

Calendar No. 107.

63D CONGRESS, }
1st Session. }

SENATE.

} REPT. 133,
} Part 1.

BANKING AND CURRENCY.

NOVEMBER 22, 1913.—Ordered to be printed with the individual views of the members of the committee.

Mr. OWEN, from the Committee on Banking and Currency, submitted the following

REPORT.

[To accompany H. R. 7837.]

The Committee on Banking and Currency, to which was referred the bill (H. R. 7837) to provide for the establishment of Federal reserve banks, for furnishing an elastic currency, affording means of rediscounting commercial paper, and to establish a more effective supervision of banking in the United States, and for other purposes, having considered the measure, report the same to the Senate without recommendation.

Calendar No. 107.

63D CONGRESS, }
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SENATE.

} REPT. 133,
} Part 2.

BANKING AND CURRENCY.

NOVEMBER 22, 1913.—Ordered to be printed, with the individual views of members of the committee.

Mr. OWEN (for himself, Messrs. O'GORMAN, REED, POMERENE, SHAFROTH, and HOLLIS), from the Committee on Banking and Currency, submitted the following

VIEWS.

[To accompany H. R. 7837.]

The chairman (Mr. Owen), on behalf of himself and his colleagues, Messrs. O'Gorman, Reed, Pomerene, Shafroth, and Hollis, submit the following memorandum:

The Committee on Banking and Currency, to which was referred the bill (H. R. 7837) to provide for the establishment of Federal reserve banks, etc., received the bill on September 18, 1913, and the members thereof, having been unable after two months to agree upon a report, the committee having divided into two sections, were compelled, finally, to agree to report the bill back to the Senate without recommendation from the committee acting as a committee, but submitting separately the respective views of the two sections of the committee.

The views of the Democratic section of the committee are embraced in the House bill, with certain interlined amendments submitted herewith (Exhibit A), and the following observations are made to explain the origin and principles of the measure, give a general outline of the changes which have been proposed in the House bill, the reasons therefor, etc.

AN OUTLINE OF THE INVESTIGATION MADE AFFECTING THE PRINCIPLES AND CONSTRUCTION OF THE PENDING MEASURE.

So many persons have been under the impression that Congress was inclined to act without sufficient consideration of the pending measure and the principles involved in it, that attention is called to the work which has been done preliminary to the drafting of the present bill.

It has been long understood that the American banking system was seriously defective in having no adequate safeguard against financial panic, against financial stringencies, and violent fluctuations of interest rates, so that immediately after the panic of 1907 a temporary measure providing against panic was passed by Congress in the Vreeland-Aldrich Act, approved May 30, 1908. This bill established the National Monetary Commission. The act gave authority and instruction to the commission as follows:

It shall be the duty of this commission to inquire into and report to Congress, at the earliest date practicable, what changes are necessary or desirable in the monetary system of the United States or in the laws relating to banking and currency, and for this purpose they are authorized to sit during the session or recess of Congress at such times and places as they may deem desirable; to send for persons and papers; to administer oaths, to summon and compel the attendance of witnesses. * * * The commission shall have the power, through subcommittee or otherwise, to examine witnesses, and to make such investigations and examinations, in this or other countries, of the subjects committed to their charge as they shall deem necessary.

Under this instruction the National Monetary Commission conducted the most extensive and far-reaching investigation of the banking systems of the entire world, and published a series of reports including over 30 volumes and a vast compilation of literature involving over 2,500 volumes, and finally resulting in the recommendation of a central bank, privately controlled, which was submitted to the Senate of the United States under the title of "A bill to incorporate the National Reserve Association of the United States, and for other purposes." (Vol. I, p. 43.) This bill was introduced during the preceding Congress and was not considered. It was, however, reintroduced in the present Congress (63d Cong., 1st sess, S. 7) on April 13, 1913, and has been commonly referred to as "the Aldrich bill."

This bill provided substantially that the national reserve association should be established for 50 years with an authorized capital equal to 20 per cent of the capital of all banks eligible for membership with one-half paid in. It was provided that the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor, and the Comptroller of the Currency, should be a committee to organize the national reserve association. It was to have a capital of \$200,000,000 and 15 branches in 15 districts of the United States. Each branch was to be controlled by a board of directors chosen by the member banks, with power to make by-laws, etc., and the central national reserve association was to have 39 directors elected by the directors of the 15 branches, and 7 additional ex officio members of the board of directors, to wit, a governor of the national reserve association, 2 deputy directors, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor, and the Comptroller of the Currency, so that the Government had 4 representatives out of 46 members of the board of directors of the national reserve association. An executive committee of 9 members was provided with 1 representative of the Government, the Comptroller of the Currency, ex officio a member. Each branch bank was to have a manager and a deputy manager, appointed by the governor of the association.

The earnings of the association were to be 4 per cent annual dividend, cumulative, a 20 per cent surplus provided, and a division of the remainder between the United States and the shareholders.

The reserve association was made the principal fiscal agent of the United States. Provision was made for rediscounting notes and bills of exchange drawn for agricultural, industrial, and commercial purposes, having a maturity of not more than 28 days. The reserve association was given various powers to deal in gold coin or bullion, to purchase from subscribing banks bills of exchange, open foreign banking accounts, transfer deposit balances from one bank to another, etc.

It was required to keep 50 per cent reserve against demand liabilities, including deposit and circulating notes, with a tax upon any reserve deficiency.

It was authorized to purchase for a limited time the 2 per cent bonds of national banks, assume the redemption of the notes of such banks, and issue its own notes in lieu of such national-bank notes. It was authorized to have a cover for such note issues, either of 50 per cent of gold or other money of the United States, or bills of exchange arising out of commercial transactions, as defined by the act. These notes could be issued up to nine hundred millions without a gold cover under a special tax of 1½ per cent, and any notes in excess of \$1,200,000,000 not covered by gold or lawful money could be taxed at 5 per cent, provided that the outstanding national-bank notes should be computed as a part of such issue. Its circulating notes were to be redeemed in lawful money and maintained at a parity.

The circulating notes of this association were to be received at par in payment of all taxes, excises, and other dues to the United States, and of all salaries and other debts and demands due by the United States, except obligations specifically payable in gold, and for all debts due from or by one bank or trust company to another, and for all obligations due to any bank or trust company.

The 2 per cent bonds purchased were to be exchanged for 3 per cent bonds payable in 50 years, and the association was to hold such bonds during its corporate existence, with the right, at the option of the Secretary of the Treasury, to sell fifty millions of such bonds annually after five years. It provided for the establishment of branches of banks to do a foreign banking business.

The Government of the United States was required absolutely to deposit all of its general funds with the national reserve association and its branches, after the organization of the association, and thereafter all receipts of the Government except its trust funds.

This bill was made a matter of general debate throughout the United States, was vigorously pressed by the friends of the measure, and discussed in all of the large cities of the Nation. It was indorsed by the American Banking Association, but, after abundant discussion, was condemned by the Democratic national convention at Baltimore on July 3, 1912, in the following language:

We oppose the so-called Aldrich bill or the establishment of a central bank; and we believe the people of the country will be largely freed from panic and subsequent unemployment and business depression by such a systematic revision of our banking laws as will render temporary relief in localities where such relief is needed with protection from control or domination by what is known as the Money Trust.

The obvious reason for public disapproval of this bill was that the comparative independence of the various districts of the country was ignored, the concentration of banking power was very extreme, and finally it placed the national credit system in the control of private persons, without any adequate supervision or control by the Government of the United States, and proposed to allow these banks to issue the currency of the country as private corporations.

THE PUJO INVESTIGATION.

Under House resolutions 439 and 504, Sixty-Second Congress, second session, the so-called "Money Trust investigation" was conducted by the House of Representatives, beginning May 16, 1912. These hearings were published in 29 parts, consisting of thousands of pages, and with a most illuminating report showing the existence, substantially, of a vast concentration of power in the hands of a few men over the credit system of the United States.

THE GLASS INVESTIGATION.

These investigations were further continued by a subcommittee of the Committee on Banking and Currency of the House of Representatives, beginning on Tuesday, January 7, 1913, and directed by Hon. Carter Glass, chairman, according to the leading bankers and financial experts of the country extended hearings, comprising a volume of 745 pages of printed testimony.

In addition to these extensive examinations by the National Monetary Commission, the Pujo investigation, and the Glass investigation various representatives of the American Banking Association were in frequent consultation with Chairman Glass of the House Committee on Banking and Currency, with the chairman of the Senate Committee on Banking and Currency, with the Secretary of the Treasury, and others who were concerned in the primary framing of the pending measure, so that the plea of some of the interests opposing the bill that the matter had not been properly investigated had no just foundation of fact. But in addition to these investigations and discussions the bill, when finally introduced in the House of Representatives, was discussed for many weeks in the Committee on Banking and Currency of the House, in the Democratic conference, and for many days in the House of Representatives, finally passing September 17, 1913.

THE SENATE INVESTIGATION.

Anticipating the action of the House of Representatives upon this bill, the Committee on Banking and Currency of the United States Senate began hearings on the bill September 2, 1913, holding their sessions from 10 o'clock in the morning until 5 and 6 in the evening and listening to various representatives of the American Banking Association, of credit associations, of business men, and of financial experts. These hearings when concluded and presented to the Senate in Senate Document No. 232, Sixty-third Congress, first session, on November 6, 1913, in three volumes, with index, make

3,259 pages. It is therefore obvious that great pains have been taken by the authorities of the United States and by the committees in Congress to proceed with the greatest caution and upon the fullest information in the adjustment of this very important measure.

When the hearings before the Senate Committee on Banking and Currency were concluded, the members of the committee discussed the bill for over two weeks, finally agreeing to submit their separate views in the form of the House bill, H. R. 7837, with certain amendments thereto, representing the respective views of the two sections of the committee.

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 elastic currency; the issuance of Federal reserve notes.

Seventh. That the Federal reserve notes should be the obligations of the United States.

Eighth. That the system should be the regional Federal reserve bank system instead of a central bank; and

Ninth. The control of the system itself by the Government.

The two sections of the committee disagree upon the number of the Federal reserve banks, the method of subscribing for the stock of such banks, the method of electing the directors of such banks, the method of administering the regional reserve banks, and these differences arise, in the main, because of two schools of thought, one part of the committee believing in a central bank administered by a central board and the other part of the committee proposing to establish a number of comparatively independent district banks administered by boards of directors chosen from and representing the several districts, but under the strict-supervisory control of the Government. The interests of the public are thus protected by Government supervision, and the vast and intricate technical detail of bank administration being placed in the hands of the bankers whose funds and whose business is involved.

THE PURPOSES OF THE BANKING AND CURRENCY BILL.

The chief purposes 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 purposes 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.

Fifth. Establishing an open market for liquid commercial bills, by providing through the reserve banks a constant and unfailing market for such bills at a steady rate of interest.

Sixth. Finally, protecting the gold reserve of the United States by the same methods adopted in Europe, to wit, raising the rate of interest through the Federal reserve banks and authorizing such banks to acquire foreign bills when gold shipments are anticipated and taking other precautionary measures.

THE MECHANISM OF THE FEDERAL RESERVE BANK SYSTEM.

These important national ends are proposed to be obtained by the mechanism of eight Federal reserve banks organized with a capital equal to 6 per cent of the capital and surplus of the National and State banks in the several districts.

The eight districts are proposed to be laid off by an organization committee, who shall organize a Federal reserve bank with headquarters in a central city of each district, each bank to establish as many branches in its district as may be found expedient.

It is proposed that each Federal reserve bank shall have nine directors, six elected by the banks and three chosen by the Federal reserve board.

The entire system is proposed to be under the supervisory control of the Federal reserve board, consisting of the Secretary of the Treasury and six other members of such board appointed by the President and confirmed by the Senate.

The Federal reserve board is given very broad powers of supervision and is assisted by a Federal advisory council, consisting of one representative from each of the Federal reserve banks.

The details of the organization and the principles of the bill will be hereinafter more fully set forth.

FEDERAL RESERVE DISTRICTS.

The Federal reserve districts are proposed to be organized by the Secretary of the Treasury and not less than two members of the Federal reserve board (sec. 2), who shall summon expert aid and take testimony and lay out such Federal reserve districts, eight in number, according to the convenience and customary course of business, designating the city in which the district Federal reserve bank shall be located (p. 2).

When the districts shall have been laid out and the city determined in which such Federal reserve banks shall be located, five

of the subscribing banks in such district are authorized to take out a charter in the same manner and with similar powers as a national bank (pp. 11 to 14), except that the business of the Federal reserve bank is confined to member banks and other Federal reserve banks and to the United States, except its open market operations, which may be with any responsible concern.

These banks are given, as a part of the charter rights, the right to issue Federal reserve bank notes against United States bonds in the same manner as a national bank, the purpose being to permit said banks to absorb as much of the 2 per cent bonds as the national banks may care to dispose of.

STOCK SUBSCRIPTION.

The amount of possible stock is placed at a sum equal to 6 per cent of the capital and surplus of national banks and State banks and trust companies, exclusive of savings banks, a possible total of about \$150,000,000, one-half of which will be required to be paid in during a period of six months after the organization of said banks and one-half subject to call, with a double liability resting upon the subscribers against the amount subscribed.

The reasons for requiring the banks to subscribe to this stock with a double liability are—

First. To protect the large deposits of general funds which the United States will probably place with such banks.

Second. To protect the United States against the extension of credit through the Federal reserve notes, the obligations of the United States, loaned to the Federal reserve banks against commercial bills.

Third. To safeguard the system itself, to protect the large volume of reserves placed with such banks, and give to such banks the confidence of the world.

Fourth. To justify the Government in putting on the banks the prime responsibility of administering these banks and safeguarding their own reserves and their own capital stock, and making them responsible to the country for safeguarding the welfare of the national banking system, protecting the national gold supply under the safeguard of governmental supervision.

Every national bank located in a given district is required within 60 days after the passage of the act to signify its acceptance of the terms of the act, and every State bank eligible for membership is permitted to signify its assent in like manner.

Any national bank within such district failing to signify its assent may be discontinued as a reserve agent upon 30 days' notice by the organization committee or the Federal reserve board. And should any national bank within one year after the passage of the act fail to become a member bank of the system, it is required to cease to act as a national bank.

In the contingency that the capital stock is not fully subscribed by the banks of a given district, provision is made (p. 7) to offer such stock to public subscription, and on the contingency that such stock is not subscribed by the public the balance of the necessary capital may be allotted to the United States and sold by the Government at proper times and places.

All stock held by the public or by the Government will be voted by the directors of the Federal reserve bank of class C, representing the Government.

CONTROL OF THE FEDERAL RESERVE BANKS.

Each Federal reserve bank will be controlled by a board of nine directors—three of class A, elected by the banks; three of class B—business men—elected by the banks; and three of class C, appointed by the Federal reserve board to represent the United States.

One director of class C will be a Federal reserve agent and chairman of the board, and one a deputy Federal reserve agent and deputy chairman, representing expressly the interests of the United States at such bank and issuing Federal reserve notes to the reserve bank, holding the security therefor, and receiving such notes for safe-keeping when returned by the bank.

PROBABLE RESOURCES OF FEDERAL RESERVE BANKS.

The capital stock of 25,195 banks in the United States, including savings banks, amounts to \$2,010,000,000; surplus, \$1,585,000,000. Six per cent of this sum would be something over \$200,000,000, and the total liability would make over \$400,000,000. Assuming that one-half of these concerns enter the system, it would give a capital of \$100,000,000, with over \$50,000,000 paid in.

The total reserves which would be paid into the Federal reserve banks by 7,120 national banks, outside of reserve or central reserve cities, would be \$166,000,000 (Exhibit B, p. 1); from 315 reserve city banks, \$110,000,000; and from 52 central reserve city banks, \$96,000,000, which, including an estimated deposit of \$150,000,000 from the Government, would make an amount equal to \$672,00,000.

If the State banks and trust companies come in, omitting the savings banks, it would add \$279,000,000 of reserves and \$21,000,000 of capital stock (Exhibit B, p. 6), making a total of \$972,000,000.

These funds would not include any optional deposits that might be voluntarily placed with the Federal reserve bank by member banks.

DIVISION OF EARNINGS.

It is proposed in the pending bill to give the stockholders 6 per cent dividends, lay up a surplus of 20 per cent, and give the United States the additional earnings. The policy of limiting the dividends to 6 per cent is based upon the theory that these great public utility banks are not intended to be merely money-making banks, but that they are guardians of the public welfare, primarily safeguarding the member banks, protecting their reserves, safeguarding their credit, protecting them from panic or financial stringency, and being always prepared to furnish them with accommodation at a reasonable rate of interest. But these Federal reserve banks will also be charged with the duty of protecting the national gold reserve, protecting the national commerce, and in this way give stability to the manufacturing, industrial, commercial, and transportation enterprises of the United States. For this reason these banks ought to have no other

motive than the public welfare, and the moving policy of the banks should not be to earn as much dividends as the commerce of the country could endure, but to protect our national commerce and our national-banking system at a fair profit.

STATE BANKS AND TRUST COMPANIES.

The bill (pp. 5 and 27) invites the State banks to become members where the capital stock, sound condition, subscription, and compliance with the rules of the system justifies. The State banks and trust companies, however, will be subjected to the same rules governing the national banks in regard to the limitation of liability which may be incurred by any one person to such banks, the prohibition of making purchase of or loans upon the stock of such banks, or withdrawal or impairment of capital, the payment of unearned dividends, the making of reports to the comptroller, and the right of examination of such banks, as if they were national banks, with the right, however, to accept the State examinations in lieu of the comptroller's examination where such examinations are satisfactorily made.

BANK EXAMINATIONS.

Under the proposed system the bank examinations are made much more carefully, the bank examiners put on salaries (p. 66). Loans, gratuities, or commissions are forbidden to either bank examiners or to officers or directors of member banks.

BANK RESERVES.

Very important changes are made in the matter of bank reserves (p. 59) by requiring the withdrawal of the legal reserves from other national banks after a period of three years, making the change that the country banks are required to keep 12 per cent of their demand liabilities and 5 per cent of their time deposits as reserves—two-twelfths in the Federal reserve bank for 14 months, and thereafter five-twelfths—leaving seven-twelfths after three years to be optionally kept either in the bank's own vaults or in the Federal reserve bank (p. 62). The reserve city banks are required to keep 18 per cent of their demand liabilities and 5 per cent of time deposits; three-eightieths of such reserve for the first 14 months being kept in the Federal reserve bank, and thereafter six-eightieths of said reserve, leaving twelve-eightieths of such reserve to be kept after three years either in the bank's own vaults or in the Federal reserve bank, at its option (p. 63).

The central reserve city banks are required to maintain a reserve equal to 18 per cent of their demand liabilities and 5 per cent of their time deposits; for 14 months three-eightieths of such reserves and thereafter six-eightieths of such reserves with the Federal reserve bank, leaving twelve-eightieths optional to be kept in the bank's own vaults or with the Federal reserve bank.

The State banks are permitted to keep their surplus legal reserves for three years with other State banks if the State law requires.

It is proposed that the reserves of the Federal reserve banks shall be not less than 35 per cent of gold or lawful money against their demand liabilities or Federal reserve notes in circulation (pp. 48 and 65.)

Some of the banks have objected that they would lose 2 per cent interest on so much of the deposits as they keep with the Federal reserve bank, and they seem to think they would not be sufficiently compensated by the obvious benefits of the Federal reserve banking system.

The answer to such objections is that the compensations in a financial way will far more than outweigh the loss of the 2 per cent interest, while the stability of the business of the bank, and the peace of mind it will give to the bankers in having freedom from constant anxiety, would more than compensate them, even if the financial advantages did not do so. The financial advantages are obvious—

First. The capital stock put into the system will be merely a transfer of funds obtained by taking a certain portion of the present deposits (however invested) into the form of this capital stock, earning 6 per cent net, free from tax, making the earning on such stock between 7 and 8 per cent, which is a higher return than any bank can possibly average upon its deposits.

Second. The reserves placed with the Federal reserve banks would not bear interest under the present bill (although this may possibly be found expedient at some future time when the system is established), but an average bank with a hundred thousand dollars (\$100,000) capital and \$550,000 average individual deposits, if it carried 5 per cent of its deposits as reserves with the Federal reserve bank, would carry only \$27,500 with the Federal reserve bank, which it might use, if it saw fit, as a checking account for exchange purposes if it kept the account up to the required standard.

The earning power on \$27,500 at 2 per cent would only be \$550, and since the bank could borrow back an equal sum, at probably 4 per cent and lend it at 6 or 8 per cent, it could earn as much or more out of such rediscount as the interest at 2 per cent amounts to.

But it has a far larger earning power, because, under the old system, where every bank had to protect itself by keeping a high individual reserve, the country banks have carried on an average of over 21 per cent, and under this system they would have available the difference between 12 per cent legal reserves and 21 per cent actual reserves, which, on the deposits of an average bank of \$550,000, would amount to \$49,000, and which they could lend at 6 per cent instead of 2 per cent, as at present, giving such bank an additional earning power of \$1,980 above its present earning power, if it saw fit to use these surplus reserves which they now carry, because of the fear of panic and financial stringency.

A very important consideration, however, would result from this improved system in giving an increased public confidence in the banks and which would attract a considerable amount of money which is not now deposited in banks at all and would thus enlarge the deposits of the bank and enlarge substantially their money-earning power.

Another important financial advantage to the bank would be that the larger use of their reserves would also result in an enlargement of deposits, entirely justified and on a safe basis, which would give them increased earning power. It is extremely short-sighted for a

bank to imagine that its financial earnings would be in any wise harmed by the proposals of this measure. A very great psychological advantage is in giving peace of mind to the entire banking world, so long as business is conducted upon an honest, sensible basis.

PROBABLE READJUSTMENT OF CASH UNDER REQUIREMENT OF THE FEDERAL RESERVE ACT.

If all national banks enter the system and subscribe at the rate of 6 per cent of their capital (\$1,056,345,786) and surplus (\$725,333,629), or \$106,900,764.90, paying one-sixth in cash, one-sixth in three months, and one-sixth in six months, the Federal reserve banks will have in six months a paid-up capital of \$53,450,382, to which should be added about \$150,000,000 of Government funds, which will be deposited with the Federal reserve banks, making a total of \$203,450,382 cash, of which two-thirds *could* be used for discounting.

The relative proportion of subscription to the Federal reserve bank is as follows: Country banks, 55 per cent; reserve city banks, 26 per cent; and central reserve cities, 19 per cent.

Assuming that the banks will immediately avail themselves of the discounting privilege to the extent of one-third of this fund in the Federal reserve banks, the country banks will be entitled to 55 per cent of (one-third of \$203,450,382) \$67,816,794 = \$37,299,236; the reserve city banks 26 per cent, or \$17,632,366; and the central reserve cities 19 per cent, or \$12,885,190.

Should the banks avail themselves of this privilege to the extent of one-half of this fund, the country banks will be entitled to 55 per cent of (one-half of \$203,450,382) \$101,725,191 = \$55,948,855; the reserve city banks 26 per cent, or \$26,448,549, and the central reserve city banks 19 per cent, or \$19,327,787.

In the event the banks should avail themselves of the discount privilege to the extent of two-thirds of the fund in the Federal reserve banks, the country banks would be entitled to 55 per cent of (two-thirds of \$203,450,382) \$135,633,588 = \$74,598,472; the reserve city banks 26 per cent, or \$35,264,732, and the central reserve city banks 19 per cent, or \$25,770,380.

The reserve requirement and the probable readjustment of cash in the several classes, respectively, under the Federal reserve act are as follows:

7,120 banks not in a reserve or central reserve city.

RESERVES.

5 per cent of demand liabilities (\$3,136,329,730.27)	\$376,359,597.63
5 per cent of time deposits (\$459,377,757.19)	22,968,887.86
Total	399,328,485.49

	Cash in the banks' own vault.	Cash in the Federal reserve bank.	Optional, own vault or Federal reserve bank.	Optional, in own vault, in Federal reserve bank, reserve city bank, or in central reserve city bank.
First 14 months.....	4/12 = \$133,109,485	2/12 = \$66,554,742		0/12 = \$199,664,228
Between 14 and 36 months.....	4/12 = 133,109,485	5/12 = 166,386,855		3/12 = 99,832,114
After 36 months.....		5/12 = 166,386,855	7/12 = \$232,941,597	

PROBABLE READJUSTMENT OF CASH, COUNTRY BANKS.

(First 14 months.)

Cash on hand (Aug. 9, 1913) specie and legal tender.....	\$250,702,980	
Cash available by discount of commercial paper (one-third basis).....	37,299,236	
Cash required for stock subscription to Federal reserve banks.....		\$29,397,710
Cash reserve required in own vault (four-twelfths).....		133,109,485
Cash reserve required in Federal reserve banks (two-twelfths).....		66,554,742
Cash surplus.....		158,940,279
	288,002,216	288,002,216

One-third basis.—Between 14 and 36 months, amount reserve required in the Federal reserve banks is increased three-twelfths, or \$99,832,114, making a deficit of \$40,891,835, and after 36 months, three-twelfths additional, or \$99,832,114, must be kept either in Federal reserve banks or in banks' own vaults, making the total deficit after 36 months \$140,723,949.

One-half basis.—Should the banks discount to the extent of one-half of the available fund in the Federal reserve banks (i. e., capital stock and United States funds) this deficit will be reduced by the difference between \$37,299,236 (one-third basis) and \$55,948,855 (one-half basis), or \$18,649,619, leaving a deficit of \$122,074,330.

Two-thirds basis.—If the banks discount to the extent of two-thirds of the fund in the Federal reserve banks, the deficit will be reduced by the difference between \$37,299,236 (one-third basis) and \$74,598,472 (two-thirds basis) or \$37,299,236, leaving a deficit of \$103,424,713.

315 reserve city banks.

RESERVES.

18 per cent of demand liabilities (\$1,821,413,780.14).....	\$327,854,480.43
5 per cent of time deposits (\$60,233,520.32).....	3,011,678.03
Total.....	330,866,158.46

	Cash in the banks' own vaults.	Cash in the Federal reserve bank.	Optional, own vault or Federal reserve bank.	Optional, in own vault, in Federal reserve bank, reserve city bank, or in central reserve city bank.
First 14 months.....	6/18= \$110,288,719	3/18= \$55,144,359		9/18= \$165,433,078
Between 14 and 36 months.....	6/18= 110,288,719	6/18= 110,288,719		6/18= 110,288,719
After 36 months.....		6/18= 110,288,719	12/18= \$220,577,438	

PROBABLE READJUSTMENT OF CASH.

(First 14 months.)

Cash on hand (Aug. 9, 1913) specie and legal tender.....	\$240,947,005	
Cash available by discount of commercial paper (one-third basis).....	17,632,366	
Cash required for stock subscription to Federal reserve banks.....		\$13,897,099
Cash reserve required in own vault (six-eightieths).....		110,288,719
Cash reserve required in Federal reserve banks (three-eightieths).....		55,144,359
Cash surplus.....		79,249,194
	258,579,371	258,579,371

One-third basis.—Between 14 and 36 months, amount of reserve required in Federal reserve banks is increased three-eightieths, or \$55,144,359, leaving still a surplus of \$24,104,835, and after 36 months

1 The above table does not include cash from possible rediscunts of reserve put in Federal reserve banks.

an additional six-eighths, or \$110,288,719, must be kept either in banks' own vaults or in Federal reserve banks, causing a deficit of \$86,183,884.

One-half basis.—Should the banks discount to the extent of one-half of the available fund in the Federal reserve banks, this deficit will be reduced by the difference between \$17,632,366 (one-third basis) and \$26,448,549, or \$8,816,183, leaving a deficit of \$77,367,701.

Two-thirds basis.—If the banks discount to the extent of two-thirds of the funds in the Federal reserve banks, the deficit will be reduced by the difference between \$17,632,366 (one-third basis) and \$35,264,732, or \$17,632,366, leaving a deficit of \$59,735,355.

52 central reserve city banks.

RESERVES.

18 per cent of demand liabilities (\$1,605,579,970.29).....	\$289,004,394.65
5 per cent of time deposits (\$13,755,310.58).....	687,765.53
Total.....	289,692,160.18

	Cash in the banks' own vaults.	Cash in the Federal reserve bank.	Optional, own vault or Federal reserve bank.	Optional, in own vault, in Federal reserve bank, reserve city bank, or central reserve city bank.
First 14 months.....	6/18= \$96,564,053	3/18= \$48,282,027	9/18= \$144,846,080	
Between 14 and 36 months.....	6/18= 96,564,053	6/18= 96,564,053	6/18= 96,564,053	
After 36 months.....		6/18= 96,564,053	12/18= 193,128,107	

PROBABLE READJUSTMENT OF CASH.

(First 14 months.)

Cash on hand (Aug. 9, 1913) specie and legal tender.....	\$107,519,389	
Cash available by discount of commercial paper (one-third basis).....	12,885,190	
Cash required for stock subscription in Federal reserve banks.....		\$10,155,572
Cash reserve required in own vaults (six-eighths).....		96,564,053
Cash reserve required in Federal reserve banks (three-eighths).....		18,282,026
Cash reserve required in own vault or Federal reserve banks (nine-eighths).....		144,846,080
Cash surplus.....		120,556,848
	420,404,579	420,404,579

Although the percentages of cash reserve required in the banks' own vaults and in the Federal reserve banks change after 14 months and after 36 months, inasmuch as at all times the full reserve requirement must be either in the banks' own vaults or in the Federal reserve banks, the surplus cash remains the same.

One-half basis.—Should the banks discount to the extent of one-half of the available fund in the Federal reserve banks, this surplus would be increased by the difference between \$12,885,190 (one-third basis) and \$19,327,787 (one-half basis), or \$6,442,597, making a surplus of \$126,999,445.

Two-thirds basis.—If the banks discount to the extent of two-thirds of the funds in the Federal reserve banks, the surplus will be increased by the difference between \$12,885,190 (one-third basis) and \$25,770,380 (two-thirds basis), or \$12,885,190, making a surplus of \$133,442,038.

In addition to the paid-up capital of the Federal reserve banks (\$53,450,382) and the deposit of Government funds (\$150,000,000) the Federal reserve banks will have available for discount purposes the funds held by them as reserves of the member banks to within 33½ per cent, viz:

Reserves deposited—Available for loans to member banks.

FIRST 14 MONTHS.

Amount of reserve deposited with Federal reserve banks first 14 months:	
Country banks (two-twelfths of reserve requirement).....	\$66,554,743
Reserve city banks (three-eighteenth of reserve requirement).....	55,144,359
Central reserve city banks (three-eighteenth of required reserve).....	48,282,027
Total.....	169,981,129

If one-third of this fund is used for rediscounting purposes, the additional cash would amount to \$56,660,376; if one-half is used, \$84,940,564; and if two-thirds, \$113,320,752.

BETWEEN 14 AND 36 MONTHS.

Amount of reserves deposited with Federal reserve banks 14 to 36 months:	
Country banks (five-twelfths of reserve requirement).....	\$166,386,855
Reserve city banks (six-eighteenth of reserve requirement).....	110,288,719
Central reserve city banks (six-eighteenth of reserve requirement).....	96,564,053
Total.....	373,239,627

Additional available cash as follows: One-third basis, \$124,413,209; one-half basis, \$186,619,814; and two-thirds basis, \$248,826,418.

AFTER 36 MONTHS.

Country banks (five-twelfths of reserve requirement).....	\$166,386,855
Reserve city banks (six-eighteenth of reserve requirement).....	110,288,719
Central reserve city banks (six-eighteenth of reserve requirement).....	96,564,053
Total.....	373,239,627

Additional available cash as follows: One-third basis, \$124,413,209; one-half basis, \$186,619,814; and two-thirds basis, \$248,826,418.

SUMMARY.

Condition of all national banks with respect to cash after probable redistribution under Federal reserve act.

FIRST 14 MONTHS.

[This table does not include cash obtained from rediscounting reserve money in Federal reserve banks.]

National bank system.	When one-third of Federal reserve bank funds are discounted.		When one-half of Federal reserve bank funds are discounted.		When two-thirds of Federal reserve bank funds are discounted.	
	Surplus.	Deficit.	Surplus.	Deficit.	Surplus.	Deficit.
Country banks.....	\$58,940,279		\$77,589,898		\$96,239,515	
Reserve city banks.....	79,249,194		88,065,377		96,881,560	
Central reserve city banks.....	120,558,848		126,999,445		133,442,038	
Surplus.....	258,746,321		292,654,720		326,563,113	
Additional cash available if reserves (\$169,981,128) of member banks are used for rediscount.....	56,660,376		84,940,564		113,320,752	
Total surplus.....	315,406,697		377,595,284		439,883,865	

Condition of all national banks with respect to cash after probable redistribution under Federal reserve act—Continued.

BETWEEN 14 AND 36 MONTHS.

National bank system.	When one-third of Federal reserve bank funds are discounted.		When one-half of Federal reserve bank funds are discounted.		When two-thirds of Federal reserve bank funds are discounted.	
	Surplus.	Deficit.	Surplus.	Deficit.	Surplus.	Deficit.
Country banks.....		\$40,891,835		\$32,242,216		\$3,592,599
Reserve city banks.....	\$24,104,835		\$32,921,018		\$41,737,201	
Central reserve city banks.....	120,556,848		126,909,445		133,442,038	
Surplus, including all banks.....		103,770,048		137,678,247		171,586,640
	144,661,683	144,661,883	159,920,463	159,920,463	175,179,239	175,179,239
Surplus.....	103,770,048		137,678,247		171,586,640	
All banks: Additional cash available if reserves (\$373,239,627) of member banks are used for rediscount.....	124,413,209		186,619,814		248,826,418	
Total surplus.....	228,183,257		324,298,061		420,413,058	

AFTER 36 MONTHS.

Country banks.....		\$140,723,949		\$122,074,330		\$103,424,711
Reserve city banks.....		86,193,894		77,367,701		59,735,345
Central reserve city banks.....	\$120,556,848		\$126,909,445		\$133,442,038	
Deficit of all banks, to balance.....	106,350,985		72,442,586		29,718,018	
	226,907,833	226,907,833	199,442,031	199,442,031	163,160,056	163,160,056
Deficit, to balance, excluding cash from reserve discounts.....		106,350,985		72,442,586		29,718,018
Additional cash available if reserves (\$373,239,627) of member banks are used for rediscount ¹	124,413,209		186,619,814		248,826,418	
Total surplus.....		18,062,224		114,177,228		219,108,400
	124,413,209	124,413,209	186,619,814	186,619,814	248,826,418	248,826,418
Total deficit or surplus for system where cash is obtained from rediscounting reserves as well as capital and United States deposits.....	\$18,062,224		\$114,177,228		\$219,108,400	

¹ The total reserve deposits are \$373,239,627; one-third equals \$124,413,209; one-half equals \$186,619,814; two-thirds equal \$248,826,418.

² \$18,062,224 surplus is on theory of discounting one-third of capital, United States funds, and reserves.

³ \$114,177,228 surplus is on theory of discounting one-half of capital, United States funds, and reserves.

⁴ \$219,108,400 surplus is on theory of discounting two-thirds of capital, United States funds, and reserves.

All the capital could be loaned out, but only two-thirds of United States funds and of reserves.

These figures above relate only to the national banks. The State banks and trust companies must be provided with reserve money in sufficient quantity to enable them to enter the system without contracting loans.

Memorandum prepared by Robert L. Owen, showing amount of reserve money available by statement of Aug. 9, 1913.

	Number.	Demand liabilities.	Time deposits.	Cash on hand.	Date of report.
National banks.....	7,488	\$6,563,335,480.70	\$533,364,588.29	\$899,169,374.00	Aug. 9, 1913
State banks.....	14,011	2,444,100,836.73	636,910,746.06	246,247,125.00	June 4, 1913
Trust companies.....	1,615	2,600,505,985.19	970,855,018.71	285,384,815.00	Do.

¹ National banks have, also, not included in these figures, \$42,637,771 national-bank notes and \$3,650,042.38 minor coins; total, \$46,287,813.38, which can not be counted as reserves under present laws.

² Represent savings deposits, time deposits not given.

³ Includes \$35,521,522 national-bank notes and minor coins.

⁴ Includes \$26,732,928 national-bank notes and minor coins.

Total reserve money, 246+285-531-62=459 millions

State banks..... \$2,444, at 12% = \$292
636, at 5% = 31

Trust companies... 2,600, at 18% = 468
970, at 5% = 48

Total, \$323	Own vaults.....	\$216
	In Federal reserve banks.....	107
		\$323
Total, 516	Own vaults.....	344
	In Federal reserve banks.....	172
		516

Total requirements..... 839
Actual reserve cash..... 459

Gross deficit..... 378
Credit cash from rediscounts one-half \$279, on deposit Federal reserve banks (\$172+107)..... 139

Total net deficit..... 239

The capital stock of State banks and trust companies excluding savings banks equals \$459,000,000 with a surplus fund of \$271,000,000, making a total of \$730,000,000, which upon a 6 per cent basis would give an addition to the capital stock of the Federal reserve banks, if the State banks and trust companies entered it, of \$43,000,000, which, if one-half were paid in cash, would add to the initial capital stock in cash \$21,000,000 above the capital stock heretofore considered, and would therefore add a further deficit of \$21,000,000 to the total net deficit of \$239,000,000, making a total deficit of \$260,000,000, as far as the State banks and trust companies are concerned.

It is insisted, however, that this contingency is not likely to arise, as many of the small State banks will not enter the system, and if it did arise, it could be taken care of—

First, by discounting of the funds of the Federal reserve banks.

Second, by an additional deposit of United States funds above the \$150,000,000 heretofore estimated.

Third, or finally, by the issuance of Federal reserve notes, which should be counted as reserves for member banks if the Federal reserve board find it necessary.

Moreover, it might further be provided for by making the national-bank notes available for reserve money, since they are based on Government bonds and are already used by State banks under the present State laws as reserves. This contingency has been provided for by a proposed amendment giving the Federal reserve board (p. 38, line 15) the right to authorize the use as reserves of member banks Federal reserve notes or bank notes based on United States bonds.

FEDERAL RESERVE BOARD—ITS POWERS.

The Federal reserve board, consisting of the Secretary of the Treasury and six members appointed by the President of the United States and confirmed by the Senate for terms of six years (p. 31), are given the following powers:

POWERS OF THE FEDERAL RESERVE BOARD.

To readjust districts created by the organization committee and create new ones.

To regulate the establishment of branches of Federal reserve banks within Federal reserve district in which bank is located.

To designate three (class C) of the nine members of the board of directors of each Federal reserve bank, one of these to be chairman of the board with the title of "Federal reserve agent," and one "deputy Federal reserve agent."

The Federal reserve agent to maintain a local office of the Federal reserve board on the premises of the Federal reserve bank. He shall make regular reports to Federal reserve board and be its official representative.

To remove any director or officer of a Federal reserve bank for cause stated.

To remove chairman of Federal reserve bank without notice.

To establish by-laws governing applications from State banks and trust companies.

"Of the six persons * * * appointed (by the President), one shall be designated governor and one vice governor of the Federal reserve board." The governor, subject to supervision of the Secretary of the Treasury and board, shall be the acting managing officer of the Federal reserve board.

To levy a semiannual assessment upon the Federal reserve banks for estimated expenses for succeeding six months, together with deficit carried forward.

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

To require, or on application to permit, a Federal reserve bank to rediscount the paper of any other Federal reserve bank.

To suspend for a period not exceeding 30 days (and to renew such suspension for periods not to exceed 15 days), any and every reserve requirement specified in this act.

To supervise and regulate the issue and retirement of Treasury notes to Federal reserve banks.

To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section 21 of this act, or to reclassify existing reserve or central reserve cities and to designate the banks therein situated as country banks, at its discretion.

To require the removal of officials of Federal reserve banks.

To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

To suspend the further operations of any Federal reserve bank and appoint a receiver therefor.

To perform the duties, functions, or services specified or implied in this act.

To determine or define (subject to stipulations) the character of paper eligible for discount for member banks.

To prescribe regulations for purchase and sale by Federal reserve banks of bankers' bills, etc.

To review and determine the minimum rate of discount for member banks established by Federal reserve banks and fix weekly the discount rate reserve banks may discount for each other.

To authorize establishment of correspondents and agencies of Federal reserve banks in foreign countries.

To authorize the issue of Federal reserve Treasury notes.

To receive, through the local Federal reserve agent, applications from Federal reserve banks for notes, such applications to be accompanied by rediscounted notes for deposit as collateral security.

To require Federal reserve banks to maintain deposits in Treasury of United States in gold of 5 per cent of notes issued.

To grant in whole or in part or to reject entirely the application from Federal reserve banks for notes.

To establish rate of interest on notes issued.

To prescribe regulations for substitution of collateral.

To make and promulgate regulations governing the transfer of funds among Federal reserve banks.

To act, if desired, as clearing house for Federal reserve banks.

To require, in its discretion, Federal reserve banks to act as clearing houses for shareholding banks.

To require extra examinations of national banks when deemed necessary.

To determine and report annually to Congress fixed salaries of all bank examiners.

To assess upon banks in proportion to assets or resources the expenses of examinations.

To fix a date for such assessment.

To arrange for special or periodical examinations of member banks for account of Federal reserve banks.

To receive from Federal reserve banks information concerning the condition of any national bank in its district.

To order examinations of national banks in reserve cities as often as necessary.

To add to the list of cities in which national banks shall not be permitted to loan on real estate as described.

To receive applications from national banks having \$1,000,000 or more capital for the establishment of branches in foreign countries, to reject or accept such applications, and to prescribe conditions under which such branches may be opened.

To require examinations of foreign branches as it may deem best.

(Pp. 31-38, 40, 45.)

FEDERAL ADVISORY COUNCIL.

In order to keep the Federal reserve board in intimate touch with the banking business of the country, the Federal advisory council is established, consisting of one representative from each Federal reserve bank with power to confer directly with the Federal reserve board, make proper representations and recommendations, call for information, etc. (p. 39). Many of the big banks quite urgently insisted that the bankers should have representation upon the Federal reserve board. This was denied for the obvious reason that the function of the Federal reserve board in supervising the banking system is a governmental function in which private persons or private interests have no right to representation except through the Government itself. The precedents of all civilized governments is against such a contention. It was believed that the Federal reserve board itself, consisting entirely of officers of the Government, might be made more efficient if it had the advice freely available of the Federal advisory council. Moreover, the operations of the Federal reserve board would in this way be subject to greater publicity and enable the banks of the country to have a greater measure of confidence in all of the operations of the Federal reserve board.

It was further believed that the banks of the country, which are invited or required to contribute a very large sum to the Federal reserve banks, would be more content by having an easy and convenient means provided by law of frequent conferences with the Federal

reserve board and the opportunity to advise the board with regard to the financial, commercial, and industrial needs of the country.

CONCENTRATION OF RESERVES.

The reserves of the banks of the United States are now scattered without any system among over 25,000 individual banks. The present law permits the national banks in the country to keep nine-fifteenths of their reserves in the banks of reserve cities and permits banks of the reserve cities to keep one-half of their reserves in the central reserve cities, and permits the banks in the central reserve cities to keep only *one-fourth of these reserves of the reserves of the reserves* in cash. The effect of this system—the necessary effect of this system—is to concentrate in the hands of a few banks in the central reserve cities (who have diligently sought the reserves of other banks) to such an extent that the Nation's bank reserves are pyramided in a dangerous fashion in the hands of a few banks in the three central reserve cities and chiefly in certain banks in New York City. These central reserve city banks have been accustomed to pay 2 per cent on the deposit of these bank reserves placed with them, and having no place to which they themselves might go for rediscount they have fallen into the habit of placing very large sums out of these reserves, amounting to hundreds of millions, upon call on the New York Stock Exchange, for the simple reason that under the law of the stock exchange they can sell the stock collateral immediately on any day when money is actually needed. It may be ruinous to the borrower—it may wipe out his margin—it may cause him a disastrous loss; it may upset the interest rates of the country, excite alarm, and result in final panic; but it does furnish the money when needed.

We are advised by representative bankers in New York that the great banks there would be glad to improve the system by the establishment of Federal reserve banks strong enough to furnish money quickly on demand against good commercial bills, and thus enable the New York banks to withdraw their funds from the stock exchange (which has become the most gigantic gambling establishment in the world) and place such funds in the service of legitimate industry and commerce. This will be one of the great benefits of the pending measure—that is, that it will withdraw from gambling enterprises on the stock exchange the bank reserves of the country and enable such reserves to be used for the commerce of the Nation.

Attention is respectfully called to the fact that while in 1896 the shares sold on the New York Stock Exchange amounted to only a little over \$3,000,000,000, in 1905 it was \$21,000,000,000, in 1906 it was \$23,000,000,000, in 1907—the year of the panic—the amount fell to \$14,000,000,000, increasing in 1908 to \$15,000,000,000, and in 1909 to \$19,000,000,000. (National Monetary Commission Reports, vol. 21, p. 9.)

MAKING STABLE THE INTEREST RATES.

The extremely injurious character of this gambling on the stock market with the reserves of the country is shown by Table 29, National Monetary Commission Reports (vol. 21, p. 136), where during

the year 1907 the range of interest for money was from 2 to 45 per cent in January, from 3 to 25 per cent for March, from 5 to 125 per cent in October, from 3 to 75 per cent in November, and from 2 to 25 per cent in December, with currency bringing a premium from 1 to 4 per cent during November and December. The blighting effect of these violent fluctuations of the interest rates is demonstrated by the rate charged for 90-day time loans, which during November and December, 1907, were running as high as 12 to 16 per cent, with no business done in time loans of a longer period during the entire month of November and no business being done at times on prime commercial bills during the same months. (Ibid.)

These violent fluctuations are the more astounding when compared with the extremely stable rates of interest which have long prevailed in Europe, as shown by the rates of discount for 50 years in England, France, Germany, Holland, and Belgium, where the rate has been steadily around 3 to 4 per cent. (See Senate hearings before Banking and Currency Committee, pp. 538-542, an abstract of which is submitted.)

Moreover, in Europe manufacturers, merchants, and business men could ALWAYS get money, while in the United States they have been absolutely ruined by thousands because of the denial of merited credit. This act will put an end to this deadly peril to American business.

TABLE III.—Rate of discount, 1844-1909—The number of days at each rate arranged from the lowest rate to the highest.

Rate.	Bank of England. ¹		Bank of France. ²		Imperial Bank of Germany. ³		Bank of the Netherlands. ⁴		National Bank of Belgium. ⁵	
	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).	Number of days.	Number of days per cent of total (total=1,000).
2 per cent.....	3,409	143	2,735	115	.....	.....	1,328	56	.....	.....
2½ per cent.....	28	1	.....	.....	.....	.....	.....	.....	.....	.....
2½ per cent.....	3,599	151	2,579	108	.....	.....	5,058	212	3,169	147
3 per cent.....	5,859	246	7,828	329	3,073	129	8,013	336	9,412	437
3½ per cent.....	1,921	80	2,060	86	644	27	3,737	157	2,965	138
4 per cent.....	3,772	158	4,579	192	12,192	511	2,167	91	3,416	150
4½ per cent.....	608	26	353	15	1,626	68	811	34	698	32
5 per cent.....	2,195	92	2,061	86	4,094	172	1,823	76	944	44
5½ per cent.....	263	11	120	5	707	30	375	16	378	18
6 per cent.....	975	41	1,170	49	970	41	260	11	540	25
6½ per cent.....	91	4	8	.....	72	3	150	6	.....	.....
7 per cent.....	633	26	286	12	269	11	135	5	27	.....
7½ per cent.....	.....	.....	21	1	110	5	.....	.....	.....	.....
8 per cent.....	268	11	41	2	37	1	.....	.....	.....	.....
9 per cent.....	95	4	16	.....	63	.....	.....	.....	.....	.....
10 per cent.....	141	6	.....	.....	.....	.....	.....	.....	.....	.....
Total.....	23,857	1,000	23,857	1,000	23,857	1,000	23,857	1,000	21,549	1,000

¹ Lowest rate 2 per cent; highest rate 10 per cent.

² Lowest rate 2 per cent; highest rate 9 per cent.

³ Lowest rate 3 per cent; highest rate 9 per cent.

⁴ Lowest rate 2 per cent; highest rate 7 per cent.

⁵ Lowest rate 2½ per cent; highest rate 6 per cent.

TABLE IV.—Rate of discount, 1844-1909—The number of days at each rate, arranged from the highest number of days to the lowest.

Bank of England.			Bank of France.			Imperial Bank of Germany.			Bank of the Netherlands.			Bank of Belgium.		
Days	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).	Days.	Rate per cent.	Number of days per cent of total (total=1,000).
5,859	3	246	7,828	3	329	12,192	4	511	8,013	3	336	9,412	3	437
3,772	4	158	4,579	4	192	4,094	5	172	5,058	2½	212	3,416	4	159
3,559	2½	151	2,735	2	115	3,073	3	129	3,737	3½	157	3,169	2½	147
3,409	2	143	2,579	2½	108	1,626	4½	68	2,167	4	91	2,965	3½	138
2,195	5	92	2,061	5	86	970	6	41	1,823	5	76	944	5	44
1,921	3½	80	2,060	3½	86	707	5½	30	1,323	2	56	698	4½	33
975	6	41	1,170	6	49	644	3½	27	811	4½	34	540	6	25
633	7	26	353	4½	15	269	11	11	375	5½	16	378	5½	18
608	4½	26	296	7	12	110	7½	5	260	6	11	27	7	.....
268	8	11	120	5½	5	72	6½	3	150	6½	6	.....	.....	.....
263	5½	11	41	8	2	63	9	2	135	7	5	.....	.....	.....
141	10	6	21	7½	1	37	8	1	.....	.....	.....	.....	.....	.....
95	9	4	16	9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
91	6½	4	8	6½	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
28	2½	1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
23,857	.....	1,000	23,857	.....	1,000	23,857	.....	1,000	23,857	.....	1,000	21,549	.....	1,000

It will thus be seen that these great banks holding the national reserves have been able to furnish commerce with a very low rate of discount for nearly all the time and only occasionally have been compelled to raise the rate to a high point.

These low rates illustrate the enormous value of these great banks to European commerce and the urgent necessity for action by the United States along similar lines.

The stabilizing of the rate of interest in the United States will be one of the very important functions of the proposed Federal reserve system. The right of the Federal reserve board to fix the rate of interest which may be charged member banks by the Federal reserve banks and which the Federal reserve banks may charge each other would have a steadying effect upon the interest rate throughout the United States, and will enable the banks of the country to extend accommodation at a comparatively stable rate of interest upon a lower basis than heretofore, because the element of hazard of panic and of financial stringency will be removed by the proposed system.

MOBILIZATION OF RESERVES.

In addition to concentrating in the Federal reserve banks a substantial part of the reserves of the National and State banks and trust companies of the country and placing in such banks a respectable capital by stock subscriptions and a considerable volume of Government funds—approximately a total of about \$700,000,000—it is proposed to make them perfectly mobile. In order to have these funds meet the purpose for which they were intended they must be kept in a liquid condition and made instantly mobile by keeping the investments of such banks either in actual gold and lawful money or in short-time commercial bills drawn against actual commercial transactions which are readily converted into money on short notice. (Sec. 14, p. 40, and sec. 15, p. 44.)

In pursuing this policy we have followed the experience of the great public utility banks of Europe. The European systems confine in large measure the holdings of the public utility banks to cash and liquid bills of very short maturities, the average length of time of the bills of the Bank of France not exceeding 28 days and the Reichsbank of Germany having no paper of longer maturity than 90 days, and a large part of its paper very short time paper. The Bank of England handles quite a large volume of paper, running 7 to 14 days. These public utility banks carefully avoid putting the funds in their custody in the form of investments which are not instantly convertible into money. This consideration is of the highest importance, because the Federal reserve banks holding the reserves of the reserves must be in a position to extend instant accommodation to any member bank requiring cash.

With a view to enlarging the volume of liquid paper based on actual shipments of goods, the reserve bank is authorized to discount acceptances and the member banks are authorized to accept bills of exchange against actual shipments of goods.

ELASTIC CURRENCY—FEDERAL RESERVE NOTES.

In order to render still more mobile and liquid the reserves held by the Federal reserve banks, elastic currency has been provided (sec. 17, p. 47) in the form of Federal reserve notes issued as obligations of the United States, redeemable in gold at the Treasury, or in gold or lawful money at the reserve banks, and receivable for all taxes and public dues, except customs. The exception of customs was intended to enable the Federal Government to command a supply of gold through the customhouses, if it should prove to be necessary, by compelling the customs to be paid in gold by foreign shippers.

These Federal reserve notes, while the obligations of the United States, and made redeemable in gold or lawful money at the Federal reserve banks and in gold only at the Treasury of the United States, are carefully surrounded by very numerous safeguards to make assurance doubly sure that they shall not at any time in reality tax the credit of the United States itself. The securities behind these notes are:

First. Commercial bills drawn against actual commercial transactions which have goods and merchandise behind the notes.

Second. Such notes have the credit of the maker of the commercial bill deemed good by the member banks.

Third. The indorsement by the member bank of such commercial bills.

Fourth. The double liability of the stockholders of the member bank so indorsing.

Fifth. Thirty-three and a third per cent of gold reserve in the Federal reserve bank.

Sixth. A first lien on all the assets of the Federal reserve bank.

Seventh. The stock of the indorsing member bank in the Federal reserve bank.

Eighth. The reserve balance of the indorsing member bank in the Federal reserve bank.

Ninth. A double liability of the member banks of the Federal reserve bank.

Tenth. The double liability of the stockholders of the member banks of the Federal reserve bank.

Eleventh. The surplus of the Federal reserve bank.

Twelfth. The earning power of such reserve bank, and finally the United States. There has never been issued a note with such safeguards surrounding it by any banking system of the world.

The commercial bills alone would never fail, because of their liquid character and short maturity. No apprehension whatever need be felt with regard to these notes ever taxing the Federal Treasury.

Since each bank is required to keep a gold reserve with the Treasury of the United States against such note issues, it is necessary to keep a record of the outstanding circulation emitted through each Federal reserve bank, and for this reason a descriptive number is placed upon the notes emitted through any Federal reserve bank so as to keep the record of notes outstanding issued through such banks. The effect of issuing Federal reserve notes against commercial bills is to make intensely mobile the assets of the Federal reserve bank and enable such bank at all times to respond instantly to the needs of national commerce. The emission of these notes is controlled by the Federal reserve board, which is authorized to control the volume of these notes and the terms upon which they shall be advanced to the Federal reserve bank and the conditions of retirement.

The Federal reserve board is authorized to tax the issue of the notes and also to fix the rate of interest on the discounts of the Federal reserve banks, and in this way keep a double check on the issuance of the Federal reserve notes.

While the Federal reserve notes are extremely well secured, it is made easy for member banks needing currency for seasonal demands or for any extraordinary emergency to obtain Federal reserve notes from the Federal reserve banks. The Federal reserve bank has only to deposit liquid commercial bills of a qualified class with the Federal reserve agent and obtain from him such Federal reserve notes, keeping, however, a minimum deposit of 33 per cent of gold against such Federal reserve notes as may be put in actual circulation. It is believed that in actual practice the gold reserves against such notes in circulation will be very large, much larger than the minimum requirement, especially if our proposed amendment is placed in the House bill, permitting the reserves against deposits and against the notes to be kept as a common fund. It is obvious that if a minimum requirement of 33 per cent against deposits and 33 per cent against notes in circulation is held as a common fund, anyone observing the statement merely from the standpoint of a depositor, if the deposits and the notes in circulation happened to be equal, would perceive that the reserves against deposits would appear as 66 per cent, and anyone looking at the reserves against the notes from that point of view would observe a reserve equal to 66 per cent of the notes in circulation.

It also is obvious that when there is a surplus reserve against the deposits far above 33 per cent there is no reason why the bank should not have the credit of this surplus appearing also in its favor as a reserve against notes in circulation, and it was upon the best advice obtainable that an amendment was proposed to section 17 permitting

these reserves to be carried as a common fund, but in no contingency less than a 33 per cent gold reserve against the notes, as required in the House bill.

The retirement of these Federal reserve notes would, of course, be accomplished whenever the commercial bills were withdrawn by the member bank or by the Federal reserve bank from the hands of the Federal reserve agent, the Federal reserve agent in such contingency either receiving the notes back or a like volume of lawful money.

OPEN-MARKET OPERATIONS.

One of the most important features of this bill is the establishment of what is called an open market for bills of exchange and bankers' acceptances such as has long prevailed in Europe, but which has not existed to any great extent in the United States. In Europe the various banks and private bankers carry on a very large scale commercial bills of exchange and acceptances based on actual commercial transactions of short maturities and which are regarded as self-liquidating. Such bills have behind them actual merchandise for which a purchaser has been found, and these bills are held in their portfolios as almost the exact equivalent of cash, for the reason that the security of such bills is regarded as substantially perfect, their uniform and certain payment constant, and therefore there is an "open market" for such bills maintained by the great public banks, such as the Bank of France, the Reichsbank, the Bank of Belgium, the Bank of Netherlands, the Bank of England, etc., at a very low rate of interest.

It is now proposed that a constant market at a fairly uniform rate of interest be established in this country by establishing the Federal reserve bank with a large capital and large reserves and with the express power to discount for member banks commercial bills and acceptances of the qualified liquid class, and also to buy and sell in the open market such bills and bankers' acceptances as have been found merchantable and liquid by the experience of European banking systems. It is anticipated that the effect of this method will be to encourage banking houses to buy commercial bills of the qualified class, and in this way that we may greatly enlarge the market for the bills of manufacturers, merchants, and business men who are handling the actual commerce of the country. (Secs. 14 and 15, pp. 40-44.)

GOVERNMENT DEPOSITS WITH FEDERAL RESERVE BANKS.

It has been deemed of the highest importance to maintain the independent Treasury of the United States and not compel the Secretary of the Treasury to deposit every dollar of the public funds in the Federal reserve banks, but to provide that he may do so. The argument in favor of maintaining the independence of the Federal Treasury is overwhelmingly in favor of an independent Treasury and need not be recounted here.

The Government of the United States can advantageously to the banks and to itself place with the Federal reserve banks \$150,000,000,

or even a larger sum, but the process of collecting the revenue through revenue collectors scattered throughout the Nation, making local deposits, and the right of the Treasury Department to make disbursements in every part of the country through its numerous disbursing officers, makes it highly necessary to maintain the independence of the Treasury. We have, therefore, thought it proper to change the provision of section 16 in such a way as to accomplish this object (p. 46).

REFUNDING BONDS.

The House measure (sec. 19, p. 56) provided for retiring 5 per cent of the outstanding 2 per cent bonds held for national-bank circulation by the exchange of 3 per cent bonds without circulation privilege for such 2 per cent bonds, justly assumes that the Government will be compensated by the interest earned upon a like amount of Federal reserve notes.

We have preferred to absorb such of these bonds as would be offered on the market by permitting the Federal reserve banks to buy such 2 per cent bonds and issue Federal reserve bank notes against them just as the national banks do (p. 14), and have further permitted such Federal reserve banks, in section 19, to assume the redemption of not exceeding \$36,000,000 of national-bank notes issued against such bonds and to take over such bonds and issue Federal reserve notes against such bonds, leaving the bonds with the Treasurer of the United States in trust in the form of 3 per cent bonds or 3 per cent annual notes, in this way assuring to the Government the earning power upon the circulation taking the place of the retired national-bank circulation (p. 58).

CLEARING CHECKS AND DRAFTS.

The House bill proposed to clear checks and drafts *at par*, but we propose an amendment providing that checks and drafts sent to the Federal reserve banks by member banks may be cleared, allowing the Federal reserve board to fix the charge which may be imposed for the service of clearing or collection rendered either by the Federal reserve bank or by the member banks, and with a provision that the act should not be construed to prohibit member banks from making reasonable charges for checks and drafts debited to their account, or for collecting and remitting drafts, or for exchange sold to its patrons. In this way the reserve banks are not put in competition with the country banks, but can serve them and their customers at a fair price. This amendment should remove the very serious objection of many of the country banks to the House provision, which they thought would interfere with their right to charge for exchange in making remittances (p. 55).

SAVINGS-BANK SECTION.

Your committee has struck out entirely the savings-bank section No. 27, for the reason that the national banks now, through the system of time deposits, carry on a savings-bank business very economically

and at the same time use the funds in promoting the local enterprises. It was the practical judgment of all the small banks of the country that this section should not remain in the bill.

CHANGES IN THE NATIONAL-BANK ACT.

Several changes of importance in the national-bank act have been made, to which attention should be called:

First. Section 21 (p. 65) provides that the 5 per cent fund placed with the Secretary of the Treasury for the redemption of national-bank notes shall no longer be construed to be a part of the bank's reserves. This is justified because the reserves of the national banks have been made decidedly lower than they have been in the past.

Second. The law requiring bonds of national banks to be deposited before any national bank association shall be authorized to commence the banking business, as provided in section 5159 of the Revised Statutes, etc., is repealed by section 18 (p. 56). The obvious purpose of this section is to ultimately do away with the bond-secured circulation, which is inelastic and unscientific. The way to establish an improved system is thus made open.

Third. The bank examinations are more thoroughly provided for in section 23 (p. 66).

Fourth. The loans, gratuities, and commissions to bank officers or bank examiners are penalized by section 24 (p. 69).

Fifth. The stockholders' liabilities of national banks and of member banks is modified to establish the double liability and to prevent its evasion. (Sec. 25, p. 71.)

Sixth. Loans on farm lands are permitted to the extent of 25 per cent of the capital and surplus of a national bank and for a period of five years. This would make available possibly \$400,000,000, but in actual practice it would not be likely to exceed a hundred million dollars under the terms of the bill, for the reason that the city banks do not make such loans, and where the banks have the authority they will probably not exercise it with any uniformity. P. 21

Seventh. The change of the reserves in the national banking law is a very important change, heretofore described, and which will be found set forth in section 20 (p. 59).

The House provision was changed so as to make the language more compact and to simplify it.

Eighth. Foreign branches were also provided for national banks having a capital and surplus of a million dollars or more, with the approval of the Federal reserve board. (Sec. 28, p. 77.)

This is a very important amendment and one of far-reaching importance to the foreign commerce of the United States, the purpose of which is so obvious as to need no explanation.

Many other amendments are needed in the national-bank act which this bill does not undertake to deal with, for the reason that it was of great importance that this bill should not be embarrassed by the consideration of questions which were not necessarily germane to the bill itself in establishing the Federal reserve system.

The National Monetary Commission did a very large amount of work looking toward the codification of the national-bank act, and

this work has so far progressed that it may be easily submitted to the Senate during the next regular session, in such a form as to enable the matter to be disposed of and to make any other amendments which are necessary to the national-bank act, without embarrassing the present measure by considerations which are not necessarily a part of the Federal reserve system.

The proposed changes recommended by the undersigned are best set forth by submitting a print of the House bill with the parts struck out being placed in brackets and the amendments proposed being inserted in italics. (See Exhibit A.) The other exhibits are necessary to justify the amendments recommended.

Very respectfully submitted.

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JAMES A. O'GORMAN.

JAMES A. REED.

ATLEE POMERENE.

JOHN F. SHAFROTH.

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