw materials for a manufacturer, this might be a perfectly legitimate reason for seeking a temporary loan pending production and sale, but for a merchant whose balance sheet shows a large stock of goods on hand, it might indicate a real liability impending with assets of a doubtful character to offset it. In every audit, therefore, the auditor should call for copies of all orders for future delivery, and if such orders call for stock in excess of the current and reasonable prospective demand, mention should be made on the balance sheet and a report submitted, the details depending on the circumstances of each particular case.

Items other than those arising from the specific hypothecation of current assets to be listed under item 20 should appear as a footnote on the liability side of the balance sheet, the total amounts being stated for each subheading and such additional report made as will convey clear information to the banker.

87199—17——7

ACCRUED LIABILITIES.

Under this caption are grouped such items as interest, taxes, wages, etc., which have accrued to the end of the period under audit, but are not due and payable till a later date. The verification of such items can be accurately made from the books and records. Special attention may be directed to the following:

Interest payable.—Many of the liabilities which appear on a balance sheet carry interest. Such items as bonds and notes payable are obvious, but the auditor should also consider the possibility of accounts also bearing interest, as enough book accounts, when past due, do bear interest to warrant inquiry being made. Loan accounts of partners and officers of corporations almost invariably bear interest; also judgments, overdue taxes, and other liens.

Taxes.—The amount of accrued State and local taxes can be ascertained from an examination of the latest tax receipts; though in some cases, as the period for which the taxes are paid is not shown on the face of the receipt, it may be necessary to make inquiries of the proper taxing authorities as to the period covered.

Under the Federal income tax law a tax of 2 per cent is imposed upon the net profits of a corporation, which must be paid even if the corporation is dissolved before the end of the year during which the tax is imposed. As the tax is specifically based upon the net profits of a particular period, although payable some months thereafter, the tax accrues throughout the specified period, and if a net profit is disclosed upon the closing of the books at any date during the year, a reserve of 2 per cent must be shown on the balance sheet as an accrued tax.

Wages.—Where the date of the balance sheet does not coincide with the date to which the last pay roll of the period under audit has been calculated, the amount accrued to the date of the balance sheet must be ascertained and entered as a liability, unless such amount is trifling. It will suffice to take the proportion of a full week's pay roll (six days) without reference to possible daily variations.

Water rates, etc.—Where bills for such expenses as water, gas, etc., are not rendered monthly, the auditor must enter the accrual of the proper proportion since the last bill as a liability.

Traveling expenses and commissions.—It is important to note whether the accounts of all traveling salesmen have been received and entered before the books are closed. The auditor should secure a list, and if any report was not so entered, provision should be made for it unless the amount is likely to be trifling.

Ample provision should be made for all commissions eventually payable on sales which have been billed to customers. As commissions are frequently not payable to salesmen until the sales have been collected from the customers, accrued commissions are often omitted from the books. As they must, however, be paid out of the proceeds of the sales on which the full profit has already been taken into the accounts, they should be set up as an accrued liability.

Legal expense.—All concerns have more or less litigation. Before the books are closed the lawyers should be requested to send in a bill to date. If one is not found, the auditor should ascertain the amount, if any, probably due and set it up as an accrued liability.

Damages.—If the concern is insured against liability for damages to employees or the public a proportion of the premiums paid in advance for the unexpired time covered by the insurance will appear in "Deferred charges." But there may be claims or suits for other damages not covered by insurance and where the auditor finds any evidence which leads him to suspect there may be liability of this nature he should insist upon being informed of all the facts. He can then form an opinion as to the amount that should be set up as an accrued liability, or if the outcome is uncertain as a reserve against possible loss.

BONDED AND MORTGAGE DEBT.

A copy of the mortgages must be examined and the terms thereof noted. The amount of bonds registered, issued, and in treasury, rate of interest, and duration of the bonds, should be shown on the face of the balance sheet. A certificate should be obtained from the trust company certifying the amount of bonds outstanding, etc., as verification of the liability stated in the balance sheet. The interest on the bonds outstanding, shown in the balance sheet, should be calculated and reconciled with the interest on bonds, as shown in the profit and loss account.

Sinking-fund provisions in mortgages should be carefully noted and care should be taken to see that they are provided for in the accounts of the company, and any default noted in the balance sheet.

Bonds redeemed during the period or previously should be examined to see that they have been properly canceled, or, if they have been destroyed, a cremation certificate should be obtained from the trustees.

Mortgages sometimes stipulate that the current assets must be maintained at a certain amount in excess of the current liabilities, and the auditor must give due consideration to such matters and any other stipulation in regard to the accounts, or any audit thereof, that may be referred to in the trust deed, and see that they have been complied with.

Mortgages.—As a mortgage derives its chief value from the fact that upon registry it becomes a lien, the auditor should verify the existence of such an obligation by inspecting the public records, not only with reference to such as may be found on the company's books but also any that may still appear on the public records as unsatisfied. If the auditor lacks the necessary facilities for making a search it will be worth his while to arrange with a local lawyer or title company whereby, for a small fee, any mortgages or judgments entered against the concern under audit will be reported to him.

In any event the auditor must verify the amount as recorded in the account, the rate, the due date, and the property covered thereby.

It should be borne in mind that a payment on account of a mortgage must be recorded or the entire amount will remain as an encumbrance on the property. Therefore, if payments on account appear, the auditor should ascertain if they have been so recorded; if not the fact should be noted on the balance sheet.

Judgments.—The same procedure should be followed in verifying judgments as in verifying mortgages. As many business men consider that the entry of an invoice is an admission of liability, and will not permit the entry of a claim which they propose to fight, it is sometimes difficult for an auditor to find any evidence of such liens. Even admitting the fact they may still refuse to allow the judgment to be entered on the books as a liability in which case it is proper for the auditor to include it as a footnote on the balance sheet as a contingent liability.

Unpaid interest.—When considering the matter of liens it should be noted that interest unpaid is a lien as well as unpaid principal, so where the auditor finds evidence of interest on liens being in default, he should add it to the principal in each case.

CAPITAL STOCK.

As a rule trust companies are the transfer agents for the capital stock of large corporations and for verification purposes it is sufficient to obtain letters from them certifying to the capital stock outstanding.

Where companies issue their own stock, the stock registers and stock certificate books should be examined and compared with the lists of outstanding stockholders.

On the balance sheet each class, if more than one, of stock must be stated, giving amount authorized, issued, and in treasury, if any. In the case of companies with cumulative preferred stocks outstanding a note must be made in the balance sheet of the dividends accrued but not yet declared.

If stock has been sold on the instalment plan, the auditor should ascertain that the calls have been promptly met and whether any are in arrears. If special terms have been extended to any stockholder, approval of the board of directors is necessary and the minutes should be examined accordingly.

If any stock has been sold during the period under audit, the auditor should verify the proceeds of the sales.

SURPLUS.

The auditor should give consideration to the surplus at the beginning of the period. This item represents the accumulated profits prior to the beginning of the fiscal period under review, and should be compared with the surplus shown on the balance sheet of the previous year, and with the ledger account, to see that it corresponds, and if it does not, a reconciliation statement should be prepared giving full details of the differences.

PROFIT AND LOSS.

The auditor should obtain the profit and loss statement for three years, at least, including the period under audit, and after verifying them by comparison with the ledger account, prepare a statement in comparative form. This comparison will furnish valuable information to the banker as to the past progress of the concern under audit.

A satisfactory form of profit and loss account is annexed hereto, but any other form giving substantially similar information is acceptable.

While it would be impracticable in an ordinary balance sheet audit, and, at the same time, somewhat useless to make a detailed check of all the transactions entering into the composition of the profit and loss account, there are certain main principles to be kept in view which are briefly outlined below:

SALES.

Whenever it is possible, the quantities sold should be reconciled with the inventory on hand at the beginning of the period, plus the production, or purchases, during the period, less the inventory on hand at end of the period.

Where a good cost and accounting system is in force, the sales records will very probably be in good shape, but nevertheless, the auditor should satisfy himself from the shipping records that the sales books were closed on the last day of the fiscal year, and that no goods shipped after that date are included in the transactions.

When an audit is being made for the first time, the auditor should satisfy himself that the sales at the beginning of the period were recorded in accordance with the dates of shipments. Such verifications can be made conveniently by a direct comparison of the shipping memoranda with the invoices billed.

Allowances to customers for trade discounts, outward freights, reductions in prices, etc., should be deducted from the sales in the profit and loss account, as the amount of net sales is the only figure of interest to the bankers.

The future bookings at the close of the fiscal year should be looked into, as a comparison of orders on hand with corresponding periods of other years furnishes the bankers with an idea of the concern's business outlook.

COST OF SALES.

The inventory at the beginning of the period, plus purchases during the period, less inventory at the end of period, gives the cost of sales. In a manufacturing concern the factory cost of production takes the place of purchases. These items will have already been verified in auditing the balance sheet, but nevertheless care should be taken to see that this heading has not been made a dumping ground for charges which would be more properly embraced under the heading of special charges. The composition of the items entering into the cost of sales should be traced in totals into the cost ledgers or accounts.

GROSS PROFIT ON SALES.

This is obtained by deducting the cost of sales from the net sales. The ratio of gross profits to net sales should be calculated and compared.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.

Under these general headings should be set down the expenses itemized to correspond with the titles of the ledger accounts kept in each division. In checking the totals of each account with the statement for the period under audit, special attention to credits in these accounts should be given to see that none have been made for the sale of capital assets and for other items which should not appear in expense accounts. The percentages of the totals of each division and of the aggregate total to net sales should be calculated for each year for comparison.

NET PROFIT ON SALES.

This is obtained by deducting the aggregate total of the selling, general, and administrative expenses from the gross profit on sales, and shows the net earnings of the concern on its real business. Ratio to sales should be calculated for each year for comparison.

OTHER INCOME.

Under this heading is embraced any income that may be derived from sources outside of sales, such as income from investments, interest, discounts, etc. Schedules should be prepared of each item, and the auditor should satisfy himself of their accuracy and of the propriety of including them as income.

DEDUCTIONS FROM INCOME.

Under this heading are grouped such items as interest on bonded debt, interest on notes payable, etc. The same procedure of verification as in the case of other income should be followed.

NET INCOME—PROFIT AND LOSS.

Adding other income to gross income and deducting deductions from income gives the net income or profit and loss for the period, which is the amount that should be carried to the surplus account.

SURPLUS ADDITIONS AND DEDUCTIONS.

Items of unusual or extraordinary profit which do not belong strictly to the period under audit, or can not be said to be the legitimate result of the ordinary transactions of the concern, should be entered here and verified with the surplus account. Similarly, deductions should be treated. Also dividends declared should be entered in the surplus account and as an item under this caption, inasmuch as it is the usual custom to declare dividends "from net earnings and surplus." After adding special credits to and deducting special charges from the net income we have the total profit and loss for the whole period from all sources which, added to the surplus balance at the beginning of the period, gives us the surplus at the end of the period, which should agree with the surplus as stated on the balance sheet.

GENERAL.

These instructions cover audits of small or medium-sized concerns. In large concerns having, for instance, tens of thousands of accounts or notes receivable, the detail procedure suggested would be impracticable, and internal check should make it unnecessary. In such cases only tests can be made, but the auditor must always be prepared to justify his departure from a complete program by showing that the purposes sought to be accomplished thereby have been adequately effected by his work.

Any extensive clerical work, such as preparations of lists of notes receivable, etc., should be performed by the client's staff, so as to avoid unnecessary employment of professional staff in merely clerical work and consequent undue expense.

FORM OF CERTIFICATE.

The balance sheet and certificate should be connected with the accounts in such a way as to ensure that they shall be used only conjointly. This rule applies also to any report or memorandum containing any reservations as to the auditor's responsibility; any qualification as to the accounts, or any reference to facts materially affecting the financial position of the concern.

The certificate should be as short and concise as possible, consistent with a correct statement of the facts, and if qualifications are necessary the auditor must state them in a clear and concise manner.

If the auditor is satisfied that his audit has been complete and conforms to the general instructions of the Federal Reserve Board, and that the balance sheet and profit and loss statement are correct, or that any minor qualifications are fully covered by the footnotes on the balance sheet, the following form is proper:

I have audited the accounts of Blank & Co. for the period from .... to ....and

I certify that the above balance sheet and statement of profit and loss have been made in accordance with the plan suggested and advised by the Federal Reserve Board and in my opinion set forth the financial condition of the firm at .... and the results of its operations for the period.

(Signed) A. B. C.

[Form for profit and loss account.]

Comparative statement of profit and loss for three years ending .... 19 .

	Year ending—		
	19—	19—	19—
Gross sales	$........	$........	$........
Less outward freight, allowances, and returns	....	....	....
Net sales	....	....	....
Inventory beginning of year	....	....	....
Purchases, net	....	....	....
	....	....	....
Less inventory end of year	....	....	....
Cost of sales	....	....	....
Gross profit on sales	....	....	....
Selling expenses (itemized to correspond with ledger accounts kept)	....	....	....
Total selling expense	....	....	....
General expenses (itemized to correspond with ledger accounts kept)	....	....	....
Total general expense	....	....	....
Administrative expenses (itemized to correspond with ledger accounts kept)	....	....	....
Total administrative expense	....	....	....
Total expenses	....	....	....
Net profit on sales	....	....	....
Other income:			
Income from investments	....	....	....
Interest on notes receivable, etc	....	....	....
Gross income	....	....	....
Deductions from income:			
Interest on bonded debt	....	....	....
Interest on notes payable	....	....	....
Total deductions	....	....	....
Net income—profit and loss	....	....	....
Add special credits to profit and loss	....	....	....
Deduct special charges to profit and loss	....	....	....
Profit and loss for period	....	....	....
Surplus beginning of period	....	....	....
	....	....	....
Dividends paid	....	....	....
	....	....	....
Surplus ending of period	....	....	....
	....	....	....

[Form of balance sheet.]

ASSETS.

Cash:		
1a. Cash on hand—currency and coin		
1b. Cash in bank		
Notes and accounts receivable:		
3. Notes receivable of customers on hand (not past due)		
5. Notes receivable discounted or sold with indorsement or guaranty		
7. Accounts receivable, customers (not past due)		
9. Notes receivable, customers, past due (cash value, $......)		
11. Accounts receivable, customers, past due (cash value, $......)		
Less:		
13. Provisions for bad debts		
15. Provisions for discounts, freights, allowances, etc.		
Inventories:		
17. Raw material on hand		
19. Goods in process		
21. Uncompleted contracts		
Less payments on account thereof		
23. Finished goods on hand		
Other quick assets (describe fully):		
Total quick assets (excluding all investments)		
Securities:		
25. Securities readily marketable and salable without impairing the business		
27. Notes given by officers, stockholders, or employees		
29. Accounts due from officers, stockholders, or employees		
Total current assets		
Fixed assets:		
31. Land used for plant		
33. Buildings used for plant		
35. Machinery		
37. Tools and plant equipment		
39. Patterns and drawings		
41. Office furniture and fixtures		
43. Other fixed assets, if any (describe fully).		
Less:		
45. Reserves for depreciation		
Total fixed assets		
Deferred charges:		
47. Prepaid expenses, interest, insurance, taxes, etc.		
Other assets (49)		
Total assets		

LIABILITIES.

Bills, notes, and accounts payable:		
Unsecured bills and notes—		
2. Acceptances made for merchandise or raw material purchased		
4. Notes given for merchandise or raw material purchased		
6. Notes given to banks for money borrowed		
8. Notes sold through brokers		
10. Notes given for machinery, additions to plant, etc		
12. Notes due to stockholders, officers, or employees		
Unsecured accounts—		
14. Accounts payable for purchases (not yet due)		
16. Accounts payable for purchases (past due)		
18. Accounts payable to stockholders, officers, or employees		
Secured liabilities—		
20a. Notes receivable discounted or sold with indorsement or guaranty (contra)		
20b. Customers' accounts discounted or assigned (contra)		
20c. Obligations secured by liens on inventories		
20d. Obligations secured by securities deposited as collateral		
22. Accrued liabilities (interest, taxes, wages, etc		
Other current liabilities (describe fully):		
Total current liabilities		
Fixed liabilities:		
24. Mortgage on plant (due date ....)		
26. Mortgage on other real estate (due date ....)		
28. Chattel mortgage on machinery or equipment (due date ....)		
30. Bonded debt (due date ....)		
32. Other fixed liabilities (describe fully):		
Total liabilities		
Net worth:		
34. If a corporation—		
(a) Preferred stock (less stock in treasury)		
(b) Common stock (less stock in treasury)		
(c) Surplus and undivided profits		
Less—		
(d) Book value of good will		
(e) Deficit		
36. If an individual or partnership—		
(a) Capital		
(b) Undistributed profits or deficit		
Total		

INFORMAL RULINGS OF THE BOARD.

Below are reproduced letters sent out from time to time over the signatures of the officers or members of the Federal Reserve Board which contain information believed to be of general interest to Federal Reserve Banks and member banks of the system:

Reserve Balances.

(To an individual.)

I return herewith letter from ———, cashier of the ——— Bank of ———.

This letter has been referred to me and I have asked that the statements made therein be analyzed, and inclose herewith copy of such analysis.

The case of this bank seems to be an exceptional one, but it does not seem that he has given sufficient consideration to the provision in the bill which was recently reported to the Senate from committee, and which entirely relieves national banks from the necessity of carrying gold or lawful money or any specific form of currency in their vaults. Having been a banker myself, I can state from experience that exemption from this requirement would be a great relief to banks in the interior, particularly to those having large pay roll requirements. I think it will be admitted, entirely apart from any legal requirements as to vault cash, that banks located in industrial centers which have large pay rolls to take care of, must necessarily carry a larger proportion of vault cash than those located in towns where there are no large manufacturing establishments. It is usually the rule, however, that banks located in industrial towns have exceptional opportunities for building up their savings departments. Your bill provided that the reserve on savings was to be only 3 per cent, which is the figure that Mr. ——— himself advocates.

MARCH 9, 1917.

(Memorandum.)

1. Mr. ———'s request is that the change in reserve requirements, if any, be such as to call for a reserve of not more than 5 per cent on demand deposits and 3 per cent on time deposits for country banks. This evidently relates only to the requirements for balance to be carried with reserve banks and has no reference to the question of till money. The amendments reported by the Banking and Currency Committee of the Senate would have provided for reserves of 6 per cent of demand deposits and 3 per cent of time deposits in the reserve bank. As Mr. ——— argues that the country bank always has to keep more than 4 per cent or even 5 per cent on hand in till money, his argument evidently, as already stated, relates merely to the reserve bank balance.

2. As is shown in the table printed on page 110 of the Federal Reserve Bulletin for February, to which Mr. ——— makes reference in his letter (p. 5), it is shown that the total amount of reserve balance required under the amendments to be in a Federal Reserve Bank on the present basis is $574,000,000, while under the new plan it would be $901,000,000. This, however, is on the basis of a supposed till money requirement of 5 per cent additional. Bearing this in mind, it is seen that the total amount of funds required under the new plan, as stated on the line next to the bottom in the table referred to, is $1,332,000,000, while on the present basis it is $1,369,000,000, a reduction, therefore, of some $37,000,000. In the aggregate, therefore, the new plan would make a reduction in total reserves instead of an increase, assuming that 5 per cent of till had to be carried in vault, and Mr. ———'s argument is based throughout on the assumption that much more than this has to be carried. Indeed, he shows that on September 2, 1916, the country banks actually did carry 5.37 per cent in vault. If Mr. ——— refers entirely to the gold likely to be put into the Federal Reserve Banks by the new amendments, as he seems to do when he calls attention to the estimate of $200,000,000 given in the Senate report as likely to be added to the holdings of Reserve Banks, and contrasts that with the $327,000,000 apparently to be added if the figures of the table referred to are correct, it may be noted that these figures vary considerably from time to time accordingly as deposits vary, and that the figures given in the table in the Federal Reserve Bulletin relate entirely to reserve money, whereas the figures given in the Senate report relate to gold. There is no such discrepancy there as appears to be suggested.

3. All of the first part of Mr. ———'s argument was designed to show that at the present time country banks do actually carry in their vaults more than 5 per cent of till money, so that computations regarding the effect of the new amendments based upon the assumption that 5 per cent till money is sufficient fall short of the fact, and hence point to an increase

in reserve rather than a reduction as applies to country banks. Accepting Mr. ———'s figures as correct, we may yet decline to accept his average figures for central reserve city banks, reserve city banks, and country banks, because the two former classes have no direct relation to the point he is arguing, which is the condition of the country banks under the proposed amendments. What he does show is that within the past two years the vault cash carried by country banks has varied from 5.37 per cent to 5.75 per cent. What he neglects is that under the proposed plan the requirements of the bill would permit him to use national bank notes and Federal Reserve notes in place of reserve money which he has been carrying heretofore. He could, from a study of his requirements, ascertain the dates on which funds would be needed, and could have notes forwarded to him from his Federal Reserve Bank. In other words, the proposed plan would enable him to carry his vault-cash reserve very much more economically than at present. The same, of course, is true of the other classes of banks of the country.

4. It should, however, be admitted that national banks located in places where there are heavy pay-roll requirements need to keep constantly available very much more than 4 per cent or 5 per cent of vault cash, and that in the case of some such banks the requirements of the proposed amendments are likely to be onerous. This would be true of almost any requirement that could be framed. It does not mean that the banks as a whole are unfavorably affected, but merely that in sporadic cases the banks by reason of their special necessities may be subjected to hardship.

March 8, 1917.

Limitations Imposed by Section 13 of Act.

(To a Federal Reserve Bank.)

I wish to acknowledge receipt of your letter of March 12, involving the construction of that part of section 13, which reads as follows:

"No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation, to an amount equal at any time in the aggregate to more than 10 per cent of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security, etc."

This clause places a 10 per cent limit upon the amount of acceptances which any member bank might make for any one person, company, firm, or corporation. That limit, however, does not apply if "the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance." I understand that your construction of this provision is the current one; that is, that if documents which were attached at the time of the acceptance are surrendered and no other actual security growing out of the same transaction is substituted, then the 10 per cent limit will apply. The accepting bank must remain secured in the manner prescribed during the life of the acceptance in order to be exempt from the 10 per cent limit.

The only doubtful question is as to what constitutes "some other actual security growing out of the same transaction as the acceptance." Shipping documents accompanying a bill of exchange are ordinarily surrendered upon acceptance, and unless the accepting bank is given some other actual security in their place the 10 per cent limit would apply as soon as the original documents are surrendered. If a warehouse receipt for the goods is given upon the surrender of the shipping documents, the bank would undoubtedly be secured in the manner contemplated by the act, but if an ordinary trust receipt which enables the purchaser to obtain the goods for his own use is substituted for those shipping documents the Board understands that the 10 per cent limit would apply, inasmuch as such a trust receipt would not constitute an "actual security" within the meaning of the section quoted. The 10 per cent limit, however, should not apply in any case where the acceptor is secured by a trust receipt whose terms preclude the possibility of the goods coming into the hands of or under the control of the purchaser, as where the goods are held by some person, firm, or corporation, independent of the purchaser.

There is no doubt, therefore, that in any case where shipping documents or warehouse receipts are held by the acceptor the 10 per cent limit does not apply; so also in any case where the acceptor holds a trust receipt which does not enable the borrower to obtain the goods for his own use, the 10 per cent limit does not apply; but in any case where the bank holds merely the ordinary trust receipt which gives it only a lien on the goods in the hands of the purchaser or on their proceeds, the 10 per cent limit should apply.

As you intimated in your letter, this question of limiting the right of a member bank to accept is separate and distinct from the limit imposed by section 5200 discussed in the opinion of counsel on page 195 of the March Bulletin. That opinion holds merely that a member bank may discount trade acceptances without reference to the 10 per cent limit, if they are drawn against actually existing values, but it should not be construed to imply that a member bank might accept, without limit, domestic drafts with shipping documents attached, if such shipping documents are to be surrendered without the substitution of some other actual security growing out of the same transaction.

MARCH 13, 1917.

(To an individual.)

I beg to make the following reply to your inquiries made to-day over the telephone:

A bank having a capital and surplus of $288,000 may, under the National Bank Act, lend to a customer on his own obligation a sum not to exceed $28,800 (10 per cent of capital and surplus). The bank may, however, in addition to such loan, discount for the same customer (although he may have a direct line of credit in bank up to the 10 per cent limit), bills of exchange drawn against actually existing value, or commercial or business paper actually owned by him. The bank may, therefore, legally discount for the customer bills of exchange drawn by him for the purchase price of commodities sold, and accepted by the drawee; or it may discount for the customer the note of the purchaser if actually owned by him, without reference to the 10 per cent limitations prescribed by section 5200.

A member bank acquiring such acceptances or notes may rediscount them with its Federal Reserve Bank. There is no limitation upon the acceptances, but the notes would be subject to the limitations prescribed by section 13 of the Federal Reserve Act; and the Federal Reserve Bank can not discount paper bearing the signature of the same borrower in an amount greater than 10 per cent of the capital and surplus of the member bank offering such paper.

Bills of exchange drawn against actually existing value and accepted by the drawee within a reasonable time after the shipment of the goods, may be rediscounted with the Federal Reserve Bank without reference to the limitations imposed by section 13 of the Federal Reserve Act. I am informed by counsel for the Comptroller of the Currency that under the practice followed by his office bills or notes which are renewed at maturity are not to be treated as bills drawn against actually existing value or as commercial or business paper owned by the person negotiating them, and that renewals are therefore subject to the limitations of section 5200.

MARCH 21, 1917.

Trade Acceptances.

(To a Federal Reserve Bank.)

In response to yours of the 5th instant, you are advised that in accordance with the opinion of counsel, approved by the Board, only those trade acceptances which are drawn at the time of, or within a reasonable time after, the shipment or delivery of goods sold can be treated as bills of exchange drawn against actually existing value.

A bill drawn for a balance due on open account, of long standing, which is accepted by the debtor, might constitute a trade acceptance, but in order for it to be excepted from the limitations imposed by section 13 of the Federal Reserve Act as a bill drawn against actually existing value it must have been drawn contemporaneously with, or within such a reasonable time after, the shipment of the goods as to justify the assumption that the goods are in existence in the hands of the drawee in their original form or in the form of proceeds of sale.

As evidence of this fact Federal Reserve Banks might reasonably require such trade acceptances as are offered as "bills of exchange drawn against actually existing values" to show the date of invoice, so that it may be determined whether or not the account is one of long standing.

MARCH 12, 1917.

Stock Subscriptions.

(To a Federal Reserve Bank.)

Your letter of March 5 has been received and considered. You submit the following two questions for the Board's consideration:

(1) Whether the Board has any objection to payments on account of stock subscription and reserve deposits being received by your bank from new member banks pending receipt of advice of the Board's approval of the applications.

(2) Whether a member bank should carry its required reserve with the Federal Reserve Bank from the date its first deposits are received by the Federal Reserve Bank even though its application for stock has not been filed with the Federal Reserve Bank or approved by the Federal Reserve Board.

In reply you are advised that the Board does not feel that it would be consistent with its regulations or with the more conservative business principles to treat applicants for membership in the Federal Reserve System as members until their applications have been formally approved by the Board. Should you receive deposits or payment of stock subscription from an applicant and the Board should subsequently decline to approve the application, some complications might result.

The Board will be glad in all cases to expedite action on all applications as far as possible, but, as stated, does not feel that any payments should be accepted nor deposits received from applicants until the applications have been approved by the Board.

March 7, 1917.

War Department Obligations.

(To Federal Reserve Banks.)

The Board has been advised by the Secretary of War that, owing to the failure of Congress at its last session to pass the general deficiency appropriation bill, no funds are available for the payment of many obligations which have been contracted by the War Department, as evidenced by official "Public vouchers for purchases and services other than personal." No doubt is entertained that Congress at the approaching extra session will promptly enact this appropriation bill, so that the necessary money will be available. In the meanwhile it is earnestly desired that holders of these vouchers be enabled to realize upon them at as small a cost as possible, and you are requested to send your member banks a copy of this letter. The Board understands from the War Department that each voucher will have a rider attached as follows:

"This account is not payable at this date by reason of the fact that no funds are now available owing to the failure of Congress to pass the general deficiency measure. This is the original voucher, and payment will be made when funds are available only on presentation thereof. No other voucher will be issued covering this transaction except on conclusive proof of the loss of the original."

Your member banks in giving accommodation to holders of Government claims as evidenced by these vouchers, could take the note of the firm or contractor with the voucher attached as collateral security. The Board holds that such notes will be eligible for rediscount by Federal Reserve Banks at the 15 day rate, or at the regular commercial paper rates according to maturities.

March 21, 1917.

(To Federal Reserve Agents.)

The Board's attention has been called to the fact that office letter dated March 21, 1917, may have been construed to mean that member banks may purchase outright Government vouchers assigned by contractors or others having claims represented by such vouchers without taking the note of the claimant. It was not the intention of the Board, however, to suggest such a course. Under section 3477, Revised Statutes, these claims are not assignable and in the ordinary sense would not constitute bankable security. In view of all the circumstances, however, it was suggested that notes with these vouchers attached might be rediscounted by member banks with a Federal Reserve Bank. The notes would be eligible without security, and, notwithstanding section 3477, it was the view of the Board that where contractors have amounts due them from the Government which will be paid as soon as the proper appropriations have been made by Congress, banks might reasonably extend accommodations to such contractors.

The Government officers might refuse to recognize the assignment of a claim—

"But if those officers chose to make payment to the person whom the claimant, by formal power of attorney, has accredited to them as authorized to receive payment, the claimant can not be permitted to make his own disregard of the statute the basis for impeaching the settlement had with his agent." (Bailey *v.* United States, 109 U. S.)

In other words, section 3477 was passed in order to protect the Government and to make it unnecessary for disbursing officers to determine the merits of disputed claims. Under the present circumstances it may reasonably be anticipated that the Government officers will seek to protect the banks which extend these accommodations to those having contracts with the Government. It is expected that the necessary appropriation will be made within a short time and that these loans can and will be adjusted.

March 31, 1917.

LAW DEPARTMENT.

The following opinions of counsel have been authorized for publication by the Board since the last edition of the Bulletin:

Place of Payment of Acceptances.

An acceptance to pay at a particular place different from the residence of the acceptor is a general acceptance, unless it expressly states that the bill is to be paid there and not elsewhere, and does not render the bill nonnegotiable.

February 27, 1917.

Sir: The question has been raised whether an acceptance to pay at a place different from the residence of the acceptor is a qualified acceptance and whether the bill is thereby rendered nonnegotiable.

The broad rule is that an acceptance must assent *without qualification* to the order of the drawer, but section 140 of the Negotiable Instruments Law provides that—

"An acceptance to pay at a particular place is a general acceptance, unless it expressly states that the bill is to be paid there only and not elsewhere."

Under this section it would seem that the mere fact that an acceptance is made payable at a place other than the residence of the acceptor is not such a qualification of the order of the drawer as to render the acceptance nonnegotiable unless the acceptance is in such form as to make the bill payable only at a place other than the place indicated by the drawer.

It is, of course, clear that the drawer of a bill may direct that the bill is to be paid at a specified place, other than that of the residence of the drawee, and an acceptance to pay at that other place is a valid general acceptance. In other words, A, in Boston, may draw on B, in Springfield, directing B to pay the bill in New York and an acceptance by B, in Springfield, to pay at any place in New York would be a valid acceptance in compliance with the terms of the bill as originally drawn. So also there is no doubt that A, in Boston, may draw on B, in Springfield, directing B to pay the bill either in Springfield or in New York and an acceptance by B, in Springfield, to pay either in Springfield or New York would be a valid acceptance in compliance with the terms of the original bill.

A more doubtful case would be that of a bill drawn by A, in Boston, on B, in Springfield, with no particular place of payment designated. According to the rule in England prior to the passage of an act similar to section 140 of Negotiable Instruments Law, which was followed by some courts in this country, the implication in such case was that A intended the bill to be paid at the place of drawee—that is, at Springfield—and any acceptance by B to pay the bill at any place outside of Springfield was considered a qualified acceptance such as would release the drawer and prior indorsers.

The decisions of the American courts which adopted the English rule were rendered prior to the passage of the Negotiable Instruments Law and, therefore, have no application to the present case unless it can be said that it was because of these decisions that it became necessary to incorporate section 140 in this law just as it became necessary, because of the rule adopted by the courts in England to pass a statute similar in terms.

Section 140 of the Negotiable Instruments Law provides, however, that "an acceptance to pay at a particular place is a general acceptance unless it *expressly states that the bill is to be paid there only and not elsewhere.*" Consequently it is the opinion of this office that an acceptance by B, in Springfield, to pay the bill in New York is not a qualified acceptance unless it *expressly* states that the bill is to be paid in New York only and not elsewhere.

It has been contended that the drawer and all indorsers "would very likely be discharged" in the case of an acceptance to pay at a place other than the residence of the drawee where the drawer did not specify any particular place of payment. The force of the provisions of section 140 of the Negotiable Instruments Law was recognized, but it was suggested that sections 124 and 125 apparently negatived those provisions.

It is to be observed that sections 124 and 125 relate to the "alteration" of a negotiable instrument, specifying that any material alteration without the assent of all parties avoids the instrument. Section 125 specifically provides that any alteration which changes the time or place of payment or which adds a place of payment, where no place of payment is specified, is a material alteration.

These sections manifestly refer to an unauthorized alteration of, or physical change in, the terms of an executed instrument by the holder or some one else, e. g., where the holder changes the date or amount after the instrument has been executed. In the case under consideration the acceptance of the drawee constitutes an acknowledgment on his part that the drawer had authority to draw the draft or bill, and the terms of the acceptance are the terms under which the acceptor agrees to pay such draft or bill at maturity. It is, therefore, a part of the execution of the instrument in question and not an alteration of an executed instrument.

The acceptor may render a bill or draft nonnegotiable as an acceptance if he imposes certain conditions or qualifications, but such an acceptance is made non-negotiable by the failure of the drawee to assent without qualification to the order of the drawer and not because of any alteration of a completed instrument. When the instrument is complete as an acceptance—that is to say when it has been accepted by the drawee—it may be either a qualified or a general acceptance, and its negotiability will depend upon whether it is qualified or general. A qualification imposed by the drawee stipulating the terms under which he agrees to pay the order, should not, however, be confused with an alteration either of a bill or of an acceptance by an unauthorized person.

In the opinion of this office, sections 124 and 125 do not, therefore, have any application to the form of acceptance executed and do not nullify section 140. In the present case, so long as the acceptor does not stipulate that the bill will be paid only at a particular place not designated by the drawer and not elsewhere it is not a qualified acceptance; is not an alteration within the meaning of section 125, and is therefore negotiable.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. W. P. G. HARDING,
Governor Federal Reserve Board.

Holding Over of Federal Reserve Bank Directors.

A director of a Federal Reserve Bank has no authority to continue to serve as such after the expiration of his term even though his successor has not been elected.

MARCH 23, 1917.

SIR: This office has been asked for an opinion on the question of whether a director of a Federal Reserve Bank may continue to serve after the expiration of his term of office until his successor shall have been elected and qualified.

The general rule established by the courts appears to be that when a term of office has been definitely fixed or limited by law, the official authority of the person appointed for such term ceases upon the expiration thereof. The authorities, however, are not agreed on the right of an officer to hold over pending the qualification of his successor. There are two distinct lines of cases on this point. In some jurisdictions it has been held that where the appropriate authorities have failed to appoint a successor, an officer can not hold over unless the law expressly authorizes him to do so. (23 Am. & Eng. Enc. of Law, 2d ed., 412.) In many other jurisdictions, however, it has been held that an officer may hold over until his successor is appointed and qualified, unless some restrictive words are used expressly or impliedly prohibiting such holding over.

Applying these alternative doctrines to the question under consideration, the situation is as follows:

First, there is no express provision of law authorizing a director of a Federal Reserve Bank to hold over until his successor has been elected and qualified. Under the decisions first referred to, therefore, which hold that an officer can not hold over in the absence of express authority, it is clear that a Federal Reserve Bank director could not act as such after the expiration of his term of office.

Second, the courts generally agree that where an officer is elected for one year only he can not hold over beyond the end of that year. Such a provision is necessarily construed to prohibit the right to hold over. (Reg. *v.* Durham, 10 Mod., 147; State *v.* Perkins, 139 Mo., 106.)

The Federal Reserve Act provides that the directors of classes A, B, and C, respectively, shall, at the first meeting of the board of directors, designate one of the members of each class—

"whose term of office shall expire in one year from the 1st of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal Reserve Bank chosen as hereinbefore provided shall hold office for a term of three years."

It will be observed that in fixing the terms of office of the directors first selected or appointed, Congress specifically provides that the term of office of such directors shall expire at a fixed period—that is to say, one, two, or three years from the 1st of January nearest to the date of meeting at which the terms are allotted. In the opinion of this office, this language impliedly prohibits any of the directors first elected or selected from holding over after the date on which their terms definitely expire.

While the language used in fixing the term of office of those subsequently elected is more general, the act providing that such directors "shall hold office for a term of three years," it is reasonable to assume that Congress did not intend to make any distinction between the directors elected when the Federal Reserve Banks were first opened and those subsequently elected, and accordingly the implied prohibition against the first directors holding over should apply with equal force to those elected after that time.

In this view, whether the rule adopted by some courts that an officer may not hold over unless expressly authorized to do so, or whether the more liberal view is adopted that officers may hold over unless the statute fixing the term of office prohibits it, it would seem that a Federal Reserve Bank director will have no authority to continue to serve after the expiration of his term and until the election of a successor.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. W. P. G. HARDING,
Governor Federal Reserve Board.

Drafts Payable On or Before Certain Date.

Drafts payable "ninety days from date or before on five days after demand (i. e., on five days' notice) by the holder hereof" are negotiable and eligible for discount with a Federal Reserve Bank.

FEBRUARY 23, 1917.

SIR: The question has been raised whether a draft is negotiable and eligible for discount with a Federal Reserve Bank which is payable "Ninety days from date or before on five days after demand by the holder hereof."

This language is understood to mean that the draft is payable "ninety days from date or before on five days' notice by the holder."

Section 4 of the Negotiable Instruments Law provides that:

"An instrument is payable at a determinable future time within the meaning of this act which is expressed to be payable. * * *

"(2) On or before a fixed or determinable future time specified therein," etc.

The effect of the language under consideration seems clearly to make the draft payable 90 days from date or at some date prior thereto, provided the holder has given five days notice to the acceptor. In this view it would not be nonnegotiable.

To eliminate any possible ambiguity it is suggested that the wording be changed so as to substitute the word "notice" for the words "after demand."

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. P. M. WARBURG,
Vice Governor Federal Reserve Board.

Usurious Charges by National Banks.

Where a national bank, in addition to charging interest at the highest legal rate, requires a borrower to give an additional note, accept a certificate of deposit for a like amount, and put up such certificate as additional collateral to his entire loan the transaction appears to be usurious.

MARCH 12, 1917.

SIR: There has been submitted to this office for an opinion the following case:

A man owes a national bank $14,000 on notes secured by good collateral. In order to prevent a suggested immediate demand of payment the borrower is asked to give an additional note for $3,000 and accept a certificate of deposit for the proceeds of this additional note and put said certificate up as collateral for his entire loan of $17,000. In other words, a borrower is paying the legal rate of 6 per cent on $17,000 and has the benefit of only $14,000. Is this usurious?

This transaction on its face would appear to be usurious, but I have been unable to find any adjudicated case dealing with this precise question. There are cases holding that claims for services and expenses may be made a cloak for usury. In other words, banks charging excessive rates of interest have in certain cases claimed that the consideration for the excess was services rendered or expenses incurred. (See in re Wilde's Sons, 133 Fed., 562.) The courts have generally held in cases of this sort that whether the charge is a cloak to cover usury or is made in good faith for expenses actually incurred, or services actually rendered, is one for the jury to determine upon all the facts in each individual case. (De Forrest *v.* Strong, 8 Conn., 513; Sanders *v.* Nicholson, 111 Ga., 739; Massey, McKessom & Co. *v.* McDowell, 20 N. C., 120.)

In the case of New England Mortgage Security Co. *v.* Gay (33 Fed., 636), the lender's agent charged $1,700 for a loan of $8,500 to the borrower, the lender being chargeable with notice of his act. The court, in instructing the jury, said, on page 653:

"If the services were actually performed for the defendant at his request, if the commissions were for specific services and actual expenses authorized by him, and if they were reasonable, they would not be usurious. If they were not performed for his benefit, at his request for specific services and actual expenses authorized by him, and if they are unreasonable and without meritorious consideration, you will be justified in finding that the charge is a mere cloak for usury and the plaintiff forfeits the amount of such excessive charges."

The jury found the commission usurious.

In the case presented for consideration it does not appear that the bank claims to have rendered any services or to have incurred any expense in the matter. It has merely agreed to extend, or at least not to demand payment of, the loan on the condition that the customer borrows an additional $3,000 from the bank and hypothecates the certificate representing this $3,000 as security for his indebtedness to the bank.

In the absence of any proof of consideration other than the lending of the money in question, a jury would no doubt find this to be a usurious transaction.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. JOHN SKELTON WILLIAMS,
Comptroller of the Currency.

SUMMARY OF BUSINESS CONDITIONS MAR. 23, 1917.

	District No. 1—Boston.	District No. 2—New York.	District No. 3—Philadelphia.	District No. 4—Cleveland.	District No. 5—Richmond.	District No. 6—Atlanta.
General business	Unsettled; awaiting developments.	Satisfactory; conservatism in some lines.	Good	Satisfactory	Good	Good.
Crops:						
Condition				Average	Preparations delayed by bad weather.	
Outlook		Small supply of grain on farms; prices high.		Fair	Encouraging	Winter grains poor; planting delayed.
Industries of the district.	Busy	Active	Very busy	Active	Running full; production limited by scarcity of supplies and freight facilities.	Labor shortage; orders plentiful.
Construction, building, and engineering.	Below last year	Larger than a year ago.	Number of permits decreasing.	Some labor troubles in building trades.	Interference by bad weather, but materials in good demand.	Fair.
Foreign trade	Decreased	Contraction in imports and exports.	Exports reached new high record during February.		Congested at ports.	Limited.
Bank clearings	Increased	Increased	Far ahead of last year.	Increased	Slight increase	Increasing.
Money rates	Dull, but firm	Market quiet and firm.	Rates have softened somewhat.	Unchanged	4 to 6 per cent; increasing demand for new crops.	Stationary.
Railroad, post office, and other receipts.	About the same as last month.	Increased	Gross receipts increasing; net earnings decreasing.	Slight increase	Normal or higher	Steady.
Labor conditions	Well employed	Well employed at high wages.	Fair	Unsettled	Fully employed at good wages.	Growing labor shortage.
Outlook	Uncertain, pending international developments.	Favorable	Good	Favorable	Favorable	Fair.
Remarks		Business in large volume; some relief in traffic congestion; indications of active spring season.		Improvement in transportation situation.	General conditions satisfactory.	

	District No. 7—Chicago.	District No. 8—St. Louis.	District No. 9—Minneapolis.	District No. 10—Kansas City.	District No. 11—Dallas.	District No. 12—San Francisco.
General business	Satisfactory	Very active		Good	Satisfactory; some caution account international conditions.	Good.
Crops:						
Condition				Improved	Very good	
Outlook	Good	Uncertain		Fair	Promising	Favorable.
Industries of the district.	Active	Good	Active	Busy	Active, though hampered by transportation problems.	Active.
Construction, building, and engineering.	Slow	Loss in St. Louis; increase elsewhere.		Fine prospects	Above normal for season.	Slight increase.
Foreign trade				Decreased	Increase over 1916.	Large and increasing.
Bank clearings	Increasing	Increase	Decrease	Increased	14 per cent increase	30 per cent increase over March, 1916.
Money rates	Steady	No change	About the same	Steady	Slight increase is noted.	Easy.
Railroad, post office, and other receipts.	Post-office receipts increasing.	Post office gain in St. Louis; slight decrease elsewhere; railroad increase.	Large	Increased	Increase	Increasing.
Labor conditions	Good		Unsettled	Satisfactory	Above normal	Fairly settled.
Outlook	do	Promising	Very good	Encouraging	Favorable	Favorable.
Remarks	Railroad situation unsatisfactory.		Underlying situation in district is thoroughly sound. Feeling that good business will continue.	Car shortage and embargoes hampering all lines.	Business conditions satisfactory; car shortage felt; agricultural conditions promising; collections all lines good and conditions sound.	Early indications give promise of unusually large production of foodstuffs.

GENERAL BUSINESS CONDITIONS.

There is given on the preceding page a summary of business conditions in the United States by Federal Reserve districts. The reports are furnished by the Federal Reserve Agents, who are the chairmen of the boards of directors for the Reserve Banks of the several districts. Below are the detailed reports as of approximately March 23:

DISTRICT NO. 1—BOSTON.

Domestic and international problems of such grave importance have been pending during the past month that in this district a general unsettled feeling pervades the commercial and financial atmosphere. The threatened railroad strike caused a great deal of uneasiness in every quarter. Now that it is settled, all eyes are directed toward the international situation. Pending the outcome of this, banks are running unusually strong so as to be prepared to meet any emergency and to assist in financing any requirements of the Government. Manufacturers in most lines are not anxious to accept new business until they know to what extent, if any, their capacity will be required for Government work. However, mills and factories, for the most part, are very busy and report orders covering a considerable future period.

Continued increases in prices of commodities are causing retailers and consumers to anticipate their needs as far ahead as possible and this is reacting on the wholesaler and producer. Raw materials of all kinds hold firm at or near recent high levels, while in some cases advances are registered.

Collections are reported to be good, and in certain lines well ahead of last year.

The new season with manufacturers of boots and shoes is just opening and few concerns have had their salesmen out more than 10 days. Those who have begun to receive returns, however, report satisfactory business. The consensus of opinion is that the demand will be good in spite of the fact that prices are high, almost beyond precedent, and that retailers are supposed to have considerable stock on hand purchased at lower figures. Retail business is reported good. Leather holds firm, although not up to the high level reached some time ago. There is a wide variety of opinions among buyers as to the value of skins, some cases having occurred where this difference amounted to as much as 20 per cent.

Woolen and worsted mills continue busy, many having contracts for deliveries for a good while into the future. The National Association of Wool Manufacturers in their quarterly statement report a smaller percentage of idle woolen spinning spindles than at any period in the last year and a half and the percentage of idle worsted spinning spindles is but little in excess of last fall and summer. Trading in wool is somewhat quieter than last month, although prices hold firm. Some dealers claim that wool is so scarce the world over that notwithstanding the high price level of this commodity, little reaction can be expected from present prices under any circumstances. There is considerable wool in Boston, but much of this is supposed to be owned by mills to cover orders already taken.

A considerable improvement is noted in the cotton industry, there being more inquiries and sales the last week than for some time. Mills are running at capacity, and many are well sold ahead. A good demand for print cloths is in evidence, and this has caused a slight increase in prices. Quotations for nearly all classes of cotton goods have reacted somewhat from the top, but owing to the high cost of production and the ability to sell yarns at good prices these have not been reduced materially. The interest taken recently by buyers has served to make prices firm, and the outlook for the next six months is encouraging.

The paper trade is particularly unsettled because of the high cost of materials and the uncertainty of the news-print industry. Some mills are running on part time, feeling doubtful as to the future. The demand for pulp wood has stimulated farmers to an effort to cut off from their land much wood which has heretofore been sold at a low price for firewood.

The money market is dull. Banks are apparently accumulating money, but are not adverse to running strong of reserve. The demand is light, but the complicated situation tends to keep rates firm. Call money, 4 per cent; time money, 4¼ to 4½ per cent for six months, 4½ to 4¾ per cent for a year. Town notes, 3½ per cent upward for fall maturities. Bankers' acceptances, 3 per cent indorsed, 3¼ per cent upward unindorsed.

Loans and discounts on March 17, 1917, amounted to $465,298,000, as compared with $472,293,000 last month and $409,061,000 on March 18, 1916. Deposits on March 17, 1917, totaled $371,143,000, as compared with $366,275,000 on February 17, 1917, and $342,502,000 on March 18, 1916. The amount "due to banks" on March 17 was $146,369,000, as compared with $146,432,000 on February 17. The excess reserve of these banks increased from $26,110,000 on February 17 to $40,293,000 on March 17.

Exchanges of the Boston Clearing House for the week ending March 17, 1917, were $221,114,491, compared with $219,789,796 for the corresponding week last year and $199,304,087 for the week ending March 10, 1917.

Building and engineering operations in New England from January 1 to March 14, 1917, amounted to $29,235,000, as compared with $32,153,000 for the corresponding period of 1916, the highest previous year on record.

Exports from the port of Boston for February, 1917, amounted to $22,390,613, as compared with $24,193,104 for January, 1917 (the largest amount previously recorded), and $11,796,694 for February, 1916.

Imports amounted to $21,743,471, as compared with $32,419,881 for January, 1917, and $28,581,611 for February, 1916.

The receipts of the Boston post office for February, 1917, show a decrease of $16,939.21, or about 2½ per cent less than February, 1916. For the first 15 days of March, 1917, receipts were about 8 per cent, or $29,205.64 more than for the corresponding period last year.

Boston & Maine Railroad reports net operating income, after taxes, for January, 1917, as $987,780, as compared with $1,138,447 for the corresponding month of 1916. New York, New Haven & Hartford Railroad reports net operating income, after taxes, for January, 1917, as $1,726,687, as compared with $1,420,462 for the same month last year.

During the period in which a strike was threatened, a very rigid embargo was put into effect on all lines in this district, but as soon as a settlement was made this was lifted and the embargoes in force previously were reestablished. The freight situation is now about the same as last month.

DISTRICT NO. 2—NEW YORK.

Business in this district continues in large volume and there is every indication of an active spring season. The serious turn in our foreign relations and the uncertainty of transportation conditions have produced a feeling of conservatism in many lines, but, reviewing the situation as a whole, commercial and industrial transactions are larger than at this time last year. The feeling of hesitancy is most apparent in connection with future buying, and the general tendency seems to be against stocking up with high-priced merchandise. In some branches, however, supplies on hand are inadequate and forward needs are so heavy that activity is unchecked in spite of rapidly advancing prices.

A further rise has occurred in the general level of wholesale prices, and index numbers for March 1 were 25 per cent higher than on the same day last year. The widest changes occur in food products, especially potatoes and other vegetables. There was also a noteworthy advance in cereals and certain meats and provisions.

The congestion on the railroads, which has seriously hampered nearly every branch of industry, has been somewhat relieved and with the approach of milder weather decided progress is expected. The settlement of the threatened railroad strike has had a stimulating effect in many directions.

The past few weeks have brought an improvement in operating conditions in the iron and steel industry, and production in both pig iron and finished steel has been increasing. The output of pig iron in February showed a marked falling off, due largely to the serious shortage of coke. Prices of iron and steel continue to rise under a heavy demand and the strength of the market has been accentuated by actual and prospective Government orders. Inquiries for finished steel, both foreign and domestic, continue in large volume. The steel plate mills are overwhelmed with contracts from shipbuilding interests.

In mercantile lines there has been a slight lull during the past month, due mainly to the fact that it is between seasons in some branches. The volume of business, however, is large for this period of the year and confidence remains a conspicuous feature.

The silk trade has experienced a slight falling off in business, but the textile industries are very busy. The market for woolen goods has been affected by the prospect of Government orders for uniforms in case of war. Business in the cloak and suit line has been very active with some difficulty experienced in obtaining certain fabrics, and labor conditions have caused considerable annoyance. In spite of these drawbacks, however, the trade has been prosperous and a record spring season is anticipated.

There has been no change in the past few months in the large volume of business in heavy chemicals. The railroad congestion has hampered manufacturers to some extent, but has not been a very serious difficulty in this quarter. Although sales in the drug trade are also very large, manufacturers are suffering from an insufficient supply of raw materials.

In the hide and leather trade the outlook for a heavy spring business in the Middle West and West is very bright. In the East conditions are more uncertain, as buyers are apparently nervous concerning the foreign situation. Manufacturers generally feel that the recent British embargo on importations of shoes and leather will not prove a serious handicap to exporters and that these articles will be classed as necessities and admitted under licenses.

The supply of grain which the farmers of New York State had on hand on March 1 was substantially less than the amount held on the same date last year. A summary of the Government crop report for March estimating stocks of grain on farms in this State shows a decrease of 48 per cent in wheat, 62 per cent in corn, 57 per cent in oats, and 45 per cent in barley, compared with March 1, 1916.

The stock market has been quiet and steady in the face of many disturbing developments, and has recently displayed evidence of renewed activity and strength. Transactions in bonds in February were on a restricted scale. There were few offerings in new municipal issues and corporation financing was light.

The call money market has been quiet, with rates practically stationary, the prevailing range being 2 to 2½ per cent. Time loans on regular mixed collateral ruled at about 3¾ to 4 per cent for 60 to 90 days, and 4 to 4½ per cent for longer maturities. Trading in commercial paper has been light, most business being transacted from 4 to 4½ per cent.

In foreign exchange, sterling yielded slightly during the month, but recovered, and francs have remained steady. Lire declined to a new low record of 7.87 on March 15. Marks and roubles were irregular, while guilders showed slight recessions.

The statement of the New York Clearing House dated March 17, 1917, shows loans, etc., $3,558,906,000, deposits $3,831,403,000, and excess reserves $163,838,970. Since February 3 loans have increased $47,000,000, deposits increased $57,000,000, excess reserves decreased $1,600,000.

The following statistics have been obtained from reliable sources:

	February, 1917.	Changes from February, 1916.
Bank clearings, New York City	$12,794,087,245	+ $1,687,349,968
New York Stock Exchange—Shares	13,668,769	+ 1,588,633
New York Stock Exchange—Bonds	$75,971,000	− $4,419,000
Pig iron production—tons	2,637,042	− 450,170
Unfilled orders, United States Steel Corporation—tons	11,576,697	+ 3,007,731
Building permits, New York City	$10,852,177	+ $1,734,057
Postal receipts, New York City	$2,697,455	+ $47,754
Merchandise exports at New York	$223,464,135	− $1,470,805
Merchandise imports at New York	$97,834,888	− $5,249,647
New incorporations—Eastern States	$283,815,000	− $82,180,300
New financing	$213,872,600	− $89,681,700

DISTRICT NO. 3—PHILADELPHIA.

While less active than recently, the volume of business transacted in most lines continues on a large scale. Stimulated by the United States Government's inquiries and orders, prices of many articles have been further advanced. Because of the uncertain foreign situation, however, commitments are being undertaken with caution.

The very heavy demand for plates has been the feature of the steel situation and has brought about another advance in prices. Pig iron is higher, but there is great uncertainty as to the course of prices. Old material is in demand at higher prices.

Buying is not active in the cotton yarn trade, as most manufacturers have their needs covered by contracts for yarns for about three months ahead, and are not anxious to make further purchases at the present prices, which have been rising during the past month.

Business continues good among the local wool houses. Prices are firm but are not now carried forward by speculation as has been the case during the previous months.

The transportation situation continues to be the determining factor in the local coal market. During the period when the railroad strike was impending extreme fluctuations occurred. Since the settlement no concessions have been made in prices, which, however, are much steadier. Less labor trouble is reported than a month ago. Coke production is increasing slightly. Spot prices are somewhat higher, but the contract prices are higher as the belief is general that there will be a shortage of coke for some time.

As the result of special inquiries it is evident that concerns which are consumers of coal to a considerable extent have been much hampered by the scarcity of coal.

Below is a table showing the result of inquiries made of representative concerns in this district as to industrial and business conditions.

Summary of replies.

Industries reporting.	Replies received.	Outlook.				
		Excellent.	Good.	Fair.	Uncertain.	Bad.
Agricultural implements	5	......	3	......	2	......
Automobiles and parts	4	......	3	1	....	......
Builders supplies, roofing, etc.	7	3	1	1	2	......
Carpets, rugs, oilcloth	5	......	2	1	2	......
Cement, lime, etc	6	2	3	......	1	......
Chemicals, fertilizers, drugs, soaps, etc	15	4	8	1	2	......
Coal and coal mining	11	3	5	2	1	......
Confectionery	4	2	1	1	....	......
Cotton and cotton goods	6	......	4	1	1	......
Dental supplies	2	1	1	......	....	......
Department stores	14	5	7	2	....	......
Drygoods and notions	7	1	1	4	....	1
Dyeing and finishing	4	1	1	1	1	......
Electrical and gas apparatus	6	3	2	1	....	......
Flour, grain and grist mill products	4	......	2	1	1	......
Furniture	3	1	1	......	1	......
Glass	5	......	4	......	1	......
Groceries and food products	27	6	11	5	5	......
Hardware	5	2	3	......	....	......
Hosiery and knit goods	14	2	8	1	2	......
Iron and steel	19	3	8	2	4	......
Leather, hides, and glazed kid	12	1	6	1	4	......
Locomotives, boilers, engines, etc	5	2	3	......	....	......
Lumber and mill work	14	2	5	1	6	......
Machinery, foundry products, machine tools, etc	17	7	8	1	1	......
Men's and women's wear	15	1	10	1	3	......
Metals: Copper, brass, zinc and tin	3	......	2	......	1	......
Musical instruments, pianos and talking machines	3	1	1	1	....	......
Paints and coloring matter	4	......	2	......	2	......
Paper and paper products	14	2	6	1	5	......
Petroleum and refining	3	......	2	......	1	......
Plumbers' supplies	5	......	2	3	....	......
Pottery and pressed brick	4	1	2	1	....	......
Railway cars and parts	2	......	1	1	....	......
Rubber goods	7	4	2	......	1	......
Shipbuilding	4	1	1	1	1	......
Shoes	7	......	2	1	4	......
Silk, laces, etc	12	3	5	......	4	......
Slaughtering and packing	6	......	2	4	....	......
Tobacco, cigars, etc	8	3	3	......	2	......
Wire	4	......	4	......	....	......
Woolens and worsted	20	1	9	4	3	......
Miscellaneous (advertising, hair, hotels, ink, pens, rope, toys, etc.)	20	4	8	2	6	......
Total	362	72	165	48	70	1

Summary of replies—Continued.

Industries reporting.	Approximate increase in costs of production during past year.		Are your profits being cut by rising costs?		Are you seriously handicapped by labor shortage?	
	In wages.	In materials.	Yes.	No.	Yes.	No.
	Per cent.	*Per cent.*				
Agricultural implements	18	45	3	2	3	2
Automobiles and parts	17	42	3	1	2	2
Builders supplies, roofing, etc	23	56	5	1	5	2
Carpets, rugs, oilcloth	19	43	4	1	3	2
Cement, lime, etc	29	41	5	1	6	....
Chemicals, fertilizers, drugs, soaps, etc.	22	36	10	5	5	9
Coal and coal mining	19	34	8	2	8	3
Confectionery	15	18	3	1	3	1
Cotton and cotton goods	26	51	4	2	3	2
Dental supplies	10	30	....	2	1	1
Department stores	14	26	3	11	2	10
Drygoods and notions	19	16	3	3	5	2
Dyeing and finishing	22	62	3	1	3	1
Electrical and gas apparatus	21	36	4	2	2	4
Flour, grain and grist mill products	20	62	2	2	....	4
Furniture	17	33	....	2	2	1
Glass	24	83	2	3	2	3
Groceries and food products	20	37	13	14	10	17
Hardware	25	62	1	3	2	2
Hosiery and knit goods	17	58	6	6	11	3
Iron and steel	38	73	12	5	12	5
Leather, hides and glazed kid	24	57	5	7	3	8
Locomotives, boilers, engines, etc	20	76	2	3	4	1
Lumber and mill work	16	39	6	6	5	9
Machinery, foundry products, machine tools, etc	22	58	9	8	10	7
Men's and women's wear	12	28	8	6	6	8
Metals: Copper, brass, zinc and tin	30	70	1	2	....	2
Musical instruments, pianos and talking machines	20	37	2	1	1	2
Paints and coloring matter	13	48	4	....	2	2
Paper and paper products	30	90	10	4	8	6
Petroleum and refining	20	47	2	1	1	2
Plumbers' supplies	31	51	4	1	1	3
Pottery and pressed brick	19	61	4	....	2	2
Railway cars and parts	13	33	2	....	2	....
Rubber goods	21	39	5	1	3	4
Shipbuilding	35	43	3	....	3	1
Shoes	18	87	2	4	3	4
Silk, laces, etc	21	31	7	4	9	3
Slaughtering and packing	17	50	4	2	3	3
Tobacco, cigars, etc	13	41	7	1	7	1
Wire	15	59	1	3	4	....
Woolens and worsteds	23	50	12	6	12	7
Miscellaneous (advertising, hair, hotels, ink, pens, toys, etc.)	19	41	11	7	13	7
Total	[1] 21	[1] 49	205	137	192	158

Industries reporting.	Is your labor as efficient as it was?				Is your progress materially retarded through difficulty in procuring raw materials and supplies?		Length of time in which present demand for and consumption of your product is reasonably certain to continue.	
	A year ago.		Before the war.					
	Yes.	No.	Yes.	No.	Yes.	No.	One year.	Six months
Agricultural implements	1	3	....	5	4	1	2	2
Automobiles and parts	1	2	....	4	3	1	2	2
Builders supplies, roofing, etc	3	4	3	4	3	4	4	3
Carpets, rugs, oilcloth	2	2	1	3	3	2	2	2
Cement, lime, etc	2	4	1	5	2	4	5	....
Chemicals, fertilizers, drugs, soaps, etc	10	5	9	6	12	3	13	1
Coal and coal mining	1	10	1	10	3	7	10	1
Confectionery	1	3	1	3	2	2	3	....
Cotton and cotton goods	3	3	2	4	....	6	2	4
Dental supplies	2	6	2	....	2	....	2	....
Department stores	12	1	12	1	2	9	7	3
Drygoods and notions	4	3	3	4	3	3	2	1
Dyeing and finishing	....	4	....	4	4	....	2	1
Electrical and gas apparatus	4	2	2	4	4	2	4	2
Flour, grain and grist mill products	2	2	....	4	1	2	2	1
Furniture	2	....	2	....	1	2	1	2
Glass	2	3	3	2	2	3	2	3
Groceries and food products	12	15	8	17	13	8	19	6
Hardware	2	1	2	2	1	2	2	2
Hosiery and knit goods	8	6	6	8	7	6	8	5
Iron and steel	5	13	3	16	12	7	7	9
Leather, hides and glazed kid	5	6	3	8	5	6	6	2
Locomotives, boilers, engines, etc	4	1	1	4	5	....	5	....
Lumber and mill work	7	7	6	8	10	4	6	7
Machinery, foundry products, machine tools, etc	10	7	7	10	11	6	16	1
Men's and women's wear	13	2	10	4	6	6	7	3
Metals: Copper, brass, zinc and tin	2	1	2	1	3	....	2	....
Musical instruments, pianos and talking machines	2	1	2	1	1	1	2	1
Paints and coloring matter	2	2	2	2	4	....	1	2
Paper and paper products	4	9	5	9	7	6	5	6
Petroleum and refining	3	....	3	....	1	2	3	....
Plumbers' supplies	1	4	1	4	1	3	1	4
Pottery and pressed brick	2	2	1	3	....	4	1	3
Railway cars and parts	1	1	1	1	2	....	2	....
Rubber goods	4	2	2	5	4	3	5	1
Shipbuilding	1	2	....	4	3	1	4	....
Shoes	4	3	4	2	2	5	3	2
Silk, laces, etc	5	6	4	8	3	8	5	5
Slaughtering and packing	2	4	1	5	2	4	4	2
Tobacco, cigars, etc	2	6	1	7	7	1	7	....
Wire	2	2	3	1	3	1	3	1
Woolens and worsteds	9	10	9	10	9	10	9	7
Miscellaneous (advertising, hair, hotels, ink, pens, rope, toys, etc.)	8	10	8	12	11	8	9	5
Total	172	174	137	215	184	151	207	102

[1] Approximate average.

One deduction which may be drawn from the replies received is that business men regard the situation with more confidence now than in September of last year, but with less optimism than in March, 1916. A greater percentage of concerns are now reporting the outlook as "excellent" or "good," and a smaller percentage as "fair" or "uncertain," than was the case at the time of our last inquiry. A comparison of the replies received to similar questions six months and a year ago is as follows:

	March, 1917.	September, 1916.	March, 1916.
Percentage of concerns reporting business—			
Excellent or good	67	54	75
Fair	13	19	17
Uncertain or bad	20	27	8
Number of concerns reporting outlook to be—			
Excellent or good	237	157	244
Fair, uncertain, or bad	118	135	83

Production costs continue to increase, the figures below showing that wages and the cost of materials are steadily rising:

	Approximate increase in costs of production during past year.	
	In wages.	In materials.
	Per cent.	*Per cent.*
Report of March, 1917	21	49
Report of September, 1916	18	43
Report of March, 1916	11	46

Answers to the question, "Are your profits being cut by rising costs?" indicate that a larger proportion of concerns are now able to raise their selling price sufficiently to cover the increased production costs:

	Are your profits being cut by rising costs?	
	Yes.	No.
Report of March, 1917	205	137
Report of September, 1916	205	84
Report of March, 1916	212	97

The transportation situation is disturbing business concerns in this district. More than 75 per cent of the reporting concerns declare that their business is seriously hampered by inadequate railroad service, while nearly as large a proportion report that they are seriously hampered by lack of steamship facilities. The difficulty in the latter instance is due primarily to an actual shortage of available ships.

It is interesting to note that a substantial majority of concerns report the prospects of business as good. Out of 362 replying, 207 anticipate the demand for their goods will continue as at present for at least a year, and 102 for at least six months.

The value of building permits issued in Philadelphia during February was $4,042,115, compared with $2,437,750 in the same month of last year. This represents 815 operations, as compared with 1,086 in February, 1916. The 66 per cent increase in value is no doubt chiefly due to higher costs of materials, etc., and is not necessarily indicative of larger building operations.

All previous records in the history of the port were broken by the exports from the port of Philadelphia during the month of February. They were valued at $57,652,322, an increase of $47,851,310 over those for the same month of last year, and $14,018,276 more than those for January, 1917. The value of imports for February was $9,041,989, compared with $9,176,185, February, 1916, and $9,093,450, for January of this year. The largest gain in the import trade was in the receipts of crude petroleum, which amounted to 4,872,000 gallons, as against 2,544,024 gallons for February of 1916.

Bradstreet's report 51 failures in this district during February, compared with 75 in January, 1917, and 95 in February of last year. R. G. Dun & Co. report 65 failures, with liabilities of $470,444, during February, compared with 77 and $1,702,861 in January, 1917, and 138 and $1,237,250 in February of last year.

The large volume of business is reflected in the increased bank clearings, shown in the following table:

Bank clearings.

Clearings at—	February— 1917	February— 1916	Increase or decrease.
			Per ct.
Altoona	$2,358,702	$2,213,859	+ 7
Chester	4,835,466	5,055,358	− 4
Harrisburg	7,632,855	7,059,464	+ 8
Lancaster	8,563,756	7,479,304	+15
Norristown	2,075,656	2,095,033	− 1
Philadelphia	1,251,517,407	960,702,304	+30
Reading	9,671,274	8,361,115	+16
Scranton	13,476,464	12,716,467	+ 6
Trenton	10,845,764	10,935,726	− 1
Wilmington	12,808,339	9,822,327	+30
Wilkes-Barre	7,326,669	6,848,899	+ 7
York	4,207,016	3,700,911	+14
Total	1,335,319,368	1,036,990,767	+29

Bank clearings—Continued.

Clearings at—	First 2 months— 1917	1916	Increase or decrease.
			Per ct.
Altoona	$5,193,984	$4,597,840	+13
Chester	11,058,668	9,607,285	+15
Harrisburg	17,065,283	14,963,616	+14
Lancaster	18,362,669	15,340,563	+20
Norristown	4,547,205	4,787,627	−4
Philadelphia	2,649,208,582	1,975,601,495	+34
Reading	21,670,941	18,163,299	+19
Scranton	30,378,603	26,168,726	+16
Trenton	20,781,386	19,568,399	+6
Wilmington	26,082,393	22,227,616	+17
Wilkes-Barre	16,517,202	14,338,006	+15
York	9,144,458	6,974,583	+31
Total	2,830,011,374	2,132,339,055	+33

The condition of the Philadelphia banks is about the same as a month ago. Rates for paper are slightly lower. Invested funds of the Federal Reserve Bank have decreased over $3,600,000 during the past month, largely due to the bank being out of the market for bankers' acceptances.

DISTRICT NO. 4—CLEVELAND.

During March, especially for the week ended March 17, there was a noticeable hesitancy and uncertainty in many lines of business throughout district No. 4. The foreign relations of our Government and the transportation situation caused considerable unrest in commerce and industry. Indications at this writing point to general relief from this feeling and resumption of all activities to the fullest extent.

Agriculture.—Present indications are for a fair yield only of the winter-wheat crop. From the Kentucky section the reports show that the tobacco and hemp crops of last year were marketed at greatly increased prices to the farmer, and preparations are being made now for increased production of these crops in the section. Specific inquiry throughout the district reveals a rather unsatisfactory condition regarding plans for increased production of foodstuffs. The lack of sufficient or competent farm laborers is urged as the chief difficulty, due, of course, to the demand for labor in industry at wages higher than the farmer can afford. There are indications that in some agricultural sections farming machinery will be used to a greater extent than heretofore, by which the effect of the labor scarcity will be modified.

Live stock.—The reports received from various sections of the district indicate that the surplus supply of live stock used for foods is at most not greater than the average of preceding years, and there has apparently been little real effort to improve the situation.

Industries.—Since the middle of March the industries of the district have resumed their forward movement with energy, and the indications are for continued aggressiveness. Practically all lines reporting show a strong demand for raw materials and manufactured products, regardless of price, and there has been some evidence of making contracts, even at the present abnormally high prices for 1918 deliveries.

Iron and steel.—Pig iron, billets, plate, bar, rail, and sheet producers and manufacturers report very strong demand for all classes of production with rising prices. The prosperity and capacity of producers is apparently limited only by insufficient transportation, labor, and fuel supplies. A great many of the producers have indicated intentions of supplying Government needs in advance of all their orders, and in some instances this condition has rendered necessary the postponement of private deliveries. It is entirely fair to say that the observations above made apply with equal force to finished materials and other fabricated articles.

Coal and coke.—The producers are entirely unable to secure an adequate labor supply for the production of a sufficient amount of output to meet their demand. Reports show that in the Pennsylvania, Ohio, and Kentucky coal regions overtures have been made for entire outputs of the mines at advanced prices. In some instances contracts have been made, and in others refused either on account of conditions or in the hope of making better arrangements, or, as noticeable in the

Pennsylvania fields, producers have felt the necessity and desirability of maintaining a percentage of output as free coal.

Foundry coke.—Foundry coke has been very scarce, and prices have run wild. The fuel situation really is the most serious drawback at present existing in industrial enterprises in this district.

Oil.—A new field in the Irvine district in Kentucky is being developed, with very promising results. It is reported that strata of oil-bearing sands have been struck at shallow depths, and extensive developments are in progress. Other fields in this district continue to capacity of existing equipment, with high prices maintained.

Glass, pottery, and clay products.—All of these industries have been affected by fuel and transportation problems, but the correspondents present a hopeful view for the future. In some localities where gas has been used previously, it is reported that the use of coal is contemplated.

Rubber goods.—Akron reports continued activity with increased production in all branches of the rubber industry. Laborers recently employed in the rubber goods factories are said to be less efficient than former help, and demand higher wages.

Mercantile business.—There is not much change from the preceding months in commercial activities, unless it be a lessening of stocks of goods by reason of inability to secure shipments; but collection conditions have become a little less favorable.

Foodstuffs continue to advance in price, and there is in the cities evidence of decreasing surplus supplies, indicating perhaps further advances.

Building operations.—The table following shows the comparison of building operations for February of this year and of last year. In Cleveland a lockout of building trades by employers has affected 20,000 workmen and practically stopped construction of buildings of estimated value of over $15,000,000. This condition will undoubtedly have its effect on future operations. Housing facilities in manufacturing centers are reported as inadequate.

Unfavorable labor conditions in building trades are reported from most localities.

	Permits issued.		Valuations.		Increase or decrease.	Per cent increase or decrease.
	Feb., 1917.	Feb., 1916.	Feb., 1917.	Feb., 1916.		
Akron, Ohio	253	166	$965,560	$435,575	$529,985	55
Cincinnati, Ohio	872	1,128	841,490	596,120	245,370	29
Cleveland, Ohio	665	704	2,784,260	1,552,725	1,231,535	44
Dayton, Ohio	378	49	1,932,090	99,749	1,832,041	95
Columbus, Ohio	97	163	223,655	314,225	90,570	[1] 40
Erie, Pa	78	61	138,315	87,455	50,860	37
Pittsburgh, Pa	141	298	251,535	1,312,686	1,061,151	[1] 42
Toledo, Ohio	152	239	388,133	700,781	312,648	[1] 80
Youngstown, Ohio	75	43	255,420	85,665	169,755	66
Total	2,711	2,851	7,780,458	5,184,981	2,595,177	33.3

[1] Decrease.

Money and investments.—A cursory examination of the published statements of banks under the Comptroller's and State Banking Department's calls for reports of condition as of March 5 indicates further gains in the deposit lines generally, though in some localities the increase has been merely nominal. The supply of loanable funds in banks is more than adequate for the needs of the respective localities, and rates continue for the most part unchanged. There was a lessened demand at lower prices for investment securities during the first half of the month of March.

Bank clearings.—Bank clearings maintain increases over the corresponding period of the preceding year, as indicated below, in nine of the principal cities:

	Feb. 16 to Mar. 15, inclusive—		Increase or decrease.	Per cent increase or decrease.
	1917	1916		
Akron, Ohio	$23,114,000	$15,124,000	$7,990,000	35
Cincinnati, Ohio	149,950,702	129,280,850	20,669,852	14
Cleveland, Ohio	230,711,100	144,065,228	86,645,771	37
Dayton, Ohio	15,382,010	11,849,256	3,532,754	23
Columbus, Ohio	36,957,200	42,198,100	[1] 5,240,900	[1] 14
Erie, Pa	6,506,679	5,023,012	1,483,667	23
Pittsburgh, Pa	304,998,557	243,029,422	61,969,135	20
Toledo, Ohio	41,807,793	34,455,002	7,352,791	18
Youngstown, Ohio	12,201,597	9,191,730	3,009,866	25
Total	821,629,041	634,216,602	187,412,939	22.8

[1] Decrease.

Post-office receipts.—The postal receipts in nine of the largest cities of the district for the month of February, as compared with the same month last year, are as follows:

	February, 1917.	February, 1916.	Increase or de-decrease.	Per cent in crease or de-crease.
Akron, Ohio	$69,371	$58,237	$11,133	16
Cincinnati, Ohio	244,932	258,231	[1] 13,298	[1] 5
Cleveland, Ohio	339,387	309,550	29,837	9
Dayton, Ohio	61,812	63,615	[1] 1,802	[1] 3
Columbus, Ohio	102,539	99,432	3,107	3
Erie, Pa	22,954	21,947	1,006	5
Pittsburgh, Pa	314,958	337,600	[1] 22,641	[1] 7
Toledo, Ohio	90,483	94,416	[1] 3,932	[1] 4
Youngstown, Ohio	25,587	24,983	603	2
Total	1,272,027	1,268,015	4,012	.003

[1] Decrease.

Labor conditions.—Labor is fully employed in all lines, skilled and unskilled, except in the building trades. There is a decided scarcity in farm hands and high-grade mechanics, and there does not seem to be any hope of relief. There are indications of unrest in mining and milling centers, though general conditions are probably not less favorable than formerly.

The outlook for commerce and industry is good, and fair as regards agriculture; necessarily, the agricultural situation will affect unfavorably the general conditions later. There has recently been renewed effort to encourage farm production, and if this should instill greater energy into the farmer the prospects would be better. It does not seem that the movements for increased acreage or more scientific methods in farming have been organized or developed to such an extent as to be promising of results before the planting season.

DISTRICT NO. 5—RICHMOND.

There has been little or no change in conditions during the past month. Basic conditions continue sound, but bad weather has rather accentuated the "between-seasons" quiet. Everybody, however, seems to be busy, at least in preparations for the full opening of spring activities.

The uncertainties of our foreign situation and the possibilities of a railroad strike have been general subjects of comment and more or less anxiety, particularly as to their bearings on our own business conditions. Manufacturing concerns appear to have abundant orders, but inability to obtain supplies of raw material and restricted freight facilities are limiting production. Ocean freight room is in restricted supply and to be had only at almost prohibitive rates. This condition is causing the continued accumulation of goods at the ports for export, actual figures for exports necessarily indicating a material decline.

Postal revenues, clearing-house returns, and railroad earnings continue on a normal basis, and general trade is in good volume, collections keeping pace with sales.

Actual building has been retarded by bad weather, but many new buildings and extensions of various plants are in contemplation, building materials continuing to be in good demand.

The damage reported from the severe freeze something over a month ago proved to be exaggerated, as was indicated in last month's report. Only young berry plants were seriously damaged, there has been considerable replanting, and an increased production of strawberries in the district is anticipated. The present high prices for potatoes are stimulating production of this crop, the acreage planted is limited only by seed and labor conditions, and a sufficient crop may be reasonably anticipated. This should materially reduce prices, with a good margin of profit left to the producers. Manufacturers of fertilizers appear to have practically sold out, leaving a considerable demand unsatisfied. This, however, is not likely to lead to any hardship, but, on the contrary, will induce conservatism in operations.

On February 27 Governor Seay issued to member banks and others in the district a food circular which has aroused general interest in the subject and, it is anticipated, will stimulate the production of food supplies in every line. Applications have been received from member banks and others for over 25,000 of these circulars, for general distribution in the various sections and communities of the district.

Money continues in abundant supply for legitimate business, adequate supplies are apparently being kept at the chief centers of the district, and the larger banks are in reasonably liquid condition. Demands from country banks are, however, increasing, especially for agricultural purposes. Offerings of bankers' acceptances continue in considerable volume, especially for the purpose of carrying accumulated exports at the ports.

General relief is expressed at the settlement of the railroad strike recently called. If, with the removal of anticipated trouble in this direction, the railroads can lift embargoes and supply sufficient cars promptly to move the abundant offerings of freights, a healthy impetus will be lent to the already strong tide of trade.

DISTRICT NO. 6—ATLANTA.

The greatest handicap to further industrial development and normal agricultural production in the Sixth Federal Reserve District is the growing scarcity of labor. This shortage is being felt by almost every industry and apparently there is no relief in sight. The exodus of southern negroes to northern manufacturing centers has continued with a steady flow during the winter months. Little of this labor has drifted back, and with the coming of spring weather a still larger movement is expected. The movement is general. Until recently it consisted largely of negro farm hands, but considerable complaint is now heard of loss of labor by mining concerns and industrial plants. Agricultural communities are already complaining of shortage of help for spring work. Labor agents are picturing to them better living conditions, with high wages and less restriction of personal liberty, in the north. The freight embargoes and car shortages are an additional source of serious consideration.

The demand for yellow pine is strong and values firm. Yard stocks are low and badly broken. Mill stocks are reported normal. Production is below normal owing to transportation conditions and the weather. A great many mills are receiving not to exceed 50 per cent of ordinary car requirements and prevented from shipping to many sections on account of embargoes. Following the period of enforced idleness during bad winter months many southern mills will begin operations with the betterment of railroad conditions. There is considerable congestion of lumber at various points, several thousand carloads being tied up in the Mobile mill yards.

Car shortages and embargoes are also seriously affecting the naval stores lines in conjunction with no movement of foreign shipments. With conditions improved, spring and summer demands are expected to be as heavy as usual.

Figures for February show 114 failures in this district as compared with 157 in 1916.

The submarine menace has handicapped shipment of iron to foreign customers, but domestic demand continues good, with pig-iron prices ranging from $24 to $25. Producers have sold heavily and it is predicted that prices will go over $30 by midsummer.

Tennessee winter wheat suffered severely from the cold spells of February and March owing to the fact that there was no snow on the ground. Winter grains have been practically a failure in the district, and it is not likely that there will be any considerable decrease in cotton acreage. Increased planting is expected in many parts of the district, which will be partially offset in boll-weevil counties, where the planting will largely be peanuts, velvet beans, and corn. The weather has been seasonable for marketing the balance of a full-average tobacco crop, with prices double that of previous season.

Preparation of soil and spring planting is considerably behind owing to unseasonable weather. Early planting is a strong factor in the boll-weevil fight and some fear is felt on account of the unavoidable delay. Little damage is reported on account of floods, as planting had not begun.

The potato crop of Florida will mature within the next six weeks, and prospects are bright for a large harvest. Reports from the Florida east coast as to prospects of orange trees recovering from the cold-wave damage are encouraging. Estimates now place damage from freeze at not more than 25 per cent as much as first reported.

Georgia peach growers were anticipating an extra large crop prior to the freeze. Peaches in the territory north of Atlanta were heavily damaged and suffered to considerable extent in the territory south of Atlanta. The crop south of Macon will be practically as large as last season. Provided no further damage occurs Georgia expects to ship about 4,000 cars of peaches. The fruit crops in Alabama and Florida will also be reduced from like damage. Little damage was done to the new tobacco-plant beds, as only a very limited amount of seed had come up at the time of the freeze.

Hog and cattle prices continue to advance. There is a widespread activity in these lines, which gives evidence of a "banner year" in diversified farming. There is a scarcity of sheep and lambs in the district. In answer to inquiry regarding hog and cattle raising, one of our correspondents reports:

"This county has already shipped several carloads of hogs, the first time in its history. There is a rapid increase in hog growing and cattle raising—diversified farming is entered into vigorously."

Another correspondent advises: "First time in the history of the county that our farmers have a surplus of hogs and are shipping them to market."

There is no considerable demand for money Interest rates are stationary. The producers sold last season's crops at prices that decreased the usual demand for money at this season of the year. A large amount of the fertilizer being used was paid for in cash. Bank clearings and deposits are largely in excess of this time last year. Collections show less activity during March, with the exception of Florida, where increased collections are reported. Purchases remain steady.

In that part of the sixth district allotted to the New Orleans Branch of the Federal Reserve Bank of Atlanta the money market is reported firm with seasonable demand. Activity is noted in lumber, cement, and other building materials notwithstanding many building projects are awaiting more favorable prices.

The demand for sea food products continues in excess of the supply. This industry promises to reduce the high cost of living and at the same time build up the Gulf coast.

Increased acreage is assured throughout the district, with diversification a decided feature everywhere. One of the largest packing houses of Chicago has just purchased the plant of the Crescent City Slaughterhouse Co., of New Orleans, and will enlarge its capacity and operations, thereby creating a better market for cattle and giving added stimulus to the cattle raisers.

The commerce of the port of New Orleans being largely with Latin America, lies outside the prohibited war zones and there is consequently no interruption. The field of endeavor is large and lack of tonnage is the only obstacle at present. Owing to the large trade with the countries to the south the port of New Orleans was not only able to retain its trade as heretofore but largely increase it. With the rest of the country reporting loss of imports, New Orleans is able to show an increase of over 50 per cent.

DISTRICT NO. 7—CHICAGO.

The banks throughout District No. 7 are well supplied with funds, as is evidenced by their small borrowing requirements and the low rate for money. It is true that the past month has seen a stiffening in the going interest rate effective in the larger cities, where the banking reserves approach more nearly the legal requirements than is the case with country institutions. Despite the uncertainties both at home and abroad, savings banks report increased deposits and an increase in the number of accounts on their books. The investment situation is difficult to analyze, yet it appears to be the consensus of opinion that investors are holding back and are in position to enter the market with considerable capital should the general situation clear up or should there be an attractive offering of conservative securities. Bond houses are having a quiet business, with the city banks practically out of the market and the ultimate consumer taking but a small volume of securities.

While it is early to estimate with any degree of accuracy the prospects for winter wheat, nevertheless, weather conditions have favored the crop over the greater part of this district, and, unless a reversal of form occurs, it is believed that this district will produce more winter wheat than was the case last year. The grain markets have been very much disturbed because of the foreign situation, the submarine campaign, and the railroad disturbance. Fluctuations have been violent and shipping conditions have aggravated the situation. Authorities believe that the underlying conditions are sound and that the requirements of the foreign nations will maintain prices at high levels for some time to come, although it is natural to expect speculative flurries based on transient conditions.

The manufacturing industries are actively engaged and report a good demand for their products, with serious difficulty in making shipments and in securing the necessary raw material. The transportation situation has been a serious problem and still is the cause for considerable thought to manufacturers and distributors in this part of the country. More cars are available than was the case a month ago, yet the supply is inadequate and in some cases has brought about the closing down of plants in this district. The agricultural implement concerns are finding a good demand for their products at advanced prices, and the volume of their output is satisfactory, although shipping difficulties are encountered both in the distribution of the finished article and in the purchase of the raw material.

Automobile companies are confident of a continuing demand and are expanding their plants, although the more conservative are proceeding in this direction with caution.

The demand for building material is fair, although there is a tendency to postpone construction on account of the high cost of materials and labor. Coal is selling at a somewhat lower price than prevailed during the past few months, but is substantially above normal. One of the large mining concerns in our territory reports that their properties were operated 75 per cent of capacity last month and that they were able to secure cars with less delay than heretofore.

Maltsers are enjoying a prosperous business, with a strong demand for their product, and good collections. Distillers are satisfied with present conditions, but the action of various legislatures will tend to cut down the wet territory. It seems to be the general opinion that the so-called "bone-dry bill" will, if anything, benefit the legitimate distilleries.

In the dry-goods trade recent business has been of smaller volume than a year ago, and a tendency toward conservative purchases is evidenced by letters from wholesalers and retailers. Collections are fair, and concerns transacting business with the country districts are better placed than those in the larger centers. This is attributed by some of our friends to the wealth of the farming communities and the fact that in the centers the high cost of foodstuffs has decreased the purchasing power of individuals whose salaries have not kept pace with the increased cost of living. The furniture business is fairly good. Lumbering concerns which have enjoyed a favorable winter are experiencing considerable difficulty in the matter of transportation, and the demand for the retail product is less than a year ago in the larger centers, which may be due to the high cost of building.

Grocers are generally selling a satisfactory volume of goods, and collections are fair. The money required to handle a grocery business at this time is considerably more than normal, and collections, therefore, should be watched with care. Consumers are substituting to a considerable degree in an attempt to economise. Hardware is in excellent demand, with collections prompt over most of this district.

Steel continues in strong demand, at high prices, with great activity in wire products.

We understand that large tonnages have been bought for shipment during 1918, and some concerns are trying to buy for 1919. Shipbuilding is active.

Leather has shown some falling off during the past few weeks, and shoe manufacturers are buying very cautiously. There is a waiting market, but prospects are considered favorable, at least for the duration of the European war. Live stock in the Chicago market has registered new high marks on light receipts of cattle, and hog receipts have also decreased materially.

The output of piano companies has been interfered with through inability to secure certain lines of supplies, and manufacturers report a falling off in new orders. They, however, are busy on accumulated business, and this, together with the present demands, is keeping the factories working full time. Jewelry concerns are receiving business in excess of a year ago and look forward to a continuation of favorable conditions.

Clearings in Chicago for the first 21 days of March were $1,544,000,000, being $323,000,000 more than for the corresponding 21 days in March, 1916. Clearings reported by 20 cities in the district outside of Chicago amounted to $288,000,000 for the first 15 days of March, 1917, as compared with $207,000,000 for the first 15 days of March, 1916. Deposits in eight central reserve city member banks in Chicago were $733,000,000 at the close of business March 20, 1917, and loans were $510,000,000. Deposits show a decrease of approximately $10,000,000 over last month, while loans have remained at approximately the same figure as last month.

DISTRICT NO. 8—ST. LOUIS.

Although the past month has been one of great uncertainty, it can not be said that this has had more than a healthy deterrent effect on the business activities in this district. On the whole business continues to be extremely active, but has not increased in the same ratio as during the previous month. Comments on general business from well-informed men in this district range from "good" to "extraordinarily active." Comment of this character covers practically every branch of industry.

Department stores report a large and profitable business with a demand for high grade merchandise of all classes. The buying power of the public is extremely large and the increased cost of many articles, particularly shoes and other leather goods, does not seem to have lessened the demand. Jobbing interests, especially dry goods, shoes, and woodenware, report satisfactory increases in shipments, unusually heavy orders for future delivery, and collections seem to be entirely satisfactory. Furniture manufacturers are reported to be sold up. Paper interests seem to be handicapped by slow deliveries. Electrical supply companies report sufficient orders on hand to insure capacity operations for some months. Wholesale drug houses and chemical manufacturers report a very satisfactory business. Prices have continued to advance and it appears that there is a scarcity in certain lines.

Climatic conditions in the past 30 days have not been wholly favorable. Generally speaking the rainfall throughout the district was considerably less than the normal in both January and February of this year, and it is feared that this may have a bad effect on the coming crops, as sufficient subsoil moisture is essential. As it is still early in the season, sufficient rainfall from now on may improve agricultural conditions materially.

There has been little change in the cotton situation in the southern portions of the district. A very large stock of cotton is carried in Memphis; at this date approximately 355,000 bales as compared to 245,000 in 1916, and 211,000 in 1915. The largest part of this stock is held in the hands of cotton factors who are holding for higher prices and all reports indicate that their position this year is extremely strong. The movement from Memphis is still handicapped by embargoes. Some relief was afforded in the middle of March. One correspondent reports that in his opinion

50,000 bales of cotton would be shipped from Memphis if the railroads were restored to a normal working basis.

The new crop conditions are of course still uncertain. Planting has not begun and it appears that crop preparations in some sections are a little late. Reports on the acreage vary considerably. It is estimated that there will be a substantial increase in acreage in eastern Arkansas but that the presence of the boll weevil in Mississippi will have a deterrent effect. Spring plowing is reported well advanced. There have been a number of heavy freezes in the cotton belt, so that the ground is in excellent shape, and it is hoped that the severe winter weather will at least retard the northward movement of the boll weevil. A correspondent writes as follows:

> From observation I would judge that the cotton acreage will possibly increase from 5 to 10 per cent on account of so much land having been made ready for cultivation during the past winter. I also think that there will be a material increase in both the corn and forage crops, and it seems to be the idea of each individual farmer to at least raise enough of the food crop to supply the farm.

The gross and net earnings of those railroads that serve this district for January and the gross railroad earnings for February are now available. Large increases in gross earnings continue, and in fact these increases are so substantial that the net earnings are increased in spite of the increased cost of railroad supplies and operation, a reversal of the position shown by the December figures. The gross earnings in February do not in many cases show the same proportion of increases as in January and this is attributed to the restrictions on movement of grain and cotton. Within the last day or two the freight situation has materially improved. A car shortage in February is a very unusual occurrence and in my February report I stated that this shortage had hampered business activity. Owing to the efforts of the business interests throughout the district, conditions improved during the latter part of February, but the condition again became serious with the announcement of the threatened railroad strike. The settlement of the strike has removed this and freight conditions are now reported to be more nearly normal than at any time during the last month or two. Freight embargoes on lines connecting with the Atlantic seaboard have been lifted in many cases and the movement of freight is generally freer, although there are still some complaints on account of delay. The freight movement south and west is practically normal.

Index figures on the cost of living and commodity prices show further increases. It is reported that this increase has reduced consumption in some lines. Eggs, potatoes, onions, and cabbage are lower than a month ago. High prices of provisions in general have shut off the demand and the provision business is not as active as usual. The stock of canned fruits and vegetables is reported to be low.

Postal receipts for February in Little Rock, Louisville, and Memphis show a slight decrease, while postal receipts at St. Louis show a slight increase as compared with February, 1916. Building permits for February, 1916, in Little Rock and Memphis show a slight increase as compared with a year ago, while St. Louis shows a loss in building permits for the same period. A restraining influence is attributed to the scarcity and high price of material and of labor.

The St. Louis National Stock Yards reports an increase in the receipts of cattle for February and a decrease in the receipts of hogs, sheep, and horses and mules. On March 20 hogs sold at East St. Louis at $15.40 a hundred, which is a new high record and compares with a high record of $12.65 a month ago. Foreign Governments are still buying horses and mules at the National Stock Yards, but the United States Government is not purchasing at present.

The bond market is reported to be about normal for this season of the year. The market received a set back early in February, but conditions have improved somewhat from that time, and the outlook is favorable.

Clearings for the principal cities in this district for the week ending March 10, 1917, the last figures available, show increases ranging from 14.8 in Louisville to 51.4 in St. Louis. Commercial paper is now quoted at 4 to 4¼ per cent. The market has shown in the last week a less active demand and smaller offerings. It is reported that firms have either completed their financial arrangements or are awaiting future developments. There has been little or no change in bank rates to customers.

DISTRICT NO. 9—MINNEAPOLIS.

Frequent heavy snowstorms during the first two-thirds of the month seriously interrupted railroad transportation, and placed heavy burdens upon all lines of distributing business. For continuous cold and for the amount of snowfall, the winter has been the most severe the district has seen in 37 years. The total snowfall at Minneapolis breaks all records for this period, and amounts to more than 80 inches.

While this will be of great advantage in the farming districts, it will likewise cause considerable trouble from high water, especially if warm spring weather comes on suddenly and the snow goes off rapidly.

Local deliveries at urban centers were seriously interfered with by the storms during the greater part of the month, and the coal situation was acute. The car congestion at terminals was so great as to make it practically impossible to switch loaded cars to delivery tracks, and coal companies were compelled to put a 1-ton limit upon deliveries to householders. The car situation has been very bad, and seriously interfered both with the milling output at Minneapolis and with the movement of freight of all kinds. Relief measures undertaken early in the month were very hopefully received by the grain and milling trade, but broke down later and produced comparatively little effect. The principal milling concerns have lately been compelled to cut their production to a limit proportionate to the number of "empties" they have been able to obtain for outgoing shipments, and have resorted to the movement of a considerable amount of flour and mill stuffs to Duluth and Superior, where it has been warehoused in order to clear the mills and give them opportunity to go ahead.

The railroads, coal companies, grain trade concerns, millers, and many of the larger shippers, have acted concertedly in trying to improve the situation, but as compared with the first of the month it is not materially better.

Neither the possibility of war nor the possibility of a general railroad strike seemed to make a very serious impression upon the even course of both banking and commercial business during the month, which is evidence of the soundness of conditions generally throughout the district. Leading business men and bankers are of the opinion that the possibilities of the immediate future have been accurately forecast in both banking and business circles, and that further developments need not necessarily bring serious effects.

The farm outlook in the district is bright. As a whole, the farmers realize that the conditions are very favorable, and that the outlook is for an extremely profitable year, and they are paying close attention to the suggestion that all possible efforts be made to increase the acreage planted. The agricultural districts face serious labor difficulties. Farm hands will be scarce and wages high. This may have the effect of somewhat cutting down the acreage that would otherwise be planted.

Except as interfered with by storms, retail trade has been satisfactory during the month, and the same general conditions have applied to wholesale business.

The comptroller's call found the banks in the district in a strong position. Rates showed some inclination toward firmness during the first 10 days of the month and stiffened a fraction, but sagged off again to the previously prevailing level, and are approximately the same as a month ago. Savings deposits have materially increased since the last call, and the demand has continued good, due partly to the railroad situation, which has compelled the larger concerns, especially in the grain and milling trade, to borrow at a time of the year when they are usually paying off their bank obligations.

The consensus of opinion is that, war or no war, conditions in the district are sound and the outlook is good.

Should a recession occur in price of the principal articles entering into the cost of living, the situation will be further improved. Some break is already apparent in the price of potatoes, butter, eggs, and a few other articles; but the scale of prices that the householder has to pay is uniformly high and burdensome.

DISTRICT NO. 10—KANSAS CITY.

The past month has witnessed events which unquestionably would have, in less remarkable times, proven serious obstacles to the continuance of active conditions. The extension of an unusual winter drouth, the growing seriousness of matters affecting our foreign relations, and the threatened nation-wide railroad strike, together with the burdensome cost of living and high price of labor, have had surprisingly little effect other than a slight tendency toward further conservatism generally, and an evidence of preparation for any eventuality. Nothing seems materially to impede increasing prosperity.

Agriculture.—The prediction of $2 wheat was realized early in March, the highest price ever paid on the local markets. Corn also broke all price records. This month also witnessed the breaking of a winter that has been unprecedentedly arid, rain and snow giving temporary relief to practically all the winter-wheat States, and the fields are taking on a new lease of life. Only the most favorable conditions, however, will bring about anything like a normal wheat crop, as there has undoubtedly been severe damage in some localities. Kansas has planted almost 9,000,000 acres, the third largest in its history; Nebraska 3,650,000 against 3,300,000 the year before, while the area in Oklahoma is 3,230,000 as compared with 2,780,000 a year ago. There was also a slight expansion in acreage in Missouri. The belated moisture will now permit the completion of oats sowing and preparations for corn planting will go forward. The four weeks ending March 24 witnessed a large shrinkage in the grain movement to the markets of the district, while holdings of wheat on farms on March 1 in the four principal wheat-producing States, as compared with the same date last year, show a falling off in excess of 30,000,000 bushels, indicating that there will be an unusually small surplus carried over into the new crop year.

Live stock.—The highest ruling prices ever known for all classes of live stock were reached on the markets in February. The lack of finish of the major portion of arrivals, however, would indicate that shipments were made at the expense of future supplies. Beef steers brought from $1.25 to $2.75, hogs $4.50 to $4.80, and sheep from $3.35 to $4 per hundred pounds more than a year ago. During March there has been a further advance in market prices generally. Beet-pulp cattle are now coming to market from Colorado. Hogs easily occupy the center of interest in this industry, the unheard-of price of $15 having been reached on the local market on March 9. There has been a noticeable decrease in hog slaughtering as compared with the same period last year. Increased activity is reported in the horse market, the daily purchases by inspectors for the British Government recently being as heavy as at any other time since the beginning of the war.

Mining.—With silver, copper, lead and zinc selling at record prices, there is increased activity in the mining camps. Producers of tungsten report a better demand from eastern steel mills. Mine operators are forcing production up to the maximum in order to take full advantage of the high prices. There has been some new copper production in northern and southern Colorado. Deep mining in the Cripple Creek (Colo.) district is producing better results than ever anticipated and the driving of many old shafts to new ore zones is in prospect. Colorado authorities claim that China's unexpected recent action in stopping exportation of silver will mean that many mines will be opened to help supply the world market. There has been a strong market for lead, and producers in the Missouri-Kansas-Oklahoma district claim it is because of a large consumption.

Oil.—No material changes in prices have been posted, but the prediction is freely made that, by reason of reduced production and increased consumption, further increases must soon arrive. When pipe-line facilities now planned for Wyoming become available, that State's activities will take on a more substantial character. Three new oil refineries are now being planned. In the older producing sections of the Mid-Continent field deeper drilling is receiving considerable attention, some important developments having occurred at depths below the original producing formation. The water situation, which was becoming more and more acute, causing a shut down in many instances, was relieved by the snow and rainfall heretofore referred to. Many wells are on the waiting list pending an increased supply of casing and pipe, pipe mills refusing to book any orders for delivery before August. Oklahoma showed an increase both in completed work and in new work during the short month of February and now that the water situation is better, the month of March should show further activity.

Lumber.—Open weather and mild temperatures have stimulated the consumption of lumber and caused a proportionate increase in the demand for yellow pine yard stock, especially from country yards. Prices have shown a tendency to advance. Mills are apparently experiencing difficulty in handling mixed orders, as their stocks are badly broken. Retail dealers are buying heavily and manufacturers with offices in this territory are loaded up with orders. Conditions seem favorable, but much will naturally depend on wheat and corn prospects. One company controlling a large line of country yards reports: "Our business thus far this year is about 40 per cent in excess of last year's volume for the same period." Sash and door factories report actual orders as numerous now as they often are a month later, with the outlook for spring trade near the record. Lumbermen interviewed lay stress upon the car situation, but are without exception optimistic over trade prospects. A local real estate company reports that by actual comparison the cost of erecting a certain residence has increased 43 per cent since October, 1915.

Railroad earnings.—Ninety-four railroads, including practically all those operating in this district, show an increase in gross earnings of almost eleven and one-half million dollars, or 29 per cent, in January, 1917, over January, 1916, as evidenced by reports just at hand. The net earnings of these same roads show an increase in the same period of almost six and one-half million dollars, or 66 per cent. This is a much better exhibit than would have been deemed possible considering the rise in operating cost.

Labor.—Labor conditions are quite satisfactory. In fact there may be said to be fewer evidences of unrest than for some time past. Employment at unusual wages is general. Some uneasiness is expressed in the growing possibility that help on the farms for the opening spring will be scarce.

Wholesale and retail.—The flour mills of the district have been running at about two-thirds capacity. New sales are quiet, business being limited largely to Central and Western States by reason of railway embargoes. A number of smaller mills and some of the large ones have discontinued operations from this cause.

General retail stores, with the opening of spring lines, report an excellent business, the prospects for volume surpassing last year.

Automobile dealers are swamped with orders, but deliveries are exceedingly difficult. The winter's business is said to have been 50 per cent greater than ever before. An excellent spring business can only be interfered with by factory limitations and deliveries. Some cases are reported of delivery of cars to points of distribution under their own power. There are said to be four times as many automobiles in the State of Nebraska as there were in 1913, this State standing second in number of cars in proportion to population.

There are hundreds of cars of implements for spring use yet to be moved into this territory and the dealers are fearing they will be unable to take care of second-order business. Retailers are enjoying a fine business and farmers are reported as buying a greater number and variety of implements than usual and paying cash for their purchases.

Financial.—Banks continue in well-fortified position for any emergency. Short-time loans of certain liquidity are in demand and rates continue steady. The total clearings reported for February in 15 important cities indicate an average increase of 32.5 per cent over the same month last year, each showing an increase, the lowest 9.9 per cent and the highest 79.6 per cent.

Failures reported are 14 fewer in number for February than the same month last year, but the liabilities aggregate a slight increase.

DISTRICT NO. 11—DALLAS.

Outstanding feature in the commercial activities throughout the district the past month has been the feeling of uncertainty over our international relations and domestic problems to be solved in the event the United States become involved in the war. These discordant elements apparent in various lines have tended to cause disquiet and have created an attitude of conservatism and caution.

With the railroads already taxed to capacity and the necessity of placing restrictions on shipments to northern and eastern territory, the possibilities of a general strike threatened to add to the difficulties. Considering the effect these unusual conditions naturally caused throughout the district, business has held up remarkably well.

Following a custom established some time ago in the larger cities of this section, style shows and exhibitions of a similar character during March brought an influx of buyers to the markets and were especially beneficial to retail trade. While there is a temporary lull in mail-order business, attributable no doubt to the unsettled conditions above mentioned, this dullness, according to our advices, will be of short duration. Retail merchants report that the car situation is extremely acute and that it is next to impossible to get deliveries of seasonable merchandise.

Agricultural conditions are most favorable in the district. All sections of the district report good, but scarcely adequate, rains during March, which have put an excellent season in the ground and have been of material benefit in early planting. The drought experienced in the southwestern part of the district has within the past few days been broken, and crop prospects, especially for garden truck, are excellent. A very heavy increase in acreage in vegetables has been put in, especially in the Rio Grande Valley. The damage done by the cold weather to the truck industry in the Southwest will be more than offset by the excellent prices for the output, and the returns will be satisfactory. The onion crop from the Laredo country will begin moving about April 1.

The crop is said to be in very good condition and the yield will be fully up to the average The indications are that the price will be the best for several seasons. According to the Government crop report for February, the acreage of onions in Texas will be about 12,000 acres, an increase of 17.9 per cent over 1916. Last year's shipments were around 4,900 cars. At the high prices now obtaining for onions, the enormous returns from this commodity alone can be seen. The campaigns being made for reduced acreage in cotton are having a good effect, and reports are that there will be a very small increase in this staple. It is too early to make an estimate as to what this increase will amount to. It is certain, however, that the acreage in general feed crops will be larger than ever before and the campaign for diversification and the raising of larger feed crops will unquestionably bear fruit.

It is too early to make a prediction as to the peach and fruit crops of the district, although at the present writing conditions for a good crop are excellent. Reports indicate that on account of the dry summer and fall of last year the fruit trees show little growth in buds, and one correspondent advises that an investigation of the Elberta trees in east Texas the early part of March showed that from 25 to 50 per cent of the buds were ruined by cold weather. Other varieties of peaches, however, show less damage, and plums and apples are damaged little, if at all.

Our member banks continue in a strong position and are well prepared to meet any situation that may develop as a result of our foreign affairs. While figures are not obtainable from all of the banks of the district showing their condition on the comptroller's call of March 5, such statements as have come to hand indicate a decrease in deposits over the December 27 call. Demand with this bank is much more active than 30 days ago, with quite a substantial increase in offerings of cattle paper.

Figures of clearings obtained from Austin, Beaumont, Dallas, Fort Worth, Galveston, Houston, and Shreveport show an increase of 15 per cent for February over the same month of last year. The figures are as follows: 1917, $184,539,126; 1916, $160,668,648; increase, $23,870,478.

With two exceptions the cities above mentioned show good increases, Dallas showing an increase of 52 per cent. There were handled in our district clearing house from February 16 to March 15, 1917 (22 business days), 279,215 items, aggregating $110,788,072, or a daily average of 12,691 items, amounting to $5,035,821. This is an increase in both number and amount over the preceding 30 days.

This bank has, within the past 60 days, been called upon to make large shipments of gold to banks located at border points for use in transactions with the customs-house officials of Mexico who decline to receive anything in payment of duties except American gold. These shipments are still being made in considerable volume. The Mexican Government recently issued a circular changing the rate at which American money would be accepted in payment of taxes. This has created a heavy demand for gold coin, and notwithstanding the heavy payments made by banks at border points and the heavy importations by the Mexican Government and individuals, the coin seems to be tightly held as fast as imported into that country and the same is not being returned.

The bond market is steady and no special activity is noted. Demand is normal and prices are firm. There are a good many inquiries for such securities.

Considering the high cost of lumber and other building materials, and the difficulties experienced in obtaining suitable supplies on account of congestion in freight terminals, and the unusually high prices of labor, building operations in the district are considerably above normal. In nearly every large city in this section building operations are active, especially in Dallas, where, within the past month, permits have been issued for construction of buildings aggregating over a million dollars. Car shortages and embargoes have in some instances forced lumber mills and manufacturers of materials to withdraw from the market as they are unable to secure sufficient equipment to handle their orders. The volume of business available is satisfactory if the manufacturers were in position to handle it. Scarcity of bottoms is seriously affecting export business, and shipments by rail are not more than 75 per cent normal on account of the embargoes. Local demand in the cities is good both for structural timbers and yard stuff, and prices are strong.

Building permits issued in the principal cities of the district for February show a decrease in number, though a substantial increase in valuation. The figures are: 1917—Number, 924; valuation, $1,863,950. 1916—Number, 1,087; valuation, $1,377,172.

One of our correspondents, a large manufacturer of pressed brick, states that collections are below normal and slower than any month last year; that the uneasiness over the war scare is having a serious effect on his business.

The element of uncertainty in our foreign affairs has affected wholesale lines, particularly dry goods. High prices for all classes of merchandise have caused conservative buying, and there is a disposition among the trade to guard against carrying heavy stocks of high-priced goods. However, one of the largest wholesale houses in the district reports that its sales are fully 50 per cent heavier than a year ago, and collections are in keeping with the increased volume. Advices from various other wholesalers of merchandise are in line with this report.

The grocery trade is satisfactory, and the wholesale houses are showing a 50 per cent increase in sales and collections over the same period of 1916. The rising prices of staples, however, with a normal consumption, present a situation that is fraught with danger, especially with the country merchant, who is obliged to carry his customers until the crops are made, and distributors are endeavoring to discourage the too liberal extension of credit. The unusually high prices, therefore, while enabling the wholesale grocery houses to show a handsome increase in sales, tend to promote an inflation of credit to the consumer and develop a situation which would be hard to overcome if crops are poor and returns from same below normal. The prosperous condition of the farmer the past year enabled many country merchants to collect old obligations and "wipe the slate clean," and this is a condition which the wholesalers are anxious to see continued.

The wholesale shoe trade shows a considerable gain in sales. However, it is reported that the high price of leather has restricted orders, and dealers and the public are not buying heavily, but, as one large manufacturer stated, pursuing a "hand-to-mouth policy"; that while the gain in "dollars and cents" is practically double the same month last year, the number of orders is curtailed.

With oil bringing the highest prices ever paid in the fields, there is considerable activity in the operations at the wells in Louisiana, southeast and northwest Texas. However, new developments, both in the proven fields and upon favorable "wild-cat" acreage, is greatly delayed owing to the difficulties in obtaining adequate supplies of pipe and machinery and water for drilling operations. The outlook for the industry is bright for every factor—producer, refiner, and distributor. If present prices are sustained, which authorities generally believe, the future development of this very important industry will be assured.

Commercial mortality in the district showed an appreciable decrease during the month of February, as compared with the same month a year ago, and a gratifying improvement in the number of failures and amount of liabilities is noted.

Coastwise and export shipments from the port of Beaumont during the month of February aggregated 63,989 tons. From Galveston the value of exports for February was $16,034,533.

High prices for all classes of live stock continue, and notwithstanding heavy receipts the demand has been equal to the supply. There is quite an active demand both for sheep and cattle in New Mexico, and unless dry weather prevails there will be early shipments of one and two year old steers. At the present time rain is badly needed in New Mexico, as the ranges are getting short in that section.

All the copper mining companies are running to their full capacity, and prices for the output are higher than ever before. The high prices for copper have created a demand for mining properties in Arizona which has resulted in the small claim holder and prospector being unusually prosperous. When it is noted that the Arizona district produces about ninety million pounds of copper per year, which brings from 19 to 30 cents per pound, the importance of that industry to the general business interests of the district is realized.

Employment of labor is above normal. The transfer of unskilled men to the North and East still continues and is causing concern. Authorities state that unless there is some decrease in this activity, there will be a general shortage of help for harvesting crops the coming season. No strikes or disturbances are in progress in the district at this time, and employers, in many instances, have been forced to meet the soaring prices of foodstuffs and necessities by an increase in wages.

DISTRICT NO. 12—SAN FRANCISCO.

There is impressive evidence of the important need for the maximum possible production of foodstuffs during the current year, with the certainty of extraordinary demand whether the war continues or ends. No general estimate can yet be reliably made as to production in this district. The amount and chronological distribution of precipitation are vital factors. Thus far there is a slight deficiency in Washington, Oregon, and California, offset by unusually heavy snows in the mountains, assuring the supply of water for irrigation upon which California agriculture, in particular, so largely depends. In the vicinity of Yosemite Valley the snow is said to be the heaviest ever known.

Three-fifths of the Utah wheat is fall planted. Last fall 9,000 acres more were planted than in any previous year. Idaho reports good prospects in the section where there was practical failure last year. In California it is estimated that barley acreage will be increased from 650,000 to 800,000, and the crop from 450,000 to 900,000 tons. Hops and alfalfa will be considerably displaced for potatoes, beans, and sugar beets, and large increases are anticipated in these crops. In various sections considerable increases are reported of dairy cattle and poultry. Conditions are favorable for cattle and sheep, as green feed is now plentiful. To some extent high prices have induced sale of cattle which should have been kept in the herds. Sheep shearing has begun. Sales of wool at prices above 40 cents are common, with reports of 50 cents and 60 cents in some cases.

It is predicted that in California 100,000 acres will be planted to rice, the market for which is rapidly extending because of superior quality.

Indications are for an exceptionally large crop of deciduous fruits. Canned goods from the last crop are practically all out of first hands, and prices are high.

The run of salmon is, according to fairly well-known cycles, varying with different varieties. It is claimed that there will be a conjunction of these various cycles this year, and that the pack of all varieties will consequently be heavy, possibly as much as 9,000,000 or 10,000,000 cases, compared with 7,121,000 cases last year.

So far as can now be judged, the general outlook is favorable for an exceptionally large output of foodstuffs in this district this year.

Important contracts for British account have been placed with Pacific coast yards for construction of ships. This industry centers chiefly in Seattle and San Francisco, but Portland, which a year ago had yards only for building wooden ships, now has three for building steel ships. This industry is expanding enormously and prices likewise. Contracts are said to have been placed by the United States Government for building two cruisers at Seattle and two at San Francisco.

Reports from about two-thirds of the mills indicate that in 1916 the lumber cut of this district increased 16.3 per cent over 1915, compared with an increase of 8.4 per cent for the rest of the country. This district produced 38 per cent of the total. Lack of transportation has greatly hampered this and practically all other industries.

In February the petroleum production of the California field averaged 262,528 barrels, and the shipments 299,357, stored stocks declining 1,031,960 barrels.

Copper production is still expanding, with extraordinarily high prices, making an output of enormous value.

Commerce with Alaska in 1916 was almost $120,000,000, an increase of $37,000,000 over 1915. Copper worth $35,000,000 and canned salmon worth $21,500,000 both exceeded the value of the gold and silver output, aggregating $16,300,000. From 1867 to 1916, Alaska produced sea and fur products valued at $323,000,000 and minerals valued at $345,000,000.

In the totals of exports and imports during 1916 Seattle stood fourth of the United States ports with $360,527,000, Boston and Philadelphia leading by $26,000,000 and $63,000,000, respectively. San Francisco stood ninth with $243,886,000. Gold imports and exports at Pacific coast ports, during 1916, were as follows:

	Imports.	Exports.
San Francisco	$38,223,175	$45,954,220
Los Angeles	33,525	50,000
Seattle	5,642,105	5,623,222
Total	43,898,805	51,627,442

Clearings for 19 principal cities of this district during February were 32 per cent greater than for the corresponding month last year, Seattle leading with an increase of 50 per cent, followed by Salt Lake City with 35 per cent, and Los Angeles with 30 per cent. Building permits show only slight gain.

Southern California has had a record number of visitors this season, estimated at 130,000, remaining an average of 30 days, and spending on an average a total of over $1,000,000 per day.

Mercantile conditions are favorable, and in general the year promises to be one of prosperity for this entire district.

DISCOUNT OPERATIONS OF THE FEDERAL RESERVE BANKS.

Discount operations of the Federal Reserve Banks for the month of February, 1917, aggregated $22,408,604, compared with $18,326,286 for January, 1917, and $7,664,600 for February, 1916. Nearly 26 per cent of the total discounts for the month is credited to the Richmond bank, 17.5 per cent to the Boston bank, and 11.3 per cent to the Cleveland bank. A very large part of the discount business of the Richmond and Cleveland, as well as the New York and Chicago banks, was made up of advances to member banks on the latter's own notes secured by commercial paper.

Of the total discounts for the month, $11,433,362 is represented by member banks' collateral notes, $856,078 by trade acceptances, and $814,106 by commodity paper. The total of these three classes of paper, nearly all discounted at preferential rates, was $13,103,546, or about 60 per cent of the discounts for the month. Discounts of trade acceptances for the month reported by seven banks were almost 50 per cent larger than in January. About 48 per cent of this class of paper was handled by the Boston bank, the names of several large textile manufacturers in Massachusetts appearing as drawers of trade acceptances on the Reserve Bank's discount schedules. Commodity paper, nearly all based on cotton, was discounted by three banks, the total for the month showing a considerable decline as compared with the amount handled in January.

The aggregate number of bills, exclusive of 86 collateral notes discounted by 11 Federal Reserve Banks, was 3,657. The average size of these bills was slightly in excess of $3,000, compared with an average amount of $132,946 advanced on collateral notes. Of the total amount of rediscounted paper 41.5 per cent is represented by largest-size bills (of over $10,000 each) and 31.4 per cent by medium-size bills (in denominations of over $1,000 to $5,000). Small bills (in amounts up to $250) constituted over one-quarter of the number, though less than 1 per cent of the total amount of bills rediscounted during the month. Nearly 60 per cent of these small bills, mostly trade acceptances, were handled by the Philadelphia bank.

About two-thirds of the paper, including collateral notes, discounted during the month was 15-day paper, i. e., paper maturing within 15 days from the date of discount by the Federal Reserve Banks; over 10 per cent was 30-day paper; less than 14 per cent was 60-day paper, and over 8 per cent was 90-day paper. February discounts of agricultural and live stock paper maturing after 90 days from date of rediscount with the Federal Reserve Banks (six-month paper) totaled $471,254, compared with $591,882 the month before, and $1,006,100 in February, 1916.

Discounted paper held on the last Friday of the month aggregated about $20,267,000, as against $15,711,000 at the end of January and $22,827,000 on the corresponding date in 1916. Of the total held about the end of February of the present year $4,631,229 were member banks' collateral notes, $3,737,450 agricultural paper, $1,358,808 live stock paper, and $10,539,717 industrial and commercial paper proper. Over 80 per cent of the agricultural paper was held by the Richmond, Atlanta, Chicago, and Minneapolis banks, while over 88 per cent of the live-stock paper holdings is reported by the Minneapolis, Kansas City, and Dallas banks.

Of the 7,625 member banks reported at the end of February, only 262, or 3.4 per cent, availed themselves of discount privileges during the month. The number of rediscounting banks in the three southern Federal Reserve districts was 143, compared with 287 in February, 1916. The largest number of member banks accommodated by any of the Federal Reserve Banks during the month—68—is shown for the Richmond district, while the smallest number—6—is given for the Cleveland district.

Commercial paper discounted by each Federal Reserve Bank during February, 1917, distributed by sizes.

NUMBER OF PIECES AND AMOUNTS.

Banks.	To $100.		Over $100 to $250.		Over $250 to $500.		Over $500 to $1,000.		Over $1,000 to $2,500.		Over $2,500 to $5,000.		Over $5,000 to $10,000.		Over $10,000.		Total.		
	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Per cent.
Boston	2	$108	13	$2,518	21	$8,681	27	$21,444	27	$47,030	75	$367,245	58	$571,832	81	$2,526,400	304	$3,545,258	32.3
New York	5	370	18	3,093	29	10,932	20	16,326	25	42,543	48	206,259	9	84,348	7	124,480	161	488,351	4.4
Philadelphia	489	15,190	73	11,866	65	25,353	64	53,154	99	202,708	113	464,256	33	290,250	11	144,445	947	1,207,222	11.0
Cleveland	....	......	3	620	9	3,319	7	4,954	8	18,126	9	34,324	20	200,000	13	381,000	69	642,343	5.8
Richmond	12	1,141	70	13,847	166	67,139	213	163,064	208	357,162	141	582,445	48	409,503	15	319,931	873	1,914,232	17.4
Atlanta (including New Orleans branch)	15	880	43	7,623	40	14,653	55	42,319	66	112,477	48	175,452	41	303,254	13	254,012	321	910,670	8.3
Chicago	8	800	23	4,028	30	11,916	29	21,289	23	35,891	9	29,226	4	23,770	....	....	126	126,920	1.2
St. Louis	....	......	4	728	12	5,355	17	11,782	10	14,726	13	50,239	2	16,000	5	105,000	63	203,830	1.9
Minneapolis	....	......	4	634	19	6,890	31	21,235	36	67,560	62	293,611	26	251,668	27	632,500	205	1,274,098	11.6
Kansas City	31	2,910	80	14,030	98	33,670	48	34,058	26	38,350	8	25,559	....	....	....	....	291	148,577	1.4
Dallas	10	676	38	6,088	48	18,874	54	39,015	56	92,003	36	126,422	13	85,169	3	38,708	258	406,955	3.7
San Francisco	....	......	1	151	4	1,540	6	4,444	14	25,383	10	33,854	3	16,414	1	25,000	39	106,786	1.0
Total	572	22,075	370	65,226	541	208,322	571	433,084	598	1,053,959	572	2,388,892	257	2,252,208	176	4,551,476	3,657	10,975,242	.....
Per cent	....	0.2	....	0.6	....	1.9	....	3.9	....	9.6	....	21.8	....	20.5	....	41.5	....	....	100.0
Member banks' collateral notes	....	......	....	......	....	......	....	......	....	....	4	18,500	12	113,856	70	11,301,006	86	11,433,362	.....

Member banks' collateral notes, trade acceptances, and commodity paper discounted during the month of February, 1917 and 1916 and the two months ending February, 1917 and 1916.

Banks.	Collateral notes.	Trade acceptances.	Commodity paper.	Total.
Boston	$387,730	$410,173	....	$797,903
New York	1,437,000	....	....	1,437,000
Philadelphia	475,000	21,721	....	496,721
Cleveland	1,900,000	....	....	1,900,000
Richmond	3,870,000	145,962	$551,076	4,567,038
Atlanta (including New Orleans branch)	242,356	227,392	249,461	719,209
Chicago	1,911,276	....	....	1,911,276
St. Louis	365,000	22,380	....	387,380

Banks.	Collateral notes.	Trade acceptances.	Commodity paper.	Total.
Minneapolis	$520,000	....	....	$520,000
Kansas City	10,000	....	....	10,000
Dallas	315,000	$13,465	....	328,465
San Francisco	....	14,985	$13,569	28,554
Total, Feb., 1917	11,433,362	856,078	[1] 814,106	13,103,546
Total, Feb., 1916	....	246,100	1,794,700	2,040,800
Total, Jan.-Feb., 1917	20,950,691	1,430,542	[1] 2,378,759	24,759,992
Total, Jan.-Feb., 1916	....	690,500	3,658,300	4,348,800

[1] Nearly all cotton paper.

Amounts of discounted paper, including member banks' collateral notes, held by each Federal Reserve Bank on Feb. 23, 1917, distributed by classes.

Banks.	Agriculture paper.	Live stock paper.	Commercial and industrial paper.	Member banks' collateral notes.	Total.
Boston	....	....	$2,889,195	$80,000	$2,969,195
New York	$17,466	$6,496	835,504	1,207,000	2,066,466
Philadelphia	53,043	....	901,295	350,000	1,304,338
Cleveland	35,935	2,968	273,838	1,650,000	1,962,741
Richmond	737,477	3,560	2,624,399	345,000	3,710,436
Atlanta	1,152,507	76,989	905,909	83,500	2,218,905
Chicago	579,924	30,365	76,928	510,729	1,197,946

Banks.	Agriculture paper.	Live stock paper.	Commercial and industrial paper.	Member banks' collateral notes.	Total.
St. Louis	$107,603	$36,399	$292,022	$120,000	$556,024
Minneapolis	548,937	217,736	1,490,055	210,000	2,466,728
Kansas City	242,816	243,296	12,983	10,000	509,095
Dallas	142,952	738,607	194,277	65,000	1,140,836
San Francisco	118,790	2,392	43,312	....	164,494
Total	3,737,450	1,358,808	10,539,717	4,631,229	20,267,204

Distribution, by sizes, of bills bought in open market by all Federal Reserve Banks during February, 1917, and the two months ending February, 1917 and 1916.

Acceptances bought in open market.	To $5,000.		To $10,000.		To $25,000.		To $50,000.		To $100,000.		Over $100,000.		Total.		Per cent.
	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	
February, 1917:															
Bankers' acceptances....	780	$1,990,667	655	$5,136,252	1,241	$22,280.674	399	$16,405,433	178	$15,165,660	49	$8,012,105	3,302	$[1] 68,990.791	97.7
Trade acceptances........	39	184,972	122	1,187,766	7	87,288	2	78,541	2	107,821	......	....	172	[2] 1,646,388	2.3
Total Feb., 1917........	819	2,175,639	777	6,324,018	1,248	22,367,962	401	16,483,974	180	15,273,481	49	8,012,105	3,474	70,637,179	100.0
Per cent.....	......	3.1	......	9.0	......	31.7	......	23.3	......	21.6	......	11.3	......	100.0	......
Total Jan., 1917........	390	1,023,210	483	1,706,069	300	5,238,206	152	6,898,412	48	3,891,515	11	1,859,768	1,384	20,617,180	......
Total Jan.-Feb., 1917..	1,209	3,198,849	1,260	8,030,087	1,548	27,606,168	553	23,382,386	228	19,164,996	60	9,871,873	4,858	91,254,359	......
Total Jan.-Feb., 1916..	461	1,336,634	379	3,048,747	413	7,662,052	96	3,688,328	38	2,898,207	15	3,326,375	1,402	21,940,343	......

[1] Of the above total, bankers acceptances totaling $62,272,593 were based on imports and exports and $6,718,198 on domestic transactions.
[2] All of the above transactions were drawn abroad on importers in the United States and indorsed by foreign banks.

ACCEPTANCES.

Acceptances bought in open market and held by Federal Reserve Banks as per schedules on file with the Federal Reserve Board on dates specified, distributed by classes of accepting institutions.

Date.	Bankers' acceptances.						Trade acceptances bought in open market.	Total acceptances.
	Member banks.	Nonmember trust companies.	Nonmember State banks.	Private banks.	Foreign branches and agencies.	Total.		
1915.								
Feb. 22	$93,000					$93,000		$93,000
Apr. 5	3,653,000	$7,820,000	$10,000	$110,000		11,593,000		11,593,000
May 3	5,038,000	8,189,000	10,000	110,000		13,347,000		13,347,000
June 7	5,242,000	4,516,000	10,000	192,000		9,960,000		9,960,000
July 3	4,342,000	5,267,000		161,000		9,770,000		9,770,000
Aug. 2	5,350,000	5,407,000	20,000	352,000		11,129,000		11,129,000
Sept. 6	6,087,000	6,305,000	20,000	472,000		12,884,000		12,884,000
Oct. 4	9,000,000	4,898,000	132,000	343,000		14,373,000		14,373,000
Nov. 1	8,477,000	4,331,000	253,000	204,000		13,265,000		13,265,000
Dec. 6	12,311,000	5,172,000	275,000	396,000		18,154,000		18,154,000
1916.								
Jan. 3	15,494,000	7,160,000	362,000	822,000		23,838,000		23,838,000
Feb. 7	15,681,000	7,876,000	336,000	1,456,000		25,349,000	$489,000	25,838,000
Mar. 6	17,182,000	8,670,000	408,000	1,781,000		28,041,000	462,000	28,503,000
Apr. 3	21,000,000	13,573,000	473,000	3,262,000		38,308,000	722,000	39,030,000
May 1	24,875,000	15,400,000	585,000	3,430,000		44,290,000	1,477,000	45,767,000
June 5	24,680,000	17,029,000	644,000	7,007,000		49,360,000	2,208,000	51,568,000
July 3	32,989,000	18,921,000	471,000	11,830,000		64,211,000	3,422,000	67,633,000
Aug. 7	39,695,000	19,060,000	738,000	13,940,000		73,433,000	4,225,000	77,658,000
Sept. 4	41,413,000	20,356,000	726,000	12,491,000		74,986,000	3,673,000	78,659,000
Oct. 2	37,798,000	21,782,000	712,000	9,944,000		70,236,000	2,306,000	72,542,000
Nov. 6	37,770,000	29,474,000	1,014,000	12,147,000		80,405,000	2,378,000	82,783,000
Dec. 4	47,748,000	33,232,000	1,630,000	16,069,000		98,679,000	4,487,000	103,166,000
1917.								
Jan. 1	66,803,000	34,625,000	1,502,000	18,224,000		121,154,000	4,585,000	125,739,000
Jan. 8	60,066,000	32,467,000	1,325,000	16,915,000		110,773,000	4,249,000	115,022,000
Jan. 15	59,710,000	30,691,000	1,245,000	15,862,000		107,508,000	4,386,000	111,894,000
Jan. 22	56,334,000	26,286,000	1,146,000	14,119,000		97,885,000	4,102,000	101,987,000
Jan. 29	52,439,000	22,744,000	1,054,000	12,949,000		89,186,000	4,041,000	93,227,000
Feb. 5	50,361,000	23,511,000	972,000	13,775,000	$140,000	88,759,000	4,041,000	92,800,000
Feb. 12	54,945,000	33,473,000	1,265,000	17,952,000	668,000	108,303,000	4,896,000	113,199,000
Feb. 19	59,165,000	35,745,000	1,268,000	21,842,000	677,000	118,697,000	4,982,000	123,679,000
Feb. 26	59,498,000	36,478,000	1,094,000	20,389,000	677,000	118,136,000	5,068,000	123,204,000
Mar. 5	53,274,000	32,508,000	1,090,000	20,570,000	354,000	107,796,000	2,535,000	110,331,000
Mar. 12	50,116,000	28,759,000	845,000	19,592,000	379,000	99,591,000	2,276,000	101,867,000
Mar. 19	46,157,000	24,165,000	735,000	17,596,000	311,000	88,964,000	1,825,000	90,789,000
Mar. 26	43,457,000	22,515,000	645,000	17,504,000	250,000	84,371,000	1,212,000	85,583,000

Amounts of paper discounted and acceptances and warrants bought by each Federal Reserve Bank during February, 1917, distributed by maturities.

Federal Reserve Banks.	15-day maturities.				30-day maturities.			
	Discounts.	Acceptances.	Warrants.	Total.	Discounts.	Acceptances.	Warrants.	Total.
Boston	$1,882,783			$1,882,783	$1,015,170	$59,600		$1,074,770
New York	1,502,805	$370,595		1,873,400	22,354	1,684,878		1,707,232
Philadelphia	1,149,757	158,027		1,307,784	205,267	1,821,861		2,027,128
Cleveland	2,499,000			2,499,000	9,748	694,629		704,377
Richmond	3,985,444	645,000		4,630,444	373,112	2,924,975		3,298,087
Atlanta (including New Orleans branch)	384,855			384,855	181,112	74,703		255,815
Chicago	1,926,449	105,556		2,032,005	23,962	512,811		536,773
St. Louis	384,908			384,908	87,317	226,353		313,670
Minneapolis	577,600			577,600	396,500	94,080		490,580
Kansas City	10,000	54,000		64,000	15,050	151,524		166,574
Dallas	316,500	25,000		341,500	16,143	257,211		273,354
San Francisco	25,931	10,608		36,539	9,266	43,003		52,269
Total	14,646,032	1,368,786		16,014,818	2,355,001	8,545,628		10,900,629
Per cent				16.2				11.0

Amount of paper discounted and acceptances and warrants bought by each Federal Reserve Bank during February, 1917, distributed by maturities—Continued.

Federal Reserve Banks.	60-day maturities.				90-day maturities.			
	Discounts.	Acceptances.	Warrants.	Total.	Discounts.	Acceptances.	Warrants.	Total.
Boston	$702,647	$316,350	....	$1,018,997	$332,388	$4,827,669	....	$5,160,057
New York	184,002	4,412,313	....	4,596,315	211,842	13,324,529	$25,203	13,561,574
Philadelphia	234,028	3,095,418	....	3,329,446	88,294	4,933,580	25,203	5,047,077
Cleveland	7,490	1,953,512	....	1,961,002	26,105	3,387,154	25,203	3,438,462
Richmond	749,417	1,820,175	....	2,569,592	639,635	816,416	....	1,456,051
Atlanta (including New Orleans branch)	177,403	224,203	....	401,606	367,843	645,885	....	1,013,728
Chicago	43,704	2,592,851	....	2,636,555	19,696	3,490,242	25,203	3,535,141
St. Louis	84,994	1,947,159	....	2,032,153	10,811	2,363,362	25,203	2,399,376
Minneapolis	743,568	1,618,550	....	2,362,118	19,706	830,722	....	850,428
Kansas City	23,452	1,388,061	....	1,411,513	20,515	1,091,284	25,203	1,137,002
Dallas	101,618	545,792	....	647,409	80,110	837,673	....	917,783
San Francisco	34,705	1,523,896	....	1,558,601	32,344	1,911,116	....	1,943,460
Total	3,087,028	21,438,280	....	24,525,307	1,849,289	38,459,632	151,218	40,460,139
Per cent	....	....	....	24.8	....	....	....	40.9

Federal Reserve Banks.	Over 90-day maturities.				Totals.				Per cent.			
	Discounts.	Acceptances.	Warrants.	Total.	Discounts.	Acceptances.	Warrants.	Total.	Discounts.	Acceptances.	Warrants.	Total.
Boston	....	$58,603	$126,977	$185,580	$3,932,988	$5,262,222	$126,977	$9,322,187	42.2	56.4	1.4	100
New York	$4,348	450,000	2,434,561	2,888,909	1,925,351	20,242,315	2,459,764	24,627,430	7.8	82.2	10.0	100
Philadelphia	4,876	50,000	....	54,876	1,682,222	10,058,886	25,203	11,766,311	14.3	85.4	.3	100
Cleveland	....	150,000	1,018,462	1,168,462	2,542,343	6,185,295	1,043,665	9,771,303	26.0	63.3	10.7	100
Richmond	36,624	....	15,000	51,624	5,784,232	6,206,566	15,000	12,005,798	48.2	51.7	.1	100
Atlanta (including New Orleans branch)	41,813	....	....	41,813	1,153,026	944,791	....	2,097,817	55.0	45.0	....	100
Chicago	24,385	....	963,456	987,841	2,038,196	6,701,460	988,659	9,728,315	20.9	68.9	10.2	100
St. Louis	800	116,250	527,335	644,385	568,830	4,653,124	552,538	5,774,492	9.8	80.6	9.6	100
Minneapolis	56,724	....	....	56,724	1,794,098	2,543,352	....	4,337,450	41.4	58.6	....	100
Kansas City	89,560	....	253,693	343,253	158,577	2,684,869	278,896	3,122,342	5.1	86.0	8.9	100
Dallas	207,584	....	361,960	569,544	721,955	1,665,676	361,960	2,749,591	26.2	60.6	13.2	100
San Francisco	4,540	....	....	4,540	106,786	3,488,623	....	3,595,409	3.0	97.0	....	100
Total	471,254	824,853	5,701,444	6,997,551	22,408,604	70,637,179	5,852,662	98,898,445	....	....	....	....
Per cent	....	....	....	7.1	....	....	....	100.0	22.7	71.4	5.9	100

Maturities of discounted bills, acceptances, and municipal warrants held by the Federal Reserve Banks on Friday, Feb. 23, 1917.

[In thousands of dollars, i. e., 000's omitted.]

Banks.	1 to 15 days.				16 to 30 days.				31 to 60 days.				61 to 90 days.			
	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.
Boston	1,679	2,436	125	4,240	806	1,810	188	2,804	309	4,757	135	5,201	175	3,746	36	3,957
New York	1,581	6,157	18	7,756	101	7,864	317	8,282	223	11,963	45	12,231	161	7,400	175	7,736
Philadelphia	985	3,222	....	4,207	90	3,264	56	3,410	158	5,191	5	5,354	63	2,453	103	2,619
Cleveland	1,884	1,830	812	4,526	26	2,946	107	3,079	27	4,164	82	4,273	18	1,544	119	1,681
Richmond	1,157	2,134	....	3,291	760	1,446	....	2,206	1,309	2,385	....	3,694	426	716	....	1,142
Atlanta	719	848	117	1,684	429	651	....	1,080	677	1,459	2	2,138	336	486	3	825
Chicago	724	2,037	114	2,875	114	2,843	80	3,037	201	3,978	436	4,615	85	1,831	31	1,947
St. Louis	248	1,712	....	1,960	163	2,507	34	2,704	96	2,943	25	3,064	16	1,284	25	1,325
Minneapolis	1,026	2,681	15	3,722	241	1,015	323	1,579	768	2,548	....	3,316	207	696	....	903
Kansas City	86	838	....	924	80	1,885	6	1,971	107	1,388	30	1,525	92	839	25	956
Dallas	206	429	....	635	166	528	....	694	324	962	50	1,336	244	598	....	842
San Francisco	37	2,259	41	2,337	26	3,164	37	3,227	33	3,645	101	3,779	15	484	....	499
Total	10,332	26,583	1,242	38,157	3,002	29,923	1,148	34,073	4,232	45,383	911	50,526	1,838	22,077	517	24,432
Per cent	....	....	....	23.7	....	....	....	21.1	....	....	....	31.3	....	....	....	15.1

Maturities of discounted bills, acceptances, and municipal warrants held by the Federal Reserve Banks on Friday, Feb. 23, 1917—Continued.

[In thousands of dollars, i. e., 000's omitted.]

Banks.	Over 90 days.				Total.								Percentages.			
	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.	Bills discounted.		Acceptances bought.		Municipal warrants.		Total.		Bills discounted.	Acceptances bought.	Municipal warrants.	Total.
					Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.				
Boston	....	....	127	127	2,969	14.7	12,749	10.3	611	3.6	16,329	10.1	18.2	78.1	3.7	100.0
New York	....	....	4,979	4,979	2,066	10.2	33,384	26.9	5,534	32.3	40,984	25.4	5.0	81.5	13.5	100.0
Philadelphia	8	....	1,267	1,275	1,304	6.4	14,130	11.4	1,431	8.4	16,865	10.5	7.7	83.8	8.5	100.0
Cleveland	8	....	1,842	1,850	1,963	9.7	10,484	8.5	2,962	17.3	15,409	9.6	12.7	68.1	19.2	100.0
Richmond	58	....	15	73	3,710	18.3	6,681	5.4	15	.1	10,406	6.4	35.7	64.2	.1	100.0
Atlanta	58	....	2	60	2,219	11.0	3,444	2.8	124	.7	5,787	3.6	38.4	59.5	2.1	100.0
Chicago	74	....	2,181	2,255	1,198	5.9	10,689	8.6	2,842	16.6	14,729	9.1	8.1	72.6	19.3	100.0
St. Louis	33	....	1,043	1,076	556	2.7	8,446	6.8	1,127	6.6	10,129	6.3	5.5	83.4	11.1	100.0
Minneapolis	225	....	177	402	2,467	12.2	6,940	5.6	515	3.0	9,922	6.1	24.9	69.9	5.2	100.0
Kansas City	144	....	431	575	509	2.5	4,950	4.0	492	2.9	5,951	3.7	8.5	83.2	8.3	100.0
Dallas	201	....	456	657	1,141	5.6	2,517	2.0	506	2.9	4,164	2.6	27.4	60.4	12.2	100.0
San Francisco	53	....	786	839	164	.8	9,552	7.7	965	5.6	10,681	6.6	1.6	89.4	9.0	100.0
Total	862	....	13,306	14,168	20,266	100.0	123,966	100.0	17,124	100.0	161,356	100.0	12.6	76.8	10.6	100.0
Per cent	....	....	....	8.8	....	....	....	....	....	....	100.0	....	....	....	....	....

Total investment operations of each Federal Reserve Bank during the month of February, 1917.

Federal Reserve Bank.	Bills discounted for member banks.	Bills bought in open market.			Municipal warrants bought.			
		Bankers' acceptances.	Trade acceptances.	Total.	City.	State.	All other.	Total.
Boston	$3,932,988	$5,262,222	....	$5,262,222	$126,977	....	....	$126,977
New York	1,925,351	19,292,370	$949,945	20,242,315	2,459,764	....	....	2,459,764
Philadelphia	1,682,222	9,974,041	84,845	10,058,886	25,203	....	....	25,203
Cleveland	2,542,343	5,977,191	208,104	6,185,295	989,680	....	$53,985	1,043,665
Richmond	5,784,232	6,206,566	....	6,206,566	15,000	....	....	15,000
Atlanta	1,153,026	944,791	....	944,791	....	....	....	....
Chicago	2,038,196	6,511,715	189,745	6,701,460	988,659	....	....	988,659
St. Louis	568,830	4,653,124	....	4,653,124	552,538	....	....	552,538
Minneapolis	1,794,098	2,461,084	82,268	2,543,352	....	....	....	....
Kansas City	158,577	2,684,869	....	2,684,869	278,896	....	....	278,896
Dallas	721,955	1,665,676	....	1,665,676	361,960	....	....	361,960
San Francisco	106,786	3,357,142	131,481	3,488,623	....	....	....	....
Total, February, 1917	22,408,604	68,990,791	1,646,388	70,637,179	5,798,677	....	53,985	5,852,662
Total, February, 1916	7,664,600	11,894,800	522,000	12,416,800	10,419,200	$20,400	11,200	10,450,800
Total, January-February, 1917	40,734,890	89,366,832	1,887,527	91,254,359	13,000,585	2,040	580,537	13,583,162
Total, January-February, 1916	18,779,600	21,348,300	671,000	22,019,300	19,927,000	256,400	73,700	20,257,100

Federal Reserve Bank.	United States bonds and Treasury notes.					Total investment operations.			
	2 per cent.	3 per cent.	4 per cent.	1-year notes.	Total.	February, 1917.	February, 1916.	February, 1917.	February, 1916.
								Per ct.	*Per ct.*
Boston	....	....	....	....	....	$9,322,187	$4,388,800	9.4	11.0
New York	$57,500	....	....	....	$57,500	24,684,930	10,442,100	24.8	26.1
Philadelphia	....	....	....	....	....	11,766,311	1,948,800	11.8	4.9
Cleveland	....	....	....	....	....	9,771,303	2,036,500	9.8	5.1
Richmond	2,000	....	....	$456,000	458,000	12,463,798	4,341,000	12.5	10.8
Atlanta	....	....	....	....	....	2,097,817	1,797,900	2.1	4.5
Chicago	....	....	....	....	....	9,728,315	2,905,000	9.8	7.3
St. Louis	....	....	....	....	....	5,774,492	2,436,000	5.8	6.1
Minneapolis	25,000	$200	$250	....	25,450	4,362,900	1,092,000	4.4	2.7
Kansas City	....	....	....	....	....	3,122,342	5,255,950	3.1	13.1
Dallas	....	....	....	....	....	2,749,591	1,541,100	2.8	3.8
San Francisco	60,000	....	....	....	60,000	3,655,409	1,843,800	3.7	4.6
Total, February, 1917	144,500	200	250	456,000	600,950	99,499,395	....	100.0	....
Total, February, 1916	6,782,250	1,739,500	975,000	....	9,496,750	....	40,028,950	....	100.0
Total, January-February, 1917	2,514,650	61,440	250	456,000	3,032,340	148,604,751	....	....	....
Total, January-February, 1916	11,176,050	2,142,880	2,805,000	....	16,123,930	....	77,179,930	....	....

RESOURCES AND LIABILITIES.

Resources and liabilities of each Federal Reserve Bank and of the Federal Reserve System at close of business on Fridays Mar. 2 to Mar. 23, 1917.

RESOURCES.

[In thousands of dollars, i. e., 000's omitted.]

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.	Total.
Gold coin and certificates in vault:													
Mar. 2	12,944	162,508	25,145	14,303	5,389	6,020	28,872	9,488	11,548	7,808	7,110	13,028	304,163
Mar. 9	13,920	190,403	24,791	13,982	5,420	5,966	25,722	9,145	11,599	7,778	7,312	14,146	330,184
Mar. 16	13,282	209,672	24,475	14,330	5,482	6,156	29,154	11,293	11,653	7,789	7,448	14,584	355,318
Mar. 23	13,977	200,084	26,101	17,380	5,603	6,147	28,201	12,935	11,711	7,757	7,604	13,236	350,736
Gold settlement fund:													
Mar. 2	21,333	39,984	9,898	26,493	16,910	5,470	43,883	3,166	4,097	26,463	6,506	7,828	212,031
Mar. 9	20,680	19,844	14,920	26,043	16,541	5,534	47,086	5,685	6,448	25,658	7,167	9,955	205,561
Mar. 16	18,653	16,347	13,936	29,826	16,645	5,026	45,653	5,111	6,486	24,072	7,719	12,187	201,661
Mar. 23	21,015	21,241	16,841	26,017	16,085	4,041	43,870	4,240	8,641	26,153	7,568	13,569	209,281
Gold redemption fund:													
Mar. 2	50	250	250	62	481	547	200	174	155	141	22	15	2,347
Mar. 9	49	250	250	57	460	542	200	152	155	135	60	15	2,325
Mar. 16	50	250	250	48	450	595	200	95	155	174	57	15	2,339
Mar. 23	50	250	250	35	425	620	200	259	155	177	83	15	2,519
Legal-tender notes, silver, etc.:													
Mar. 2	802	2,590	265	85	120	1,342	462	2,568	736	95	876	30	9,971
Mar. 9	221	11,476	335	90	137	1,591	1,198	2,255	743	81	941	45	19,113
Mar. 16	213	8,862	147	112	97	1,465	1,017	2,464	733	62	940	64	16,176
Mar. 23	288	3,985	240	102	101	1,439	679	2,003	705	52	1,013	58	10,665
Total reserve:													
Mar. 2	35,129	205,332	35,558	40,943	22,900	13,379	73,417	15,396	16,536	34,507	14,514	20,901	528,512
Mar. 9	34,870	221,973	40,296	40,172	22,558	13,633	74,206	17,237	18,945	33,652	15,480	24,161	557,183
Mar. 16	32,198	235,131	38,808	44,316	22,674	13,242	76,024	18,963	19,027	32,097	16,164	26,850	575,494
Mar. 23	35,330	225,560	43,432	43,534	22,214	12,247	72,950	19,437	21,212	34,139	16,268	26,878	573,201
5 per cent redemption fund against Federal Reserve bank notes:													
Mar. 2	....	....	....	....	....	....	....	....	....	300	100	....	400
Mar. 9	....	....	....	....	....	....	....	....	....	300	100	....	400
Mar. 16	....	....	....	....	....	....	....	....	....	300	100	....	400
Mar. 23	....	....	....	....	....	....	....	....	....	300	100	....	400
Bills discounted—Members:													
Mar. 2	2,812	874	1,177	1,657	3,639	2,197	1,614	602	2,475	468	1,126	199	18,840
Mar. 9	2,534	785	1,542	2,062	3,388	2,139	1,786	534	1,736	487	1,313	194	18,500
Mar. 16	1,872	917	1,819	1,728	3,541	1,980	1,381	495	1,402	447	1,440	212	17,234
Mar. 23	1,743	888	1,387	2,240	4,067	2,034	1,970	798	1,093	447	1,533	273	18,473
Bills bought in open market:													
Mar. 2	11,459	30,690	13,305	9,456	7,062	3,349	9,720	7,651	6,480	4,506	2,255	8,125	114,058
Mar. 9	11,615	28,641	12,152	9,092	6.982	3,315	9,067	7,150	6,739	4,229	2,144	7,734	108,860
Mar. 16	11,771	24,960	11,587	7,319	6,752	3,677	7,960	5,827	6,071	3,202	1,975	5,901	97,002
Mar. 23	10,738	21,400	10,486	6,542	6,719	3,655	9,041	4,555	5,170	2,368	1,636	5,488	87,798
United States bonds:													
Mar. 2	....	71	....	4,985	442	50	5,961	2,203	1,409	7,697	3,403	2,429	28,650
Mar. 9	....	71	....	4,985	442	50	5,962	2,203	1,434	8,147	3,403	2,429	29,126
Mar. 16	....	81	....	4,985	442	50	5,961	2,203	1,454	8,147	3,403	2,429	29,155
Mar. 23	....	81	....	4,985	442	170	5,962	2,203	1,454	8,147	3,403	2,429	29,275
1-year Treasury notes:													
Mar. 2	1,666	726	1,999	1,820	1,969	1,491	2,962	891	1,230	1,784	1,430	1,500	19,468
Mar. 9	1,666	726	1,999	1,820	1,969	1,491	2,962	891	1,230	1,784	1,430	1,500	19,468
Mar. 16	1,666	626	1,999	1,820	1,969	1,491	2,962	891	1,230	1,784	1,430	1,500	19,368
Mar. 23	1,666	126	1,999	1,820	1,969	1,491	2,912	891	1,230	1,784	1,430	1,500	18,818
Municipal warrants:													
Mar. 2	486	5,534	1,434	2,952	15	7	2,728	1,127	499	492	559	965	16,798
Mar. 9	486	5,534	1,433	3,181	15	7	2,728	1,127	499	492	506	924	16,932
Mar. 16	298	5,403	1,378	3,080	15	7	2,698	1,094	177	486	506	887	16,029
Mar. 23	298	5,199	1,378	3,066	15	7	2,648	1,094	177	486	506	887	15,761
Federal Reserve notes, net:													
Mar. 2	1,403	15,805	....	1,097	....	....	2,465	....	....	....	20	2,305	23,095
Mar. 9	1,269	14,258	....	851	....	....	2,171	....	....	....	....	2,059	20,608
Mar. 16	1,160	15,106	....	820	....	....	3,208	....	....	....	....	1,697	21,991
Mar. 23	1,335	13,287	....	878	....	....	2,199	....	....	....	....	1,741	19,440
Due from other Federal Reserve Banks, net:													
Mar. 2	2,559	....	2,354	2,444	....	398	2,172	679	1,123	1,881	....	738	[1] 4,023
Mar. 9	1,216	....	....	2,552	27	610	5,250	672	421	2,058	236	1,382	[1] 3,143
Mar. 16	3,041	....	....	2,148	....	394	2,917	91	....	2,490	....	1,125	[1] 3,379
Mar. 23	1,664	....	....	1,920	255	2,479	396	316	1,950	1,636	....	1,768	[1] 3,298
Uncollected items:													
Mar. 2	12,373	29,052	22,008	12,086	8,953	8,054	24,016	9,881	4,349	7,923	6,985	8,346	154,026
Mar. 9	10,919	23,156	18,099	9,734	8,232	7,098	19,961	8,750	4,547	8,736	5,885	5,294	130,411
Mar. 16	15,402	29,840	22,666	11,194	8,868	8,287	23,008	9,524	6,295	9,862	5,707	5,323	155,976
Mar. 23	13,787	29,605	18,514	11,609	8,567	7,367	21,090	10,118	3,723	9,814	5,067	6,496	145,757

[1] Difference between net amounts due from and net amounts due to other Federal Reserve Banks.

Resources and liabilities of each Federal Reserve Bank and of the Federal Reserve System at close of business on Fridays Mar. 3 to Mar. 23, 1917—Continued.

RESOURCES—Continued.

[In thousands of dollars, i. e., 000's omitted.]

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.	Total.
All other resources:													
Mar. 2	94	317	458	250	117	2,178	387	1,523	111	211	1,758	417	7,821
Mar. 9	55	373	454	246	145	1,576	662	982	103	249	1,039	517	6,401
Mar. 16	51	379	316	158	95	1,862	525	895	159	222	1,100	436	6,198
Mar. 23	9	400	168	181	89	1,603	500	551	142	206	1,389	442	5,680
Total resources:													
Mar. 2	67,981	288,401	78,293	77,690	45,097	31,103	125,442	39,953	34,212	59,769	32,150	45,925	915,691
Mar. 9	64,630	295,517	75,975	74,695	43,758	29,919	124,755	39,546	35,654	60,134	31,536	46,194	911,032
Mar. 16	67.459	312,443	78,573	77,568	44,356	30,990	126,644	39,983	35,815	59,037	31,825	46,360	942,226
Mar. 23	66,570	296,545	77,364	76,775	44,337	31,053	119,667	39,963	36,151	59,327	31,332	47,902	917,901

LIABILITIES.

[In thousands of dollars, i. e., 000's omitted.]

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.	Total.
Capital paid in:													
Mar. 2	$5,083	$11,888	$5,259	$6,085	$3,409	$2,420	$6,999	$2,794	$2,412	$3,089	$2,696	$3,911	$56,045
Mar. 9	5,064	11,880	5,260	6,086	3,404	2,418	6,999	2,795	2,413	3,089	2,696	3,924	56,028
Mar. 16	5,068	11,880	5,260	6,089	3,405	2,418	6,999	2,795	2,413	3,089	2,698	3,940	56,054
Mar. 23	5,068	11,880	5,260	6,090	3,408	2,414	6,999	2,795	2,415	3,089	2,698	3,941	56,057
Government deposits:													
Mar. 2	1,240	2,507	1,128	737	892	1,988	1,668	236	732	351	926	1,757	14,162
Mar. 9	[1] −148	4,382	914	499	399	1,312	1,055	[1] −26	882	281	1,001	1,850	12,401
Mar. 16	1,408	7,476	1,063	240	860	1,825	665	589	895	443	1,091	2,039	18,594
Mar. 23	1,224	7,375	1,378	258	1,308	2,210	912	317	888	354	1,167	2,311	19,702
Due to members—reserve account:													
Mar. 2	53,280	242,046	47,876	59,530	25,441	19,700	97,765	27,188	27,629	47,535	24,372	36,531	708,893
Mar. 9	51,193	249,334	48,983	58,613	25,793	19,565	101,898	27,594	28,380	46,791	24,742	37,602	720,488
Mar. 16	48,473	260,551	47,328	59,615	25,891	19,380	102,228	26,991	28,009	46,208	24,072	37,358	726,104
Mar. 23	49,108	247,615	49,267	58,993	25,968	19,411	96,584	27,036	27,834	47,405	23,746	38,150	711,117
Collection items:													
Mar. 2	8,297	22,123	20,790	11,338	8,096	4,248	19,010	7,226	2,396	5,444	3,716	3,646	116,330
Mar. 9	8,420	19,198	17,145	9,497	7,255	3,975	14,803	6,825	2,655	7,522	2,786	2,743	102,824
Mar. 16	12,411	24,990	20,433	11,624	7,260	4,713	16,752	7,201	2,566	7,759	2,886	2,955	121,550
Mar. 23	11,074	22,577	18,100	11,434	7,868	4,643	15,172	7,223	2,433	7,227	2,604	3,429	113,784
Federal Reserve notes, net:													
Mar. 2	....	....	3,102	....	7,021	2,747	....	2,509	1,043	3,350	....	....	19,772
Mar. 9	....	....	2,787	....	6,907	2,649	....	2,358	1,324	2,451	311	....	18,787
Mar. 16	....	....	3,205	....	6,878	2,654	....	2,407	1,926	1,538	836	....	19,444
Mar. 23	....	....	1,403	....	5,785	2,375	....	2,592	2,555	1,252	763	....	16,725
Due to other Federal Reserve banks, net:													
Mar. 2	....	9,647	....	....	238	....	....	....	....	....	440	....	....
Mar. 9	....	10,533	748	....	....	....	....	....	....	....	....	....	....
Mar. 16	....	7,366	1,151	....	62	....	....	....	6	....	242	....	....
Mar. 23	....	6,913	1,819	....	....	....	....	....	....	....	354	....	....
All other liabilities:													
Mar. 2	81	190	138	....	....	....	....	....	....	....	....	80	489
Mar. 9	101	190	138	....	....	....	....	....	....	....	....	75	504
Mar. 16	99	180	133	....	....	....	....	....	....	....	....	68	480
Mar. 23	96	186	137	....	....	....	....	....	26	....	....	71	516
Total liabilities:													
Mar. 2	67,981	288,401	78,293	77,690	45,097	31,103	125,442	39,953	34,212	59,769	32,150	45,925	915,691
Mar. 9	64,630	295,517	75,975	74,695	43,758	29,919	124,755	39,546	35,654	60,134	31,536	46,194	911,032
Mar. 16	67,459	312,443	78,573	77,568	44,356	30,990	126,644	39,983	35,815	59,037	31,825	46,360	942,226
Mar. 23	66,570	296,546	77,364	76,775	44,337	31,053	119,667	39,963	36,151	59,327	31,332	47,902	917,901

[1] Overdrafts.

FEDERAL RESERVE NOTES.

Federal Reserve note account of each Federal Reserve Bank at close of business on Fridays, Mar. 2 to Mar. 23, 1917.

[In thousands of dollars, i. e., 000's omitted.]

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.	Total.
Federal Reserve notes received from agent, net:													
Mar. 2	15,476	143,361	22,103	14,003	17,120	20,685	15,369	16,184	20,328	22,496	20,540	16,182	343,847
Mar. 9	15,460	150,500	23,433	14,357	17,214	20,718	17,323	16,146	20,184	22,711	21,048	16,169	355,263
Mar. 16	15,426	157,866	23,199	14,278	17,071	20,633	19,154	15,555	20,145	22,926	21,237	15,788	363,278
Mar. 23	16,144	161,742	24,750	15,407	16,957	20,525	20,988	15,125	20,113	23,327	21,404	15,762	372,244
Federal Reserve notes held by bank:													
Mar. 2	1,403	15,805	958	1,097	584	784	2,465	1,338	2,057	523	270	2,305	29,589
Mar. 9	1,269	14,258	1,273	851	888	582	3,131	1,489	1,776	586	489	2,059	28,651
Mar. 16	1,160	15,106	855	820	826	677	3,208	940	1,174	508	246	1,697	27,217
Mar. 23	1,335	13,287	1,947	878	910	556	2,199	755	545	742	545	1,741	25,440
Federal Reserve notes in circulation:													
Mar. 2	14,073	127,556	21,145	12,906	16,536	19,901	12,904	14,846	18,271	21,973	20,270	13,877	314,258
Mar. 9	14,191	136,242	22,160	13,506	16,326	20,136	14,192	14,657	18,408	22,125	20,559	14,110	326,612
Mar. 16	14,266	142,760	22,344	13,458	16,245	19,956	15,946	14,615	18,971	22,418	20,991	14,091	336,061
Mar. 23	14,809	148,455	22,803	14,529	16,047	19,969	18,789	14,370	19,568	22,585	20,859	14,021	346,804
Gold and lawful money deposited with or to credit of Federal Reserve Agent:													
Mar. 2	15,476	143,361	18,043	14,003	9,515	17,154	15,369	12,337	17,228	18,623	20,290	16,182	317,581
Mar. 9	15,460	150,500	19,373	14,357	9,419	17,487	16,363	12,299	17,084	19,674	20,248	16,169	328,433
Mar. 16	15,426	157,866	19,139	14,278	9,367	17,302	19,154	12,208	17,045	20,880	20,155	15,788	338,608
Mar. 23	16,144	161,742	21,400	15,407	10,262	17,594	20,988	11,778	17,013	21,333	20,096	15,762	349,519
Commercial paper delivered to Federal Reserve Agent:													
Mar. 2	....	....	4,062	....	8,410	3,559	....	3,848	3,100	3,886	1,835	....	28,700
Mar. 9	....	....	4,099	....	8,863	3,573	960	3,848	3,100	3,157	2,086	....	29,686
Mar. 16	....	....	4,099	....	8,195	3,373	....	3,352	3,100	2,153	1,917	....	26,189
Mar. 23	....	....	3,390	....	7,480	2,977	....	3,352	3,100	2,087	2,000	....	24,386

Federal Reserve note account of each Federal Reserve Agent at close of business on Fridays, Mar. 2 to Mar. 23, 1917.

[In thousands of dollars, i. e., 000's omitted.]

	Boston.	New York.	Philadelphia.	Cleveland.	Richmond.	Atlanta.	Chicago.	St. Louis.	Minneapolis.	Kansas City.	Dallas.	San Francisco.	Total.
Federal Reserve notes:													
Received from Comptroller—													
Mar. 2	33,880	259,400	37,520	23,860	29,500	36,380	18,720	22,540	32,000	28,720	35,320	18,560	576,400
Mar. 9	33,880	263,800	37,520	23,860	29,500	36,380	20,680	23,340	32,000	28,720	35,320	18,560	583,560
Mar. 16	33,880	275,480	37,520	23,860	29,500	36,380	22,520	23,340	32,000	29,720	35,720	18,560	598,480
Mar. 23	33,880	287,480	37,520	23,860	29,500	36,380	29,360	23,340	32,000	37,720	35,720	18,560	625,320
Returned to Comptroller—													
Mar. 2	8,844	61,719	7,177	4,757	8,480	4,630	1,851	3,316	1,152	2,736	6,144	2,378	113,184
Mar. 9	8,860	62,180	7,247	4,803	8,686	4,697	1,857	3,354	1,316	2,901	6,185	2,391	114,477
Mar. 16	9,094	62,414	7,481	4,882	8,829	4,942	1,866	3,445	1,355	3,171	6,607	2,772	116,858
Mar. 23	9,136	65,338	7,570	4,953	8,943	5,050	1,872	3,875	2,237	3,295	6,800	2,798	121,867
Chargeable to Federal Reserve Agent—													
Mar. 2	25,036	197,681	30,343	19,103	21,020	31,750	16,869	19,224	30,848	25,984	29,176	16,182	463,216
Mar. 9	25,020	201,620	30,273	19,057	20,814	31,683	18,823	19,986	30,684	25,819	29,135	16,169	469,083
Mar. 16	24,786	213,066	30,039	18,978	20,671	31,438	20,654	19,895	30,645	26,549	29,113	15,788	481,622
Mar. 23	24,744	222,142	29,950	18,907	20,557	31,330	27,488	19,465	29,763	34,425	28,920	15,762	503,453
In hands of Federal Reserve Agent—													
Mar. 2	9,560	54,320	8,240	5,100	3,900	11,065	1,500	3,040	10,520	3,488	8,636	....	119,369
Mar. 9	9,560	51,120	6,840	4,700	3,600	10,965	1,500	3,840	10,500	3,108	8,087	....	113,820
Mar. 16	9,360	55,200	6,840	4,700	3,600	10,805	1,500	4,340	10,500	3,623	7,876	....	118,344
Mar. 23	8,600	60,400	5,200	3,500	3,600	10,805	6,500	4,340	9,650	11,098	7,516	....	131,209
Issued to Federal Reserve Bank, net—													
Mar. 2	15,476	143,361	22,103	14,003	17,120	20,685	15,369	16,184	20,328	22,496	20,540	16,182	343,847
Mar. 9	15,460	150,500	23,433	14,357	17,214	20,718	17,323	16,146	20,184	22,711	21,048	16,169	355,263
Mar. 16	15,426	157,866	23,199	14,278	17,071	20,633	19,154	15,555	20,145	22,926	21,237	15,788	363,278
Mar. 23	16,144	161,742	24,750	15,407	16,957	20,525	20,988	15,125	20,113	23,327	21,404	15,762	372,244
Amounts held by Federal Reserve Agent:													
In reduction of liability on outstanding notes—													
Gold coin and certificates on hand—													
Mar. 2	14,650	136,946	3,730	13,233	....	2,960	....	5,165	13,030	4,370	10,110	....	204,194
Mar. 9	14,650	144,546	3,730	13,533	....	2,960	....	5,165	13,030	4,370	10,110	....	212,094
Mar. 16	14,650	152,144	3,730	13,513	....	2,897	....	5,165	13,030	3,370	10,110	....	218,609
Mar. 23	15,410	156,564	3,730	10,573	....	2,896	....	5,165	13,018	2,370	10,110	....	219,836
Credit balances—													
In gold redemption fund—													
Mar. 2	826	6,415	1,183	770	515	1,174	119	742	948	993	1,100	802	15,587
Mar. 9	810	5,954	1,313	824	419	1,107	113	704	924	944	1,058	789	14,959
Mar. 16	776	5,722	1,269	765	367	985	704	613	885	1,350	1,165	778	15,379
Mar. 23	734	5,178	1,180	834	262	878	698	563	865	1,303	1,106	752	14,353
With Federal Reserve Board—													
Mar. 2	....	....	13,130	....	9,000	13,020	15,250	6,430	3,250	13,260	9,080	15,380	97,800
Mar. 9	....	....	14,330	....	9,000	13,420	16,250	6,430	3,130	14,360	9,080	15,380	101,380
Mar. 16	....	....	14,140	....	9,000	13,420	18,450	6,430	3,130	16,160	8,880	15,010	104,620
Mar. 23	....	....	16,490	4,000	10,000	13,820	20,290	6,050	3,130	17,660	8,880	15,010	115,330
As security for outstanding notes—													
Commercial paper [a]—													
Mar. 2	....	....	4,060	....	7,605	3,531	....	3,847	3,100	3,873	250	....	26,266
Mar. 9	....	....	4,060	....	7,795	3,231	960	3,847	3,100	3,037	800	....	26,830
Mar. 16	....	....	4,060	....	7,704	3,331	....	3,347	3,100	2,046	1,082	....	24,670
Mar. 23	....	....	3,350	....	6,695	2,931	....	3,347	3,100	1,994	1,308	....	22,725
Total—													
Mar. 2	15,476	143,361	22,103	14,003	17,120	20,685	15,369	16,184	20,328	22,946	20,540	16,182	343,847
Mar. 9	15,460	150,500	23,433	14,357	17,214	20,718	17,323	16,146	20,184	22,711	21,048	16,169	355,263
Mar. 16	15,426	157,866	23,199	14,278	17,071	20,633	19,154	15,555	20,145	22,926	21,237	15,788	363,278
Mar. 23	16,144	161,742	24,750	15,407	16,957	20,525	20,988	15,125	20,113	23,327	21,404	15,762	372,244

[a] Actual amounts of paper delivered to the Federal Reserve Agents to secure circulation are shown in the note account of the Federal Reserve Banks on p. 324.

EARNINGS ON INVESTMENTS OF FEDERAL RESERVE BANKS.

Average amounts of earning assets held by each Federal Reserve Bank during February, 1917, earnings from each class of earning assets, and annual rates of earnings on the basis of February, 1917, returns.

Banks.	Average balances for the month of the several classes of earning assets.				
	Bills discounted, members.	Bills bought in open market.	United States bonds and Treasury notes.	Municipal warrants.	Total.
Boston	$1,817,177	$13,057,843	$1,683,893	$600,453	$17,159,366
New York	1,685,390	32,050,538	790,996	5,121,005	39,647,929
Philadelphia	902,672	13,884,436	2,016,107	1,432,016	18,235,231
Cleveland	1,264,443	9,877,174	6,821,510	2,670,188	20,633,315
Richmond	3,792,474	5,434,959	2,465,729	12,705	11,705,867
Atlanta	2,242,595	3,493,056	1,543,843	123,558	7,403,052
Chicago	1,499,458	10,023,230	8,966,957	2,598,370	23,088,015
St. Louis	551,335	7,382,675	3,093,900	1,019,434	12,047,344
Minneapolis	2,216,400	6,766,000	2,656,100	529,100	12,167,600
Kansas City	509,328	4,130,159	9,480,850	414,169	14,534,506
Dallas	1,224,287	1,901,407	4,833,250	334,717	8,293,661
San Francisco	194,481	9,863,426	3,920,179	966,216	14,944,302
	17,900,040	117,864,903	48,273,314	15,821,931	199,860,188

Banks.	Earnings from—					Calculated annual rates of earnings from—				
	Bills discounted, members.	Bills bought in open market.	United States bonds and Treasury notes.	Municipal warrants.	Total.	Bills discounted, members.	Bills bought in open market.	United States bonds and Treasury notes.	Municipal warrants.	Total.
						Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Boston	$5,348	$30,055	$3,911	$1,411	$40,725	3.84	3.00	3.03	3.06	3.10
New York	4,741	78,271	1,883	12,103	96,998	3.66	3.19	3.00	3.08	3.19
Philadelphia	2,700	31,614	4,693	3,139	42,146	3.90	2.96	3.03	2.85	3.01
Cleveland	3,633	22,426	15,167	6,246	47,472	3.77	2.96	2.90	3.05	3.00
Richmond	11,140	12,682	5,297	27	29,146	3.83	3.04	2.80	2.79	3.25
Atlanta	6,757	8,501	3,553	345	19,156	3.93	3.17	3.00	3.64	3.37
Chicago	4,974	21,534	19,359	6,253	52,120	4.32	2.80	2.59	3.14	2.86
St. Louis	1,694	17,077	6,025	2,384	27,180	4.00	3.02	2.54	3.05	2.94
Minneapolis	7,417	15,225	5,693	1,186	29,521	4.36	2.93	2.79	2.92	3.16
Kansas City	1,976	9,411	16,509	901	28,797	5.05	2.97	2.27	2.84	2.58
Dallas	4,222	4,891	9,642	927	19,682	4.49	3.41	2.57	3.59	2.85
San Francisco	704	21,648	7,277	2,231	31,860	4.73	2.86	2.23	3.01	2.78
	55,306	273,335	99,009	37,153	464,803	4.02	3.02	2.67	3.06	3.03

DISCOUNT RATES.

Discount rates of each Federal Reserve Bank in effect Apr. 1, 1917.

	Member banks' collateral loans.	Maturities.								
		Discounts.					Trade acceptances.			Commodity paper maturing within 90 days.
		Within 15 days.	16 to 30 days, inclusive.	31 to 60 days, inclusive.	61 to 90 days, inclusive.	Agricultural and live-stock paper over 90 days.	To 30 days, inclusive.	31 to 60 days, inclusive.	61 to 90 days, inclusive.	
Boston	3½	....	4	4	4	5	3½	3½	3½	4
New York	3	3	4	4	4	5	3½	3½	3½	....
Philadelphia	3½	3½	4	4	4	4½	3½	3½	3½	3½
Cleveland	3½	3½	4	4½	4½	5	3	3½	4	....
Richmond	3½	4	4	4	4	4½	3½	3½	3½	3½
Atlanta	3½	3½	4	4	4½	5	3½	3½	3½	3½
Chicago	3½	3½	4	4	4½	5	3½	3½	3½	....
St. Louis	3½	3½	4	4	4	5	3½	3½	3½	3½
Minneapolis	4	4	4	4	4½	5	3½	3½	4	4
Kansas City	4	4	4½	4½	4½	5	4	4	4	4
Dallas	3½	3½	4	4	4½	5	3½	3½	3½	3½
San Francisco	3½	3½	4	4	4½	5½	3½	3½	3½	3½

NOTE.—Rate for bankers' acceptances, 2½ to 4 per cent.

GOLD IMPORTS AND EXPORTS.

Gold imports and exports into and from the United States.

[In thousands of dollars, i. e., 000's omitted.]

	Week ending—				Total since Jan. 1, 1917.	Total for corresponding period during 1916.
	Feb. 23, 1917.	Mar. 2, 1917.	Mar. 9, 1917.	Mar. 16, 1917.		
IMPORTS.						
Ore and base bullion	160	279	598	234	2,952	1,948
United States mint or assay office bars	....	....	1	....	6	776
Bullion, refined	49,567	411	25,275	49,232	143,219	5,970
United States coin	....	1	....	....	51,006	94
Foreign coin	....	2,433	2,448	4,935	50,858	20,026
Total imports	49,727	3,124	28,322	54,401	248,041	28,814
EXPORTS.						
Domestic:						
Ore and base bullion	....	17	....	....	52	119
United States mint or assay office bars	851	2	1,200	1	3,238	2,774
Bullion, refined	70	12	17	32	1,194	2,906
Coin	6,485	4,764	1,891	3,450	42,519	12,659
Total	7,406	4,795	3,108	3,483	47,003	18,458
Foreign:						
Bullion, refined	....	....	....	....	31	1,438
Coin	1,197	453	36	322	3,823	10,860
Total	1,197	453	36	322	3,854	12,298
Total exports	8,603	5,248	3,144	3,805	50,857	30,756

Excess of gold imports over exports since Jan. 1, 1917, $197,184.
Excess of gold imports over exports since Aug. 1, 1914, $1,065,946.

FOREIGN EXCHANGE RATES.

Monthly ranges of exchange rates on leading foreign money centers, quoted in New York City during December, 1916, January, February, and March, 1917.

[In continuation of figures published in December, 1916, Bulletin.]

	December, 1916.		January, 1917.		February, 1917.		March, 1917.	
	Low.	High.	Low.	High.	Low.	High.	Low.	High.
London:								
60-day bankers' bills .... dollars..	$4.71\frac{5}{8}$	$4.71\frac{3}{4}$	$4.71\frac{5}{8}$	$4.71\frac{7}{8}$	$4.71\frac{1}{2}$	$4.72\frac{1}{8}$	$4.71\frac{1}{4}$	$4.71\frac{3}{4}$
Sight drafts .... do....	$4.75\frac{7}{16}$	$4.75\frac{11}{16}$	$4.75\frac{9}{16}$	4.7585	$4.75\frac{1}{4}$	4.7580	4.7490	4.7555
Paris .... francs..	586	$583\frac{3}{8}$	$584\frac{5}{8}$	$584\frac{1}{4}$	$585\frac{1}{2}$	$584\frac{3}{8}$	$585\frac{1}{2}$	$584\frac{1}{16}$
Berlin .... dollars..	$65\frac{1}{8}$	$75\frac{1}{4}$	$67\frac{1}{8}$	$71\frac{7}{16}$	$66\frac{7}{8}$	$70\frac{7}{8}$	68	$71\frac{1}{2}$
Petrograd .... do....	29.25	30.75	28.05	29.90	28	29.10	27.60	28.60
Vienna .... do....	11.03	13.40	10.50	11.79	10.60	11.10	11.05	11.50
Milan .... lire..	695	666	731	$688\frac{1}{2}$	764	708	787	763
Amsterdam .... dollars..	$40\frac{3}{4}$	$40\frac{7}{8}$	$40\frac{3}{4}$	$40\frac{13}{16}$	$40\frac{3}{8}$	$40\frac{3}{4}$	$40\frac{3}{16}$	$40\frac{1}{2}$
Copenhagen .... do....	27	27.80	27.20	27.70	27.30	27.55	27.45	29.60
Zurich .... francs..	518	493	508	500	502	500	504	$501\frac{1}{2}$
Buenos Aires .... dollars..	43.25	44.89	43.21	44.34	43.40	44.46	42.25	44.03
Rio de Janeiro .... do....	23.10	23.63	23.21	23.57	22.97	23.46	22.90	23.18
Hongkong .... do....	55.45	58	55	58	55.75	58	55.25	56.50
Shanghai .... do....	87	89	84	89	85	$89\frac{1}{2}$	81	$86\frac{1}{2}$
Yokohama .... do....	$50\frac{3}{4}$	$50\frac{7}{8}$	$50\frac{7}{8}$	$50\frac{7}{8}$	$50\frac{7}{8}$	51	51	51

GOLD RESERVES AND NOTE CIRCULATION OF PRINCIPAL EUROPEAN BANKS OF ISSUE.

As the result of the war, certain changes have taken place in the reserve position of the principal European banks of issue, owing largely to the vast amounts of notes issued to meet the demands of the Governments of the belligerent countries. The following tabulation, compiled from either original reports of the banks or official reports of the Governments, shows the amounts of gold reserve—i. e., amounts of gold coin and bullion held in vault, and of notes issued by the central banks at the end of the calendar years 1913 to 1916.

It should be noted from the outset that the amounts of gold given as the gold reserves of the central banks by no means represent the total amounts of gold in Europe. These reserves do not include the gold held by the Government treasuries nor, as in the case of the United Kingdom and neutral countries, the considerable amounts of gold held by commercial and other banks, and the gold in actual circulation. There are but few reliable data as to the volume of gold outside the control of the Governments or central banks.

The British Government reports a total of £28,500,000, or $138,695,250, nominal, of metallic cover, largely gold, against a total of £150,144,177 ($730,676,637 nominal) of currency notes and certificates issued since August, 1914, and outstanding about the end of 1916, and smaller amounts are undoubtedly held by other European exchequers.

In addition, the Irish and Scotch banks report for the four weeks ending December 30, 1916, an average of £29,689,208 ($144,481,908 nominal) of gold and silver held against an average of £36,332,285 ($176,811,055 nominal) of circulation outstanding, compared with £11,380,813 ($55,384,726 nominal) of metallic reserve against £16,237,861 ($79,021,551 nominal) of notes in circulation about the end of 1913. These figures are exclusive of the small amounts of reserve and circulation of six private banks and three joint-stock banks in England proper.

The figures of gold reserves shown for the Reichsbank and the Bank of France, it is generally conceded, more nearly approximate the total monetary gold stock of these countries, though it has been stated repeatedly that the large addition to the gold reserve of the Reichsbank is due partly to the transfer to its vaults of some of the gold held at the outbreak of the war by the Austro-Hungarian Bank. The fact is that the latter bank has published no statement since July 23, 1914, when its gold reserve was given as 1,237,879,000 kronen ($251,289,437 nominal), compared with 1,356,857,000 marks ($322,931,966 nominal) of gold reserve reported by the Reichsbank for the same date.

In the case of Italy the figures of reserve and of note circulation relate to the Bank of Italy only. To the figures given should be added the gold reserves and note circulation of the Banco di Napoli and the Banco di Sicilia, the other two Italian banks of issue. Through the courtesy of its New York agency, we are able to give the following data for the Bank of Naples:

End of—	Gold reserve.	Bank note circulation.
	Lire.	*Lire.*
1913	218,439,000	417,806
1914	242,991,000	518,306
1916	212,715,000	797,732

Moreover, the Italian treasury held on November 30, 1916, 168,000,000 lire (32.4 million dollars nominal) of metallic reserve, largely gold, against 1,293,000,000 lire of its own notes in circulation.

In Belgium neither of the two banks of issue, the National Bank of Belgium nor the Société Générale de Belgique, have any substantial vault reserves, the former having removed its reserve to London prior to the occupation of Brussels by the German military forces, and the latter having lost its vault reserve through its forcible removal to Berlin.

An analysis of the reserve figures indicates that the combined gold resources of the central banks of the allied countries were at the end of 1916 practically as large as at the end of 1913, the losses shown for the Russian, French, and Italian central banks being fully balanced by the gains in the metallic reserve (practically all gold) of the Bank of England. This transfer of reserves by the allies to London proceeded on a much larger scale than is indicated by the reserve figures of the central banks of issue, the bulk of the gold "pooled" having been shipped oversea, largely to the United States.

The gold reserve of the Reichsbank shows an increase during the three years of over 115 per cent, though, as stated above, it is not known what portion of the increase is represented by withdrawals from circulation, as the result of voluntary offerings of gold coin and bullion in exchange for notes and what portion by gold formerly owned by the Austro-Hungarian Bank.

Substantial gains, absolute as well as relative, are shown also for the gold reserves of the central banks of the neutral countries in Europe, these gains being especially large in the case of the banks of Netherlands and Spain. The increases in the gold reserves of the three Scandinavian banks are much smaller, as these banks for some time past, as the result of changes in the mint acts of their countries, have refused to receive at the legal rate bullion or foreign gold coin.

While the reported gold reserves of the European central banks show an increase during the three years 1914–1916 of over 18 per cent, their reported outstanding note circulation shows an increase for the same period of nearly 270 per cent. The rate of increase would be considerably higher if the figures of note circulation of the Austro-Hungarian Bank at the end of 1916 were known. Some idea of the present volume of this circulation may be had from the fact that on June 23, 1914, the total circulation of the Austro-Hungarian Bank outstanding was 2,129,759,000 kronen ($432,341,000 nominal) and that since the outbreak of the war to June 30, 1916, the bank advanced to the Government a total of 6,424,900,000 kronen ($1,304,250,000 nominal), most likely in the shape of bank notes. Moreover, as stated above, large additions to the national currency have been made by the British, German, and Italian treasuries through the direct issues of their own notes.

Furthermore, as the result chiefly of the enormous credit operations of the Governments, the deposits of the principal European banks of issue show rates of increase about as large as, if not larger than, those shown above for their note circulation. The following exhibit gives the deposit liabilities (in thousands of dollars) of the four leading European banks at the close of the years 1913–1916:

At end of—	Bank of England.	Bank of Russia.	Bank of France.	German Reichsbank.
1913	$347,193	$600,237	$188,886	$188,763
1914	754,249	500,177	549,762	418,144
1915	786,669	760,253	444,532	561,445
1916	870,339	1,216,852	439,120	1,086,281

The large increases in deposits shown are made up chiefly of new credits to the governments or to commercial banks. The latter treat these credits as reserve or cash, which, in turn, forms the basis of new deposit credits granted to the customers of these banks.

Gold reserves and note circulation of principal European banks of issue at the end of 1913, 1914, 1915, and 1916.

[In millions of dollars.]

(A) GOLD RESERVES.

I. ALLIED COUNTRIES.

	Close of calendar years—			
	1913	1914	1915	1916
United Kingdom [1]	170	338	251	264
Russia	781	800	830	758
France	679	799	968	653
Italy	214	216	208	174
Total	1,844	2,153	2,257	1,849

II. CENTRAL EUROPE.

Germany	278	498	582	600
Austria-Hungary	252	(2)	(2)	(2)

III. NEUTRAL COUNTRIES.

Sweden	27	29	33	49
Norway	12	10	14	33
Denmark	20	25	30	[3] 42
Netherlands	61	87	173	236
Switzerland	33	46	48	67
Spain	92	110	167	241
Total	245	307	465	668

[1] Including small amount of silver.
[2] No data.
[3] Figures for Sept. 30, 1916.

Gold reserves and note circulation of principal European banks of issue at the end of 1913, 1914, 1915, and 1916—Continued.

(B) NOTE CIRCULATION.

I. ALLIED COUNTRIES.

	Close of calendar years—			
	1913	1914	1915	1916
United Kingdom	144	176	172	193
Russia	859	1,475	2,732	4,425
France	1,103	1,927	2,569	3,219
Italy	341	417	587	748
Belgium	203	312	372	[1] 372
Total	2,650	4,307	6,432	8,957

II. CENTRAL EUROPE.

Germany	617	1,201	1,646	1,917
Austria-Hungary	481	(2)	(2)	(2)

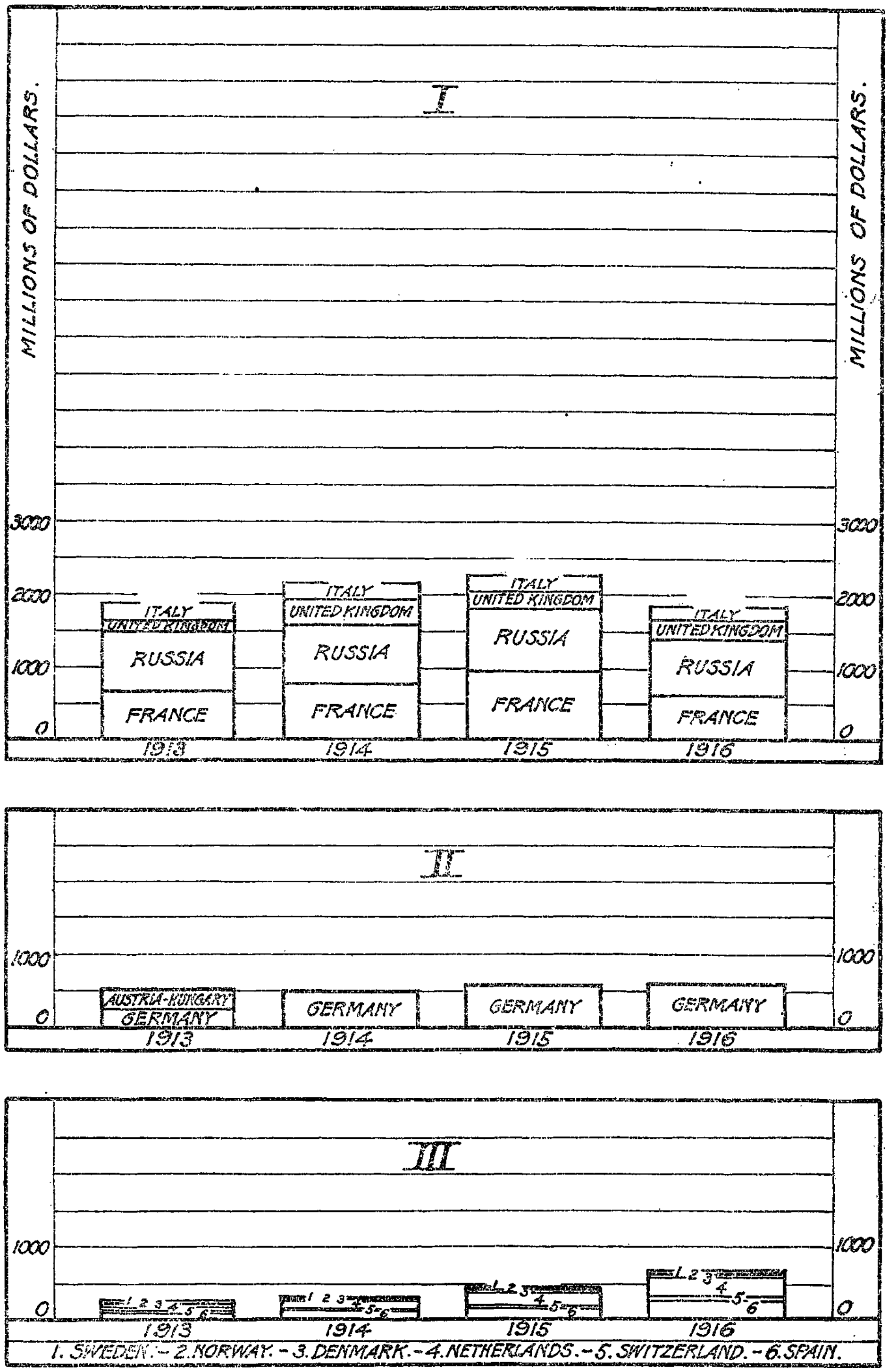
III. NEUTRAL COUNTRIES.

Sweden	63	81	88	112
Norway	29	36	43	67
Denmark	41	55	59	[3] 72
Netherlands	134	198	232	305
Switzerland	61	88	90	104
Spain	371	379	405	455
Total	699	837	917	1,115

[1] Figures for 1915; no complete data available for 1916.
[2] No data.
[3] Figures for Sept. 30, 1916.

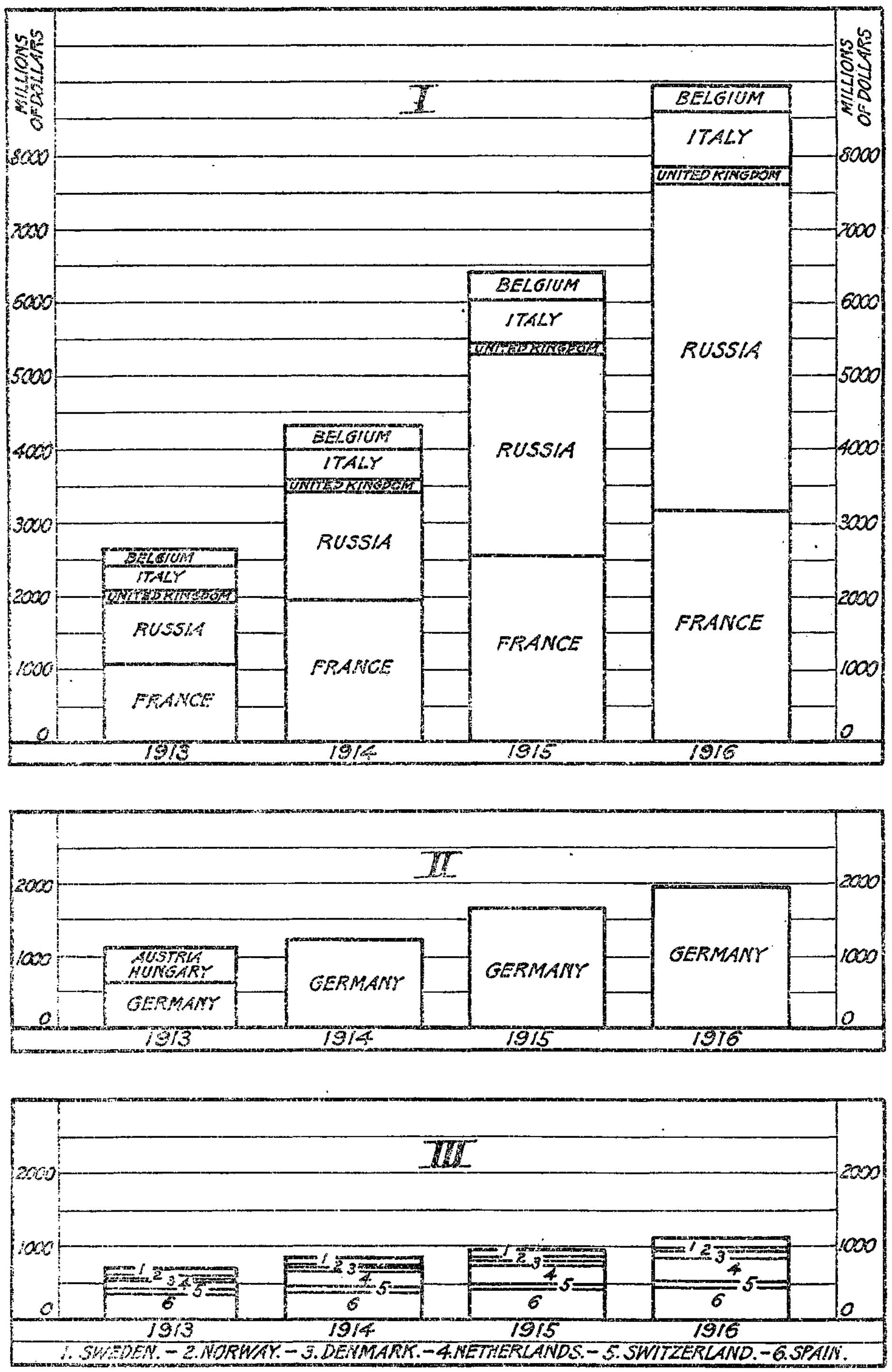
GOLD RESERVES OF PRINCIPAL EUROPEAN BANKS OF ISSUE AT END OF 1913, 1914, 1915, & 1916.

I: ALLIED COUNTRIES. II: CENTRAL EUROPE. III: NEUTRAL COUNTRIES.



NOTE CIRCULATION OF PRINCIPAL EUROPEAN BANKS OF ISSUE AT END OF 1913, 1914, 1915, & 1916.

I: ALLIED COUNTRIES. II: CENTRAL EUROPE. III: NEUTRAL COUNTRIES.



INDEX.