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NATIONAL MONETARY COMMISSION

LETTER FROM SECRETARY OF THE
NATIONAL MONETARY COMMISSION
TRANSMITTING, PURSUANT TO LAW,
THE REPORT OF THE COMMISSION



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LETTER OF TRANSMITTAL.

WASHINGTON, D. C., *January 8, 1912.*

To the President of the Senate:

In compliance with the law, I am directed by the National Monetary Commission to file with you its report.

Respectfully,

ARTHUR B. SHELTON,
Secretary.

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JAN 31 1913



REPORT
OF THE
NATIONAL MONETARY COMMISSION.

To the Congress:

The National Monetary Commission, created by sections 17, 18, and 19 of "An act to amend the national banking laws," approved May 30, 1908, submits the following report:

Section 18 of the act gave authority and instructions 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 sessions or recess of Congress, at such times and places as they may deem desirable, to send for persons and papers, to administer oaths, to summons 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.

In accordance with these instructions we have undertaken in as thorough and scientific a manner as possible to investigate banking and currency conditions in this and other countries. These investigations have been pursued through hearings and examinations in this country and abroad by members and representatives of the commission, and through the preparation of papers and monographs by expert authorities. The commission has through the Comptroller of the Currency collected statistical and other information from National and State banks and trust companies, national-bank examiners, and State bank supervisors.

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In the summer of 1908 members of the commission visited England, France, and Germany, the three countries of Europe in which conditions most closely resemble our own, examining their banking arrangements, methods, and practices by personal interviews with the officers of the leading institutions. Representatives of the commission have also visited the banks of Canada, Scotland, Switzerland, Italy, and Sweden, conferring with their officers and examining at first hand their methods of organization and their arrangements for dealing with reserves, note issue, commercial paper, and other banking factors. The questions and answers of the European and Canadian interviews have been published in two volumes, which we believe contain more accurate and concrete information in regard to the actual practice of banking in these countries than has ever been published before. The commission has conducted hearings and made inquiries in different parts of this country for the purpose of obtaining opinions of people, representing different localities and occupations, as to desirable changes in our banking laws. Public hearings, after ample notice thereof, have been held in New York, Chicago, St. Paul, Minneapolis, San Francisco, Seattle, Portland, Los Angeles, Salt Lake City, Denver, Kansas City, St. Louis, and Washington, while meetings such as that of the Western Economic Society at Chicago and of the American Bankers Association and its affiliated organizations at New Orleans, which have been devoted exclusively to the discussion of monetary legislation, have been utilized by the commission as a means for securing opinions of political economists and of bankers, respectively.

In examining the printed literature of banking at the beginning of our investigations we were struck by the paucity, both in Europe and in America, of material dealing with other phases of the subject than the history of the circulation privilege. It was practically impossible

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to find, at least in English, any satisfactory account of the operations of European banks other than note-issuing banks, any penetrating examination of the great credit institutions or of the organization of credit in other countries, while the literature of banking in the United States was confined for the most part to accounts of the obsolete State banking systems which existed before the Civil War and to the history of national banking legislation. Until our banking authorities had analyzed the processes and functions of modern banking institutions and cut loose from the traditional methods of banking of half a century or more ago, it was not to be expected that the discussion of banking reform would be in other terms than those current in the earlier period. It is a singular fact that most bankers, economists, and legislators who had written upon banking had discussed banking questions in much the same language and from much the same point of view as English authorities who debated banking reform in England during the decades before the act of 1844. The commission, therefore, at the inception of its labors enlisted the services of the world's best experts in a fresh examination of banking in the leading countries as it is conducted to-day. Leading financial editors, bankers, Government officials, and university professors in Europe and America and in the Orient, were employed to prepare papers upon the actual operations of banks and upon their separate functions and mutual relations.

The commission has thus collected and published monographs upon banking in England, France, Germany, Canada, Switzerland, Italy, Sweden, Belgium, Mexico, Russia, Austria-Hungary, Holland, and Japan, as well as the United States, which, because of their scope and authority, possess, we believe, enduring scientific value.

By means of special statistical inquiries framed upon a uniform plan and directed to the leading banks of Great Britain, France, and Germany, we have collected more

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complete statistical information with regard to the banks of these countries than has ever been collected before, while, by a series of special reports from all national and State banks and trust companies in the United States, the commission has been able for the first time to present reports from all of the banks in the country upon a uniform basis.

The commission recognizes the value of the assistance which it has received in the prosecution of its various inquiries and in compiling its data, as well as in the drafting of its proposals. It would be impossible to enumerate all of the bankers, economists, editors, Government officials, business men, and banking and commercial organizations that have generously and patiently cooperated in the work, and it would seem invidious to attempt any selection for special thanks. The list of contributors to the publications of the commission speaks for itself, but we are glad to express our obligations to many others who have rendered equal service in other ways.

The act of May 30, 1908, providing for the appointment of the National Monetary Commission was a direct consequence of the panic of 1907. We shall not attempt to recount the severe losses and misfortunes suffered by the American people of all classes as the result of this and similar crises. To seek for means to prevent the recurrence or to mitigate the severity of grave disasters of this character was, however, one of the primary purposes of its creation.

We have made a thorough study of the defects of our banking system, which were largely responsible for these disasters and have sought to provide effective remedies for these and other defects, in the legislation we propose.

The principal defects in our banking system we believe may be summarized as follows:

1. We have no provision for the concentration of the cash reserves of the banks and for their mobilization and use

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wherever needed in times of trouble. Experience has shown that the scattered cash reserves of our banks are inadequate for purposes of assistance or defense at such times.

2. Antiquated Federal and State laws restrict the use of bank reserves and prohibit the lending power of banks at times when, in the presence of unusual demands, reserves should be freely used and credit liberally extended to all deserving customers.

3. Our banks also lack adequate means available for use at any time to replenish their reserves or increase their loaning powers when necessary to meet normal or unusual demands.

4. Of our various forms of currency the bank-note issue is the only one which we might expect to respond to the changing needs of business by automatic expansion and contraction, but this issue is deprived of all such qualities by the fact that its volume is largely dependent upon the amount and price of United States bonds.

5. We lack means to insure such effective cooperation on the part of banks as is necessary to protect their own and the public interests in times of stress or crisis. There is no cooperation of any kind among banks outside the clearing-house cities. While clearing-house organizations of banks have been able to render valuable services within a limited sphere for local communities, the lack of means to secure their cooperation or affiliation in broader fields makes it impossible to use these or similar local agencies to prevent panics or avert calamitous disturbances affecting the country at large. These organizations have, in fact, never been able to prevent the suspension of cash payments by financial institutions in their own localities in cases of emergency.

6. We have no effective agency covering the entire country which affords necessary facilities for making domestic exchanges between different localities and sections, or

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which can prevent disastrous disruption of all such exchanges in times of serious trouble.

7. We have no instrumentality that can deal effectively with the broad questions which, from an international standpoint, affect the credit and status of the United States as one of the great financial powers of the world. In times of threatened trouble or of actual panic these questions, which involve the course of foreign exchange and the international movements of gold, are even more important to us from a national than from an international standpoint.

8. The lack of commercial paper of an established standard, issued for agricultural, industrial, and commercial purposes, available for investments by banks, leads to an unhealthy congestion of loanable funds in great centers and hinders the development of the productive forces of the country.

9. The narrow character of our discount market, with its limited range of safe and profitable investments for banks, results in sending the surplus money of all sections, in excess of reserves and local demands, to New York, where it is usually loaned out on call on Stock Exchange securities, tending to promote dangerous speculation and inevitably leading to injurious disturbances in reserves. This concentration of surplus money and available funds in New York imposes upon the managers of the banks of that city the vast responsibilities which are inherent in the control of a large proportion of the banking resources of the country.

10. The absence of a broad discount market in our system, taken together with the restrictive treatment of reserves, creates at times when serious financial disturbances are anticipated a condition of dependence on the part of individual banks throughout the country, and at the same time places the farmers and others engaged in productive industries at a great disadvantage in securing the credit

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they require for the growth, retention, and distribution of their products.

11. There is a marked lack of equality in credit facilities between different sections of the country, reflected in less favored communities, in retarded development, and great disparity in rates of discount.

12. Our system lacks an agency whose influence can be made effective in securing greater uniformity, steadiness, and reasonableness of rates of discount in all parts of the country.

13. We have no effective agency that can surely provide adequate banking facilities for different regions promptly and on reasonable terms to meet the ordinary or unusual demands for credit or currency necessary for moving crops or for other legitimate purposes.

14. We have no power to enforce the adoption of uniform standards with regard to capital, reserves, examinations, and the character and publicity of reports of all banks in the different sections of the country.

15. We have no American banking institutions in foreign countries. The organization of such banks is necessary for the development of our foreign trade.

16. The provision that national banks shall not make loans upon real estate restricts their power to serve farmers and other borrowers in rural communities.

17. The provision of law under which the Government acts as custodian of its own funds results in irregular withdrawals of money from circulation and bank reserves in periods of excessive Government revenues, and in the return of these funds into circulation only in periods of deficient revenues. Recent efforts to modify the Independent Treasury system by a partial distribution of the public moneys among national banks have resulted, it is charged, in discrimination and favoritism in the treatment of different banks.

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There is a general agreement among intelligent students of the subject that to remedy these and other defects it is necessary to provide a comprehensive reorganization of credit and a thorough reconstruction of our banking systems and methods. We submit herewith our recommendation providing for such reorganization in the form of a bill which, if enacted into law, will, we believe, accomplish these results.

It is proposed to incorporate the National Reserve Association of the United States with an authorized capital equal to 20 per cent of the capital of all subscribing banks, of which one-half shall be paid in and the remainder shall become a liability, subject to call under the provisions of section 3 of the bill. It is also provided that before the reserve association can commence business \$100,000,000 of capital must be paid in cash. All State banks and trust companies conforming to the provisions of the bill with reference to capitalization and reserves and all National banks are entitled to subscribe for stock and to become members of the association. Shares in the association are not transferable and can not be owned otherwise than by a subscribing bank or in any other than the proportion named.

It is proposed to group into local associations all subscribing banks located in contiguous territory. The local associations are to be organized into district associations, in each of which shall be located a branch of the National Reserve Association; and the district associations, which shall be so arranged as to include all the territory of the United States, are combined to form the National Reserve Association of the United States.

These several associations are analogous in their organization to our political divisions, into counties, States, and the United States. Each has distinctive functions quite unlike in their character and each has representative self-government. In the local association

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the individual bank is the voting unit. A majority of banks, without reference to their size or their holdings of stock in the reserve association, elect three-fifths of the directors, and a majority in stock interest elect two-fifths. This method of electing directors is, we believe, quite novel in corporate government. It is more democratic in form, with more liberal representation to minorities than any method in general use.

One of the principal functions of the local associations is to guarantee, upon application, the commercial paper of individual banks which may be offered to the branches for rediscount, as provided in section 27 of the bill. The local association may, and in most cases would, require from the bank making the application satisfactory security for the guaranty. Local associations are authorized in serious emergencies to guarantee the direct obligations of subscribing banks with adequate security, in accordance with the provisions of section 28 of the bill. A local association may decline to give the guaranties provided for under either of these sections. Local associations may also, by vote of three-fourths of their board of directors and the approval of the National Reserve Association, assume and exercise the powers and functions of clearing houses. They are required also to perform such services in facilitating domestic exchanges as, in the opinion of the National Reserve Association, the public interests may require.

The boards of directors, not less than 12 in number, of the district branches, are elected in the following manner: First, one-half by the local associations, each association acting as a unit without reference to its size or importance; second, one-third by the local associations, each association in this case casting a number of votes equal to the number of shares in the National Reserve Association held by the banks composing such association; third, one-sixth are chosen by the directors of the first and second class to

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represent other than banking interests. Thus a majority of the local associations, without reference to the amount of stock holdings which they represent, elect the larger group of the directors of the district branch.

Each branch is to have a manager, who shall be a resident of the district, appointed by the governor of the National Reserve Association, with the approval of the executive committee of the reserve association and the board of directors of the branch. The manager of the branch is to be *ex officio* a member of its board of directors and its chairman.

The functions of branch organizations are important. First, they hold the balances and a portion of the cash reserves of the banks of the district; second, they exercise the powers of rediscount and discount for banks located in their districts; third, they are required to redeem upon presentation in gold or lawful money the circulating notes of the association and to distribute such notes to individual banks on application; fourth, they are required by transfers of balances through branches or local associations to facilitate domestic exchanges between different parts of the country.

The board of directors of the National Reserve Association is to be elected in the following manner:

The bill provides that the entire country shall be divided into 15 districts, with a branch in each district. Of the 46 directors of the National Reserve Association, 2 of the first class, who shall be residents of the district, are to be elected by the directors of each branch. One of the directors thus elected by each branch must fairly represent the agricultural, commercial, industrial, and other interests of the district, and can not be an officer, nor, while serving, a director of a bank, trust company, insurance company, or other financial institution. Second, nine directors in addition to the thirty of the first class are to be elected by the branch directors acting through

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voting representatives, each representative to cast a number of votes equal to the number of shares in the National Reserve Association held by the banks in the branch he represents. Not more than one director of this class may be chosen from one district, and this director must be a resident of the district from which he is elected. There are to be seven ex officio members of the board of directors, namely, the governor of the National Reserve Association, who is to be chairman of the board, two deputy governors, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor, and the Comptroller of the Currency.

The executive officers of the National Reserve Association are to consist of a governor, two deputy governors, a secretary, and such subordinate officers as may be authorized. The governor, who is to serve ten years, is selected by the President of the United States from an eligible list including not less than three names furnished by the directors, and the deputy governors are elected by the board of directors. The governor and the deputy governors are removable for cause by the board of directors. The board is to choose from among its number an executive committee, consisting of nine members, of which the governor and the two deputy governors and the Comptroller of the Currency shall be ex officio members. Not more than one of the elected members of this committee can be chosen from one district. The board is also to elect from among its number a board of examination, of which the Secretary of the Treasury shall be ex officio chairman.

This distribution of power and control furnishes the assurance that the general interests of the country and of all communities will be conserved as well as the interests of the shareholders, as the National Reserve Association, through this form of organization, is brought into close relations of responsibility to the Government and

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the people. The provision that one-half of the directors elected by the branches shall fairly represent the agricultural, commercial, and other interests, and shall not be connected with banks or other financial institutions, insures the infusion of representative men into the governing board, who will have every motive to act in the public interest.

Further restraint upon the administration of the association on narrow or selfish lines is imposed by the provision that four of the highest officials of the Government are made *ex officio* members of the controlling board and by the requirement that the governor shall be selected by the President of the United States.

The fear has been expressed that the selection of the governor by the President and the provisions making the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor, and the Comptroller of the Currency *ex officio* members of the board of directors of the reserve association might lead to an attempt to control the organization for political purposes. We believe that the participation of these officials in the management of the institution to the limited extent prescribed is necessary to secure a proper recognition of the vital interest which the public has in the management of the association. It is a corporation with private stockholders, but it is proposed to make it the principal fiscal agent of the United States and the depository of its funds. The more important functions of the organization and its principal powers are of a public or semi-public character. It is not only the custodian of the Treasury balances, but the principal reason for its existence is found in its ability at all times to sustain the public credit.

As constituted under present proposals, however, neither the President nor any of the officials named could, from the inherent character of the organization, use any

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of its functions for personal or political purposes, but to give to the President the power to appoint all the directors of the reserve association, as has been suggested, would result in making the association a political machine, and appointments would be solicited and bestowed as a reward for political services.

In providing for the creation for specific purposes of this new representative organization it has been the aim of the Monetary Commission to follow in its distribution of powers and control our governmental structure, and to coordinate independent local and district organizations through an effective central agency for mutual cooperation. In this respect, as well as in its functions, the National Reserve Association differs radically from the First and Second Banks of the United States and from European central banks. Its sources of authority are democratic and not autocratic. Instead of overshadowing banks, it is their representative; its controlling forces, acting in the public interests, impose policies upon and grant powers to its managers.

In times of trouble it takes individual banks from a condition of helpless isolation and dependence and places them in a position where their integrity and independence is assured, through an unflinching source of support. It is outside of and supplemental to the existing system and not a competitor in any sense with existing banks. It provides for an equality of privileges and advantages to all banks, great and small, wherever located. Its dominating principle is cooperation and not centralization. Its organization is of a form and character that will effectually prevent the control of its operations by political or other interests, local or national.

The National Reserve Association is made the channel through which local banking institutions exercise their federated powers. It is in effect an evolution of the clearing-house idea, extended to include an effective cen-

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tral organization. It is not a bank but a cooperative union of all the banks of the country, with very limited and clearly defined functions. First, it holds a portion of the cash reserves of the banks of the United States with provision for their use only for specific purposes; second, it is granted the power to issue circulating notes, under strict governmental regulations; third, through the maintenance of its own reserves and the character and extent of its resources it is required to sustain the credit of the banks and of the country under all circumstances. All of its operations are confined to, or incidental to, these purposes, the only exception being the transaction of its business as the fiscal agent of the Government of the United States.

For obvious reasons the National Reserve Association is required to keep its assets in liquid form and its rediscounts, discounts, and investments are confined to short-time paper or Government securities.

The National Reserve Association is given ample power to protect its own reserves, in order that it may be able at all times to exercise its most important function—that of sustaining the commercial and public credit of the country. For the purpose of strengthening its own reserves it may, first, attract gold from other countries by an advance in its discount rate; second, purchase and borrow gold and give security for its loans, including the hypothecation of Government bonds; third, buy and sell foreign bills of exchange. Short-time foreign bills have been found elsewhere most effective as a means of replenishing a gold supply, and of preventing the exportation of gold at critical times.

That our present system of bank-note issues based upon Government bonds is defective and that a change in the manner and character of issues must take place at an early date is admitted on every hand. There are now outstanding less than two hundred million dollars of

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United States bonds with the circulation privilege attached not owned by the banks and held for circulation purposes. These bonds are largely of a class which it would not usually be profitable for the banks to buy as a basis for circulation. Congress has inaugurated the policy of issuing bonds without the circulation privilege. It is evident from these facts that if we are to provide for any future demands of the country for currency the adoption of some other basis for note issues will be necessary. Our bond-secured currency has all the qualities of ultimate safety, and its prompt redemption is guaranteed by the United States, but it is not, as our experience has amply shown, responsive, either in expansion or contraction, to the ever-changing conditions and demands of business.

We propose that while the national banks shall have the right to retain their existing circulation all new issues shall be made by the National Reserve Association. We propose that the authority now exercised by seven or eight thousand national banks shall be vested in this cooperative association of all the banks. We propose to relieve the United States from the obligation to redeem the outstanding national-bank notes based on the bonds which are taken over by the reserve association. The association is required to redeem in gold or its equivalent, at any of its branches, upon presentation, such notes and all notes of its own issue.

All circulating notes of the association are required by section 41 of the bill, to be covered by gold reserves, or by United States bonds, or by commercial paper which must conform to the standards established in the bill. The reserve association is required to maintain a reserve of not less than 50 per cent against all of its demand liabilities, including all new issues of notes, as well as those issued in place of outstanding national-bank notes. The notes constitute a first lien upon all the assets of the

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reserve association, including its holdings of Government bonds.

We propose that the important privilege of note issue shall be accorded to the principal financial agent of the Government, to be exercised under Government control and supervision, with restrictions and limitations of such character as will, in our judgment, make undue inflation impossible. All profits which may arise from note issues will be paid into the Treasury of the United States. While it may be contended that the issue of money of any kind is a distinctive function of sovereign power, the exercise of this authority directly by Governments has, as shown by the experience of the world, inevitably led to disastrous results.

As safeguards against undue inflation of note issues it is proposed: First, that no notes shall be issued whenever and so long as the gold cover falls below $33\frac{1}{3}$ per cent. Second, that a graduated tax shall be paid on the amount of deficiency whenever and so long as the reserve against all liabilities falls below 50 per cent. For each $2\frac{1}{2}$ per cent of such deficiency of reserve a tax of $1\frac{1}{2}$ per cent is levied. To illustrate, with the reserves at 40 per cent it would require the payment of a tax of 6 per cent on excess of note issues. Third, that whenever notes are issued in excess of \$900,000,000, and not in excess of \$1,200,000,000, and such excess issue is not fully covered by gold or other lawful money, a tax of $1\frac{1}{2}$ per cent shall be levied on the excess. Notes issued in excess of \$1,200,000,000, not fully covered by gold or lawful money, are taxed 5 per cent. We have assumed in fixing the terms of the limitation of \$900,000,000 that the normal amount of bank notes to meet business requirements is approximately the amount now outstanding—\$700,000,000—and we have allowed for the natural expansion of \$200,000,000 for seasonal or crop-moving demands. It

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will be seen that we propose three effective provisions to prevent undue inflation of note issues.

We have imposed upon the National Reserve Association the duty of maintaining at all times a parity in value of its notes with the gold standard established by the act of March 14, 1900. The imposition of this duty, accompanied as it is by ample authority to protect its gold reserves in the manner we have elsewhere explained, will, in our opinion, effectively remove the possibility of a suspension of gold payments by the association or by the Treasury.

It has been insisted in some quarters that we should provide that all notes should be redeemed and all reserves held in gold, and gold alone. We believe that no good reason exists for the adoption of this suggestion. The gold-standard act of 1900 settled finally the question of the standard of value in this country. Prior to that time we had made silver certificates available for the reserves of national banks. By the act of 1900 we made gold certificates available as reserve money. Standard silver dollars and United States notes are legal tender and can properly be used in reserves. Every dollar of currency which the United States has issued, or for which it is responsible, is to-day of equal value with the gold dollar. We are certain that the American people will not consent to any change in this respect. Practically all the silver certificates are now in circulation in the form of notes of small denominations and therefore not likely to be held to any considerable extent either in the reserves of banks or of the reserve association. Gold certificates are certainly equal to gold.

We have provided, by the system proposed, for the ultimate security of the notes through a pledge of bonds of the United States, gold, commercial paper, and the other assets of the National Reserve Association, and

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have insured immediate convertibility into gold or its equivalent upon presentation at any branch of the association. In fact, we have adopted every provision that the experience of the world has shown to be necessary for the security and convertibility of a paper currency. We have provided that the reserve association, through its branches, shall at once, upon application and without charge for transportation, forward the circulating notes of the association to any subscribing bank against its credit balance. We assume that there will be but few banks in the United States—certainly none in central communities—that will be more than 24 hours away from a positive source of supply of notes for use for crop moving or other purposes. This provision will remove all danger of a currency famine in any section of the country.

One of the most difficult problems with which the commission had to deal was the question of what provision should be made for the outstanding 2 per cent bonds owned by national banks held by the Treasury as a basis for their circulating notes. The recent sales of the 3 per cent bonds issued for Panama Canal construction and the market prices of these securities establish the fact that the credit of the United States, now approximately on a 3 per cent basis, is above that of any of the other commercial nations. If the credit of the country is to be maintained at this point, as it seems likely that it may be, 2 per cent bonds, without the circulating privilege, would probably have a market value approximating 70, and any legislation preventing their further use as a basis for bank circulation would entail enormous losses upon the banks. When we consider that the refunding act providing for the issue of these 2 per cent bonds practically compelled the banks to purchase them, it would be manifestly unfair for the United States to impose upon the banks the severe losses which would follow their disuse for circulation purposes.

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These equitable considerations will undoubtedly have weight with the Congress, but it is equally bound to guard against any loss of revenue or credit to the United States that would be involved in refunding these bonds into threes. We therefore propose that the National Reserve Association shall purchase, at not less than par and interest, the 2 per cent bonds held by national banks, and take over with the purchase the right to issue notes to an amount equal to the bank notes now outstanding, such new notes to be issued and redeemed in the manner elsewhere provided. It is proposed that the Secretary of the Treasury shall, upon application of the reserve association, exchange the 2 per cent bonds purchased for 3 per cent bonds of the United States payable after 50 years. The National Reserve Association is required to hold such bonds during the period of its corporate existence, subject, however, to a right to sell at the option of the Government not more than \$50,000,000 in any one year after five years. The reserve association is, however, required to pay an annual franchise tax equal to $1\frac{1}{2}$ per cent of the amount of the bonds so purchased and exchanged.

The effect of these provisions, taken together, is that the United States will be able to fund seven-ninths of the national debt at a net interest charge of $1\frac{1}{2}$ per cent, and the national banks will be enabled to avoid the risks of being obliged to sell their bonds at a great sacrifice. This plan seems to the commission to be equitable alike to the Government and to the national banks, and places upon the National Reserve Association the obligation to save both from the embarrassment and losses which would arise from any other disposition of this mass of Government securities.

Section 39 of the bill provides that the deposit balance of any subscribing bank in the National Reserve Association and any notes of the National Reserve Association which it holds may be counted as a part of its required

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reserves. In order to protect or replenish these reserves and thus increase the loaning power of individual banks the National Reserve Association is authorized, through its branches, to rediscount commercial paper for subscribing banks. Commercial paper which can be used for this purpose is defined in the bill as notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, and does not include notes or bills issued or drawn for the purpose of carrying stocks, bonds, or other investment securities. Commercial paper of this description having not more than 28 days to run may be discounted for individual banks. If having more than 28 days and not exceeding 90 days to run, the rediscount may be made for individual banks, with the guaranty of the local association. The National Reserve Association may discount the direct obligations of individual banks, with the guaranty of the local association, amply secured by a pledge of collaterals of unquestioned value, whenever, in the opinion of the governor and executive committee of the reserve association, concurred in by the Secretary of the Treasury, a serious emergency exists and the public interests so require.

The bill provides that the National Reserve Association shall fix its rates of discount from time to time, which, when so fixed, shall be published, and shall be uniform throughout the United States. In view of the great disparity which now exists in discount rates on commercial loans in different sections of the country, serious doubts have been expressed as to whether this provision can be made effective. It can not be expected that an equality of commercial rates under all conditions and for all classes of business can be secured at once by such legislation. But with this provision adopted the tendency would be toward a gradual equalization of rates at all points. It is apparent to the commission that we must provide that all the advantages and benefits which may accrue from

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the organization of the National Reserve Association, including an absolute uniformity in its discount rates, should be extended alike to every bank in every section. The greater uniformity and steadiness of rates and better opportunities of employment of capital which should follow the adoption of the legislation we propose will prove, we believe, an advantage to the banks of the United States if we can judge by the experience of the joint-stock banks of other countries. These banks in France, England, and Germany, with bank rates much lower than current commercial rates in this country and an approximate equality of all other rates, are enabled, largely on account of the steadiness and uniformity to which we have referred, to pay dividends that are at least equal to those paid by the banks of the United States. If our bank managers could be assured of constant employment for their loanable funds at steady rates they would willingly accept lower discount rates in many cases than those which are now current. An approximate equalization of rates would be of great benefit to the people in sections of the country where productive forces are only partially developed. This process of equalization has already commenced, and we are becoming a homogeneous people in our industries and financial operations, and we may look forward to the time when, with the adoption of the provisions we have suggested, the farmer of the South or the farmer or miner of our intermountain States will be able, with the same class of credit or securities, to obtain the money requisite for his purposes at as low a rate as that current in other sections for similar loans.

Section 40 provides that national banks may loan not more than 30 per cent of their time deposits upon improved and unencumbered real estate, such loans not to exceed 50 per cent of the actual value of the property, which property shall be situated in the vicinity or in the territory directly tributary to the bank. This privilege is

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not extended to national banks which act as reserve agents for other banks or trust companies.

We have provided as far as possible for a uniformity of requirements with regard to capitalization, reserves, examinations, and reports of all banks and trust companies who shall be members of the association. With reference to reserves, the bill provides that the same percentage of reserves shall be required of all subscribing banks in the same locality on demand deposits. Provision is made for a reserve on time deposits as defined in section 39, and all National and State banks and trust companies must keep the percentage of reserve on time deposits therein required.

Sections 45, 46, and 47 of the proposed bill contain requirements for examinations and reports which are applicable alike to all subscribing institutions, whether operating under National or State charters. The reports of national bank examiners for national banks and State bank examiners for State banks and trust companies are made available and acceptable whenever possible for the use of the National Reserve Association, provided that the standard of such examinations shall in all cases meet the requirements prescribed by the association. The association is also given the right, at any time, to examine or cause to be examined by its own representatives any subscribing bank. Through these provisions it will be possible to avoid numerous and expensive duplications of examination, which are not only troublesome but unnecessary. All subscribing banks are required, under regulations to be prescribed, to make reports of their condition monthly, or oftener, showing the principal items of their balance sheets. The publicity of conditions secured by the required examinations and reports will prove, as a basis of public confidence; a great advantage to all well-managed institutions. We are living in an age when publicity, with reference to the management and condition of public

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and quasi public institutions, is everywhere demanded. Publicity with reference to the condition of financial institutions has vital interest for the great mass of our people.

While the shares in the National Reserve Association are owned, and can only be owned, by the banks which furnish all of its capital, the fact that important privileges of a public character are granted to the association led the commission to provide that its net earnings, after the payment of a dividend not exceeding 5 per cent to the shareholders and the accumulation of a surplus not exceeding 20 per cent of the paid-in capital, shall be paid to the United States in the form of taxes upon its franchise.

The bill provides that the National Reserve Association shall become the principal fiscal agent of the United States, and as such shall serve through its branches as the custodian of the general funds of the Treasury, as the depository of its receipts, and the instrumentality through which its disbursements shall be effected. The system of storing surplus revenues in independent vaults, and of withdrawing the money from the channels of business into useless inactivity, has not been followed in other countries for centuries, and is contrary to the methods followed by our State and municipal governments, as well as by private corporations and individuals. It has proved peculiarly disturbing in this country on account of the large fluctuations in the Treasury balance, which within a single decade has fallen below \$100,000,000 and risen above \$300,000,000, thus adding to or withdrawing from the country's circulating medium without any regard to the needs of trade. Of late the system has been largely modified by the transfer of a considerable portion of the surplus funds to selected national banks, but this policy inevitably involves unwarranted and unequal distinctions and privileges for the banks so selected. The plan which we propose will do

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away with such discriminations, and will bring our Treasury policy into line with the business methods of modern times.

The adoption of these proposed changes in Treasury methods will make possible a considerable reduction in the expenses of the Treasury. Treasury officials estimate that these reductions, growing out of the elimination of the expenses connected with the Independent Treasury, will amount approximately to \$1,000,000 annually. The Government will also effect large savings through the transfer of the business of bank-note issue and redemption. During the present year the expenses of the Treasury, for which it is not reimbursable by the banks, in connection with the issue of bank notes, amounts to \$653,367, which could be saved in proportion as the national banks transfer their bonds to the National Reserve Association and retire their notes. The economies, therefore, resulting to the Treasury from the adoption of the proposed plan will probably amount to more than \$1,500,000 annually. It is difficult to estimate the probable revenues which will accrue to the United States from the taxes levied upon the reserve association and its franchise. A competent authority has prepared an estimate that, after the accumulation of the surplus and the contingent fund, and the payment of the maximum dividend of 5 per cent to the shareholders, the Government will receive \$5,500,000 annually. This estimate is based upon the minimum amount of business which the National Reserve Association will be likely to transact. The franchise tax on the amount of Government bonds purchased, say \$700,000,000, would amount to \$10,500,000 annually.

Perhaps the most important defect in our monetary system is to be found in its unscientific treatment of the reserves of individual banks. We have described the character of this defect, and we have provided by the

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terms of the proposed bill what we believe to be an effective and logical remedy. We propose that all or any portion of the cash reserves of the banks, including those which are now required by law to be held in their vaults, may be deposited with the reserve association, and when so deposited shall be counted as a part of their legal reserve. This will transform money which is now deprived of potency and defensive power into a condition of vitality and effectiveness. It is proposed that the reserves thus concentrated may be used by the reserve association, through its branches, for the assistance and support of any bank or section when needed. The reserves of any subscribing bank can be replenished at any time by the discount or rediscount of commercial paper in the manner elsewhere described. This involves the use of assets which otherwise would not be available for this purpose to strengthen, whenever necessary, the loaning power of the bank.

These provisions taken together will enable the banks to adopt the policy of simultaneous strengthening of reserves and extension of credits which has been successful in every instance for half a century in the prevention of panics or serious financial disturbances in the commercial nations of Europe. They do not suffer from widespread bank suspensions or from a general paralysis of credit operations. An advance in bank rates is used to curb speculation and prevent overexpansion of credit. The plan we submit provides not only for a concentration and mobilization of cash reserves, but for a decentralization of control by means of the powers over distribution granted to local and district associations.

The commission believe that the various provisions of the bill for establishing a broader discount market will prove of great advantage to the people of the entire country. The provisions upon which we rely to accomplish this purpose establish a standard of commercial paper issued for agricultural and other purposes, which is made available

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for rediscount at the branches of the reserve association. The establishment of this standard will create a strong tendency to make the usual instruments of commercial credit conform to its requirements; second, it allows national banks to the extent of one-half of their capital to accept properly secured drafts drawn upon them, drawn for instance with documents attached against cotton, wheat, or other products in transit or in warehouse; third, it gives a new and wider market to domestic bills of exchange drawn on foreign countries and based on transactions in American products or to pay for our purchases abroad; fourth, it authorizes the National Reserve Association to buy and sell in foreign countries prime bills of exchange, many of which would be of American origin.

These various provisions give a national and international currency to notes, acceptances, and bills of exchange based on the agricultural and other products of the United States.

The methods by which our domestic and international credit operations are now conducted are crude, expensive, and unworthy an intelligent people. The annual value of the products of our industries is estimated at thirty-five thousand million dollars. If to this vast sum is added the cost of transportation and distribution, we can realize that the movements of these products through various stages from the producer to the consumer requires the use of an enormous amount of credit and cash. To form an accurate estimate of the magnitude of our credit structure, we should add to this our accumulations of wealth and capital and the sums used in connection with our foreign trade. It is the function of a sound monetary system to take care of these vast operations without friction and in such a manner as will promote the prosperity of our people.

The unimportant part which our banks and bankers take in the financing of our foreign trade is disgraceful to a pro-

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gressive nation. We export of domestic products about two thousand million dollars annually, and our annual imports amount approximately to fifteen hundred million dollars. Very much the larger portion of this international trade is financed by and pays tribute to foreign bankers. Take one illustration: Last year we exported about six hundred and fifty million dollars in value of cotton; it was largely financed by 60 or 90 day bills drawn on Liverpool, London, Paris, or Berlin. This business was practically all done by foreign banks or bankers. The banks in the South and perhaps in New York were enabled to collect a small commission on a part of the business en route, but the lion's share of the profits accruing from the transactions, millions of dollars in amount, were paid to European merchants and bankers, and this large sum was in the last analysis paid by the cotton planter.

The disabilities from which our producers suffer in our foreign trade also apply largely to domestic transactions. The man who raises cotton in Mississippi or cattle in Texas, or the farmer who raises wheat in the Northwest can not readily find a market in Chicago, New York, or London, for the obligations arising out of the transactions connected with the growth and movement of his products, because the bankers of these cities have no knowledge of his character and responsibility. We propose to remedy this condition in large part by the use of the standardized commercial paper we have described, and also by the use of acceptances of local banks of drafts drawn by a farmer or planter whose responsibility is known to the bank and who may have deposited with it security on his products.

Additional currency would be given to our commercial paper in the markets of the world if official standards could be adopted, first, for the different grades and qualities of the staple agricultural products of the country;

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second, for the methods used in preparing such products for the market; third, for uniformity of bills of lading; fourth, for the efficient and responsible management of warehouses and elevators used for the storage and delivery of agricultural products.

A wider domestic market for the commercial paper we have described will be found in the changes which are likely to take place under the provisions of the bill submitted, in the investment of the surplus funds of the banks, and by surplus funds in this connection we do not refer to moneys deposited with reserve agents, but to funds for which there may be no legitimate local demand. The surplus funds referred to are now deposited perhaps through correspondents in New York at 2 per cent interest. The New York banks are usually obliged to loan them on call on stock exchange collaterals, inducing at times dangerous speculative conditions, with the probability that when the money is withdrawn the necessary calling of loans may cause disturbances in reserves and in the market and sometimes lead to panics.

We propose by the provision of the bill submitted to enable the banks to invest their surplus funds of the character we have described in notes or bills of exchange representing the industries or the products of the United States. It may be that they will not be able in making these loans to obtain the full rate current for discounts of commercial paper, as they will have to compete with foreign banks for a portion of the business, but they will certainly receive more than 2 per cent for their money, and they will have in their portfolio commercial paper created for legitimate purposes which they can take to the district branch and have transformed into cash or a cash credit at any hour of any business day of the year.

We believe that these provisions for creating new classes of investment obligations by establishing a standard of commercial bills to be used in moving and caring for the

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agricultural and other products of the country, constitute very important features in our plan of reorganization. The creation of these new standards for foreign and domestic bills should have an important influence upon the status of the United States in the financial world. It should make a domestic documentary bill, drawn by a producer anywhere in the United States, drawn in dollars and cents, equal in currency and in value to the highest form of credit in the markets of the world. We ought to make New York and our other financial centers equal in importance with any in Europe. We ought to place our financial institutions where they properly belong—in a class with the best and strongest in the world.

Section 57 of the bill submitted provides for the incorporation of banks to do business in foreign countries. We assume that it is not necessary to call attention to the desirability of making every reasonable effort to promote our foreign trade and to establish closer commercial and financial relations with foreign countries. The impediments in the way of the development of our international trade are numerous. Perhaps none of these is more important than the absence of American banking facilities in other countries and the lack of knowledge abroad of our financial resources and of the strength and character of our banking institutions. The status of the United States as one of the great powers in the political world is now universally recognized, but we have yet to secure recognition as an important factor in the financial world. This condition of affairs is likely to remain unchanged as long as practically all our purchases and sales abroad are financed by foreign bankers. We anticipate that the changes in the currents of trade which will follow the opening of the Panama Canal will tend to the enlargement of our international commerce. We shall, at least, be brought into closer contact from a transportation standpoint with many of the States of South America and

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the countries of the Orient. We shall certainly be disappointed as to the character and extent of the advantages of this change unless we take some practical steps of a positive character to secure for our merchants and bankers advantages in the countries we have named equal to those enjoyed by their commercial and industrial rivals. The establishment of American banks is essential in countries where we have a right to expect an enlargement of our trade.

In preparing the bill to establish the National Reserve Association the commission has been impressed with the necessity of inserting provisions that would prevent beyond question the possibility of its control by any corporation or combination of corporations, banks or otherwise, by any individual or combination of individuals for selfish or sinister purposes. No provision of the bill to reconstruct our monetary system is of more vital importance than this. To-day the financial interests of the whole country depend, in times of trouble, upon what is popularly known as "Wall Street." Those who express fears of the future domination of Wall Street seem to lose sight of the fact that the domination of New York is an accomplished fact; that we are now staking the safety of all of our banking resources on the patriotic character and business ability of bank managers in New York whose hands are tied in emergencies by the restrictions of a defective system and unwise legislation. The responsibilities of continuing this control are too enormous, the risks of failure are too great, for this condition to be tolerated long. In our judgment the only effective remedy will be found in the national organization suggested, with the power to maintain the independence of banks under all circumstances and with branches which will be relief centers at various points throughout the country, each with local self-government. The reserve cities, the reserve agents of the country banks, and individual banks generally de-

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pend upon the banks of New York. This is naturally so, because New York, with her vast accumulations of capital, is the most important financial center in the country. When any serious financial disturbance occurs in New York—like the bank suspensions in 1907—and New York fails to respond to the drafts from other sections, the country suspends. This dangerous condition of dependence will continue until we have a thorough reorganization of our banking system. Every financial institution in the United States is in peril whenever confidence is destroyed in the strength of the New York banks or in the wisdom of their management.

In the provisions of the bill for the election of directors of the National Reserve Association we provide for 39 directors, 2 to be elected by each of the 15 districts defined in the bill, and 9 additional directors to be elected by representatives of stock holdings in the association. We propose to limit the representation of any one district to 3 out of the 39 directors elected, and under this plan every district will have 2 and none can have more than 3 directors.

The New York district under these provisions, with 29 per cent of the banking resources of the country, would have 8 per cent of the representation on the board; New England, with 12 per cent of the resources, would have 8 per cent of the representation; the Eastern States, as defined in the bill, with 41 per cent of resources, would have 15 per cent of representation; the Middle West, with 24 per cent of resources, would have 31 per cent of representation; the Southern States, with 11 per cent of resources, would have 23 per cent of representation; and the Western and Pacific States, with 12 per cent of resources, would have 23 per cent of representation. The New England, Eastern, and Middle West States, taken together, with 77 per cent of the resources, could elect only 21 out of the 46 directors in the Reserve Association, while the Southern,

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Western, and Pacific States, with 23 per cent of the resources, might have 46 per cent of the representation. These percentages of representation have been based upon the theory that the New England, Eastern, and Middle Western States, by reason of their preponderance of capital, would be entitled to elect the maximum number of 3 directors for each district.

In order to effect a combination to secure a majority of the directors, the votes of eight districts would be necessary, and with New England having one, the Eastern States two, and the Middle West four, one other district would be necessary, showing that no combination of Eastern and Middle West, with other interests could be made which did not include more than 80 per cent of the banking power of the country.

We think that this statement must of itself show conclusively that there can be no local domination—no domination of selfish interests in this organization, and that fear of possible Wall Street control can have no substantial foundation.

This equal representation of districts, unequal in size and importance, in the election of a majority of directors of the National Reserve Association, follows the democratic principle also deliberately adopted in the organization of local and district associations. For instance, in a local association we give to a bank with \$25,000,000 capital no greater voting power in the election of a majority of the directors of the local association than a \$25,000 bank. In our political institutions we have a similar idea in the provision of the Federal Constitution, which gives to every State, irrespective of its size an equal representation in the Senate. This plan of organization, practically as now reported, was made public a year ago and has received every manifestation of general approval. It is based upon the theory that each section of the country ought to be adequately represented on the

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board and that there exists such a solidarity in the interests of all sections of the country that no harm can come to the interests of any district through this unequal representation.

Suggestions have been made favoring a banking scheme based on separate State or district organizations, each with independent functions, partaking somewhat of the character of existing clearing houses or of the branches which we propose to create in the bill. The fatal objection, in the opinion of the commission, to any plan of this kind is found in the lack of affiliation or means to insure cooperation between these different local organizations in the public interest. The national association which we propose to create can of course only exercise the powers which are clearly delegated to it, but the grant of the limited powers proposed in the bill is necessary for the success of any plan which is to benefit the country at large.

We propose to create an institution which can, among other things, conserve the public credit; issue properly secured circulating notes; control movements of gold and foreign exchange; receive and disburse the Treasury balances; insure the cooperation of all banks in the public interest; equalize banking and credit facilities in different sections of the country and insure adequate assistance on reasonable terms to partially developed communities; secure uniform rates of discount; prevent interruption of domestic exchanges; provide means for replenishing cash reserves and for their concentration for use in any direction wherever needed, and establish standards of notes and bills of exchange issued for agricultural or other purposes. None of these results can be secured by the organization of separate units in the manner suggested. There can be no satisfactory reform of our monetary system, no remedy for existing defects, which does not place upon the banks of the entire country, acting together through some

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responsible agency, the serious duty of protecting public and private interests at times when they are imperiled. This is amply demonstrated by our experience with clearing-house organizations. The results we desire can not be secured through a headless aggregation of independent organizations, which would be as helpless as the members of a human organism without a brain to coordinate their functions or heart action to vitalize their forces.

The proposal to create a National Reserve Association has been criticized on the ground that its enactment would lead to an undue expansion of credit and a dangerous inflation of currency. We have already stated our reasons for believing that this contention as applied to note issues has no foundation. It is true that we propose to create new instrumentalities and provide new facilities for an expansion of credit whenever this is necessary for the welfare of our industries, or to prevent panics or avert dangerous monetary disturbances. We believe that credit properly organized and managed is one of the most potent factors in the development of communities and nations. The broad question we have to consider is whether the facilities which we propose to create can be or are likely to be used in such a manner as to produce dangerous overexpansion.

In this connection the experience of other countries where facilities exist similar to those which we propose will afford valuable lessons. In none of the leading countries of Europe are there any statutory limitations upon credit expansion. In fact there is no limitation whatever, either by law or custom. This is true not only of the central banks but also of the joint-stock banks of these countries. None of these banks is required by law to hold reserves. Each bank acts for itself in this respect. Of course, self-interest, custom, and public

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opinion lead the banks of the great commercial nations to hold cash and liquid assets as reserves against their liabilities. Their cash reserves are kept almost entirely in central institutions and not in their own vaults.

In this country we have no legal restriction upon credit expansion except such as is involved in our statutory provisions for fixed reserves. In ordinary times a bank can, by increasing its balance with its reserve agent, expand credit to the extent to which this is possible from increased reserves, and to this expansion there is no legal limit.

We believe that the bill we propose effectively guards against the dangerous abuse of the facilities created. We propose that a bank may, under certain conditions, replenish its reserves and increase its loaning powers through rediscounts. The amount of paper that can be rediscounted for an individual bank is limited, first, by the amount of 28-day paper which it has available for the purpose; and second, by the provision that the aggregate amount of such rediscounts shall not exceed the capital of the bank. Discounts of long-time paper and of the direct obligations of banks can only be made with the restrictions involved in the guaranty of the local association, and the guaranties of the local association to the Reserve Association can not in any case exceed the capital and surplus of the banks in the local association.

The power given the national banks to accept properly secured drafts is limited in amount to one-half the capital of the bank.

We give to the Reserve Association effective means to check speculation and to prevent undue expansion through the power to advance its discount rate. The provision that the Reserve Association shall hold a reserve of not less than 50 per cent against all of its demand liabilities—a provision which is unique in monetary legislation—and the provision

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that a progressive tax shall be imposed on any deficiency of reserves will, we believe, effectually discourage undue expansion of credit.

The use of a portion of the cash reserves of the banks by the National Reserve Association will undoubtedly result in a legitimate expansion of credit. This is inevitable. It is necessary, in cases of unusual demands for credit in times of panic or anticipated trouble, that the banks should increase their reserves by rediscounts, in order that they may extend assistance to those entitled to receive it. This, of course, involves expansion. We can not prevent a condition like that of 1907 without expansion on an extensive scale. The prime purpose of the legislation suggested is to provide the means for a proper expansion of credit and the necessary enlargement of note issues in times of trouble. Any unusual expansion of credit or enlargement of note issues should, of course, be followed by healthy and legitimate contraction, and we believe that this has been secured in the provisions of the bill submitted.

Our main reliance for preventing undue expansion must, however, be found in the wise management of the local and district associations and the reserve association. We can not, of course, endow men with wisdom, intelligence, or conservatism by legislative enactment. The efficiency of the institution will very largely partake of the character and capacity of those who will be chosen to manage it. In the management of financial institutions the personal equation is of the utmost importance. In the last analysis the success of every banking institution in the United States and in every other country depends upon the wisdom of its management. A century of exceptionally sound and intelligent management has given to the Bank of France the enviable position which it now holds. The important place which the Bank of England holds in the financial world is due to the wisdom

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of the men who have controlled its operations and not to any legislative enactments.

We have taken every precaution to secure an honest, intelligent, and able management for the local and district associations and for the national association, and it is incredible, with the ample powers conferred by the terms of the act, that they will allow the public interests to suffer from undue and destructive expansion. There must be collusion or failure on the part of all to make such a result possible. We can not suppose that the directors of a local association would be likely to indorse the paper of an individual bank to promote speculation or when dangerous expansion would be likely to follow. The officers and members of the local association would always be fully advised of the condition of an applicant, and when asked to become responsible for its obligations we can be sure that the guaranties would be given cautiously, and would be fully secured, and that they would be refused in cases of doubt as to the character and purpose of the paper presented.

The acts of the directors of the branches and of the reserve association will be open to public inspection and will be subject to the closest scrutiny by the shareholders of the association and the public, and it is impossible to suppose that they would consent to the adoption of a policy which would be ruinous to the vast material interests which they directly represent and destructive of public and private credit. We place in their hands ample powers to prevent this disastrous result, and there can be no reason to assume that they will not exercise it properly. We believe that the very best men in every section of the country will be selected as directors of the proposed institutions.

It can not be denied that there may be possibilities of abuses, as there must be in every case of grants of power where human agencies are employed, but this possibility

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should not lead us to refuse to create the facilities imperatively demanded for the progress and prosperity of the American people, facilities which are enjoyed by the producers of every country competing with them for the world's markets.

If we as a people should adopt the policy of discouraging the use of every invention or of refusing to avail ourselves of every discovery in the arts and sciences on account of the possibility that abuses might grow out of their use or that their acceptance might disarrange the established order of things, we should unwisely place an insuperable obstacle in the pathway of national progress.

The commission appreciates the magnitude of the duties assigned to it of constructing a monetary system that will provide for the present and future welfare of the American people. The questions involved in this problem affect the vital interests of the people of every class and every section. We were required to devise a system so comprehensive that its beneficial effects will be felt equally by wage earners, farmers, manufacturers, and all others engaged in productive industries, a plan which will inspire hope and confidence in all those who are responsible for the uninterrupted progress and prosperity of a great people.

The far reaching consequences of fundamental changes in a monetary system were graphically expressed by Sir Robert Peel in his opening statement with reference to the English bank act of 1844.

He said:

“There is no contract, public or private, no engagement, national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of society, the wages of labor, pecuniary transactions of the highest amount and of the lowest * * * the command which the coin of the smallest denomination has over the neces-

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saries of life, are all affected by the decision to which we may come on that great question which I am about to submit to the consideration of the committee."

The adoption by the British Parliament of the minister's proposals established an important landmark in the history of monetary legislation.

In the construction of an adequate monetary system for the United States, the task of the commission was rendered more difficult from the fact there were no precedents that we could follow, and no system in existence that to any considerable extent could be made applicable to existing or prospective conditions in the United States.

We were therefore obliged to originate a plan which would answer the exacting requirements of American conditions that would meet the needs of a progressive nation, with its hundred millions of energetic and enterprising people, whose development has been impeded by a defective and inefficient monetary system. The plan we propose is essentially an American system, scientific in its methods, and democratic in its control.

A BILL

To incorporate the National Reserve Association of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the National Reserve Association of the United States be, and it is hereby, created and established for a term of fifty years from the date of filing with the Comptroller of the Currency a certificate of paid-in capital stock as hereinafter provided. It shall have an authorized capital equal in amount to twenty per centum of the paid-in and unimpaired capital of all banks eligible for membership in said National Reserve Association. Before said association shall be authorized to commence business two hundred million dollars of the capital stock shall be subscribed and one hundred million dollars of its capital shall be paid in cash. The capital stock of said association shall be divided into shares of one hundred dollars each. The outstanding capital stock may be increased from time to time as subscribing banks increase their capital or as additional banks become subscribers or may be decreased as subscribing banks reduce their capital or leave the association by liquidation. The head office of the National Reserve Association shall be located in Washington, in the District of Columbia.

SEC. 2. Upon duly making and filing with the Comptroller of the Currency the certificate hereinafter required the National Reserve Association of the United States shall become a body corporate and as such and by that name shall have power—

First. To adopt and use a corporate seal.

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Second. To have succession for a period of fifty years from the date of said certificate.

Third. To make all contracts necessary and proper to carry out the purposes of this act.

Fourth. To sue and be sued, complain and defend, in any court of law or equity, as fully as natural persons.

Fifth. To elect or appoint directors and officers in the manner hereinafter provided and define their duties.

Sixth. To adopt by its board of directors by-laws not inconsistent with this act, regulating the manner in which its property shall be transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To purchase, acquire, hold, and convey real estate as hereinafter provided.

Eighth. To exercise by its board of directors or duly authorized committees, officers, or agents, subject to law, all the powers and privileges conferred upon the National Reserve Association by this act.

SEC. 3. All national banks, and all banks or trust companies chartered by the laws of any State of the United States or of the District of Columbia, complying with the requirements for membership in the said National Reserve Association, hereinafter set forth, may subscribe to its capital to an amount equal to twenty per centum of the paid-in and unimpaired capital of the subscribing bank, and not more nor less; and each of such subscribing banks shall become a member of a local association as hereinafter provided. Fifty per centum of the subscriptions to the capital stock of the National Reserve Association shall be fully paid in; the remainder of the subscriptions or any part thereof shall become a liability of the subscribers, subject to call and payment thereof whenever necessary to meet the obligations of the National Reserve Association under such terms and in accordance with such regu-

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lations as the board of directors of the National Reserve Association may prescribe.

The subscriptions of a bank or trust company incorporated under the laws of any State or of the District of Columbia to the capital stock of the National Reserve Association shall be made subject to the following conditions:

First. That (a) if a bank, it shall have a paid-in and unimpaired capital of not less than that required for a national bank in the same locality; and that (b) if a trust company, it shall have an unimpaired surplus of not less than twenty per centum of its capital, and if located in a place having a population of six thousand inhabitants or less shall have a paid-in and unimpaired capital of not less than fifty thousand dollars; if located in a city having a population of more than six thousand inhabitants and not more than fifty thousand inhabitants, shall have a paid-in and unimpaired capital of not less than one hundred thousand dollars; if located in a city having a population of more than fifty thousand inhabitants and not more than two hundred thousand inhabitants shall have a paid-in and unimpaired capital of not less than two hundred thousand dollars; if located in a city having a population of more than two hundred thousand inhabitants and not more than three hundred thousand inhabitants shall have a paid-in and unimpaired capital of not less than three hundred thousand dollars; if located in a city having a population of more than three hundred thousand inhabitants and not more than four hundred thousand inhabitants shall have a paid-in and unimpaired capital of not less than four hundred thousand dollars, and if located in a city having a population of more than four hundred thousand inhabitants shall have a paid-in and unimpaired capital of not less than five hundred thousand dollars.

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

Third. That it shall have and agree to maintain against other classes of deposits the percentages of reserve required by this act.

Fourth. That it shall agree to submit to such examinations and to make such reports as are required by law and to comply with the requirements and conditions imposed by this act and regulations made in conformity therewith.

The words "subscribing banks" when used hereafter in this act shall be understood to refer to such national banks, and banks or trust companies chartered by the laws of any State of the United States or of the District of Columbia, as shall comply with the requirements for membership herein defined.

SEC. 4. The Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor, and the Comptroller of the Currency are hereby designated a committee to effect the organization of the National Reserve Association, and the necessary expenses of said committee shall be payable out of the Treasury upon vouchers approved by the members of said committee, and the Treasury shall be reimbursed by the National Reserve Association to the full amount paid out therefor.

Within sixty days after the passage of this act said committee shall provide for the opening of books for subscriptions to the capital stock of said National Reserve Association in such places as the said committee may designate.

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Before the subscription of any bank to the capital stock of the National Reserve Association shall be accepted, said bank shall file with the organization committee or after organization with the National-Reserve Association a certified copy of a resolution adopted by the board of directors of said bank accepting all the provisions and liabilities imposed by this act and authorizing the president or cashier of said bank to subscribe for said stock.

SEC. 5. When the subscriptions to the capital stock of the National Reserve Association shall amount to the sum of two hundred million dollars the organization committee hereinbefore provided shall forthwith proceed to select fifteen cities in the United States for the location of the branches of said National Reserve Association: *Provided*, That one branch shall be located in the New England States, including the States of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut; two branches in the Eastern States, including the States of New York, New Jersey, Pennsylvania, and Delaware; four branches in the Southern States, including the States of Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, Tennessee, and also the District of Columbia; four branches in the Middle Western States, including the States of Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri; four branches in the Western and Pacific States, including the States of North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, Oklahoma, Washington, Oregon, California, Idaho, Utah, Nevada, and Arizona.

When the cities in which the branches are to be located have been selected the organization committee shall forthwith divide the entire country into fifteen districts, with one branch of the National Reserve Association in each district: *Provided*, That the districts shall be apportioned

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with due regard to the convenient and customary course of business and not necessarily along State lines.

The districts may be readjusted, and new districts and new branches may from time to time be created by the directors of the National Reserve Association whenever, in their opinion, the business of the country requires.

SEC. 6. All subscribing banks within a district shall be grouped by the organization committee or after organization, by the National Reserve Association, into local associations of not less than ten banks, with an aggregate capital and surplus of at least five million dollars, for the purposes hereinafter prescribed: *Provided*, That the territory included in each association shall be contiguous and that in apportioning the territory due regard shall be had for the customary course of business and for the convenience of the banks forming the association: *Provided further*, That in apportioning the territory to local associations comprising a district every bank and all of the territory within said district shall be located within the boundaries of some local association: *And provided further*, That every subscribing bank shall become a member only of the local association of the territory in which it is situated.

The banks uniting to form a local association shall, by their presidents or vice presidents, under authority from the board of directors, execute a certificate in triplicate setting forth the name of the association, the names of the banks composing it, its principal place of business, its territorial limits, and the purposes for which it is organized. One copy of this certificate shall be filed with the Comptroller of the Currency, one copy shall be filed with the National Reserve Association, and one copy shall be filed with the branch of the National Reserve Association of the district in which the local association is included. Upon the filing of such certificates the local association therein named shall become a

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body corporate and by the name so designated may sue and be sued and exercise the powers of a body corporate for the purposes mentioned in this act, and not otherwise.

The local associations in each district may be readjusted from time to time and new associations may be authorized by the directors of the National Reserve Association.

SEC. 7. Each local association shall have a board of directors, the number to be determined by the by-laws of the local association. Three-fifths of that number shall be elected by ballot cast by the representatives of the banks that are members of the local association, each bank having one representative and each representative one vote for each of the positions to be filled without reference to the number of shares which the bank holds in the National Reserve Association. Two-fifths of the whole number of directors of the local association shall be elected by the same representatives of the several banks that are members of the association, but in voting for these additional directors each representative shall be entitled to as many votes as the bank which he represents holds shares in the National Reserve Association: *Provided*, That in case forty per centum of the capital stock in any subscribing bank is owned directly or indirectly by any other subscribing bank, or in case forty per centum of the capital stock in each of two or more subscribing banks, being members of the same local association, is owned directly or indirectly by the same person, persons, copartnership, voluntary association, trustee, or corporation, then and in either of such cases, neither of such banks shall be entitled to vote separately, as a unit, or upon its stock, except that such banks acting together, as one unit, shall be entitled to one vote, for the election of the board of directors of such local association. In no case shall voting by proxy be allowed. The authorized representative of a bank, as herein provided, shall be its president, vice president, or cashier.

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Each director shall take an oath that he will, so far as the duty devolves upon him, diligently and honestly administer the affairs of such association and will not knowingly violate or willingly permit to be violated any of the provisions of this act.

The directors originally elected shall hold office until the second Tuesday in February immediately following their election, and thereafter the directors shall be elected annually on that date and shall hold office for the term of one year.

The board of directors of the local association shall have authority to make by-laws, not inconsistent with law, which shall be subject to the approval of the National Reserve Association.

SEC. 8. Each of the branches of the National Reserve Association shall have a board of directors, the number, not less than twelve in addition to the ex officio member, to be fixed by the by-laws of the branch. These directors shall be elected in the following manner:

The board of directors of each local association shall elect by ballot a voting representative. One-half of the elected directors of the branch shall be elected by the vote of such representatives, each representative having one vote for each of the positions to be filled, without reference to the number of shares which the banks composing the association which he represents holds in the National Reserve Association. One-third of the elected directors shall be elected by the same voting representatives, but each voting representative in this case shall have a number of votes equal to the number of shares in the National Reserve Association held by all the banks composing the local association which he represents. The remaining one-sixth of the directors shall be chosen by the directors already elected and shall fairly represent the agricultural, commercial, industrial, and other interests of

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the district and shall not be officers nor, while serving, directors of banks, trust companies, insurance companies, or other financial institutions. The manager of the branch shall be ex officio a member of the board of directors of the branch and shall be chairman of the board.

Each director shall take an oath that he will, so far as the duty devolves upon him, diligently and honestly administer the affairs of such association and will not knowingly violate or willingly permit to be violated any of the provisions of this act.

All the members of the board of directors of the branch except the ex officio member shall at the first meeting of the board be divided into three classes. One-third of the directors shall hold office until the first Tuesday in March immediately following the election; one-third of the directors shall hold office for an additional period of one year after the first Tuesday in March immediately following the election; the remaining one-third of the directors shall hold office for an additional period of two years after the first Tuesday in March immediately following the election. All elections shall be held on the first Tuesday in March of each year, and after the first election all directors shall be elected for a term of three years: *Provided*, That the by-laws of the National Reserve Association shall provide for the manner of filling any vacancies which may occur in the board of directors of the branches.

The board of directors of the branch shall have authority to make by-laws, not inconsistent with law, which shall be subject to the approval of the National Reserve Association.

SEC. 9. The National Reserve Association shall have a board of directors, to be chosen in the following manner:

First. Fifteen directors shall be elected, one by the board of directors of each branch of the National Reserve Association. In case the number of districts shall be increased

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hereafter, each additional district shall be entitled to elect an additional director of this class.

Second. Fifteen additional directors shall be elected, one by the board of directors of each branch of the National Reserve Association, who shall fairly represent the agricultural, commercial, industrial, and other interests of the district, and who shall not be officers nor, while serving, directors of banks, trust companies, insurance companies, or other financial institutions. In case the number of districts shall be increased hereafter, each additional district shall be entitled to elect an additional director of this class.

Third. Nine additional directors shall be elected by voting representatives chosen by the boards of directors of the various branches, each of whom shall cast a number of votes equal to the number of shares in the National Reserve Association held by the banks in the branch which he represents. Not more than one of the directors of this class shall be chosen from one district. Directors of each of the three classes named above shall be residents of the district from which they are elected.

Fourth. There shall be seven ex officio members of the board of directors, namely: The governor of the National Reserve Association, who shall be chairman of the board, two deputy governors of the National Reserve Association, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce and Labor, and the Comptroller of the Currency.

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

All the members of the board, except the ex officio members, shall at the first meeting of the board be divided into three classes. One-third of the directors shall hold office until the first Tuesday in April immediately following the election; one-third of the directors shall hold office

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for an additional period of one year after the first Tuesday in April immediately following the election; the remaining one-third of the directors shall hold office for an additional period of two years after the first Tuesday in April immediately following the election. All elections shall be held on the first Tuesday in April of each year, and after the first election all directors shall be elected for a term of three years: *Provided*, That all directors provided for in sections seven, eight, and nine of this Act shall serve until their successors have qualified: *And provided further*, That the by-laws of the National Reserve Association shall provide for the manner of filling any vacancies which may occur in the board of directors of the National Reserve Association.

Each director shall take an oath that he will, so far as the duty devolves upon him, diligently and honestly administer the affairs of such association and will not knowingly violate or willingly permit to be violated any of the provisions of this act.

The board of directors of the National Reserve Association shall have authority to make by-laws, not inconsistent with law, which shall prescribe the manner in which the business of said association shall be conducted and the privileges granted to it by law exercised and enjoyed.

SEC. 10. The executive officers of the National Reserve Association shall consist of a governor, two deputy governors, a secretary, and such subordinate officers as may be provided by the by-laws. The governor of the National Reserve Association shall be selected by the President of the United States from a list of not less than three submitted to him by the board of directors of said association. The person so selected shall thereupon be appointed by the said board as governor of the National Reserve Association for a term of ten years, subject to removal for cause by a two-thirds vote of the board. There shall be two

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deputy governors, to be elected by the board, for a term of seven years, subject to removal for cause by a majority vote of the board. The two deputy governors first elected shall serve for terms of four years and seven years, respectively. In case of any vacancy in the office of deputy governor his successor shall be elected to fill the unexpired term. In the absence of the governor or his inability to act the deputy who is senior in point of service shall act as governor. The board of directors shall have authority to appoint such other officers as may be provided for by the by-laws.

SEC. 11. When the National Reserve Association is duly organized its board of directors shall call upon the subscribing banks for a payment of fifty per centum on the amount of their subscriptions to the capital stock of said association. When one hundred million dollars of capital have been paid in the board of directors shall at once proceed to execute and file with the Secretary of State a certificate showing the payment of one hundred million dollars on capital stock, and they shall further file with the Comptroller of the Currency a certificate showing the title and location of each bank which has subscribed to the capital stock of the National Reserve Association, the number of shares subscribed by each, and the amount paid thereon.

SEC. 12. Shares of the capital stock of the National Reserve Association shall not be transferable, and under no circumstances shall they be hypothecated nor shall they be owned otherwise than by subscribing banks, nor shall they be owned by any such bank other than in the proportion herein provided. In case a subscribing bank increases its capital it shall thereupon subscribe for an additional amount of the capital of the National Reserve Association equal to twenty per centum of the bank's increase of capital, paying therefor its then book value as shown by the last published statement of said asso-

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ciation. A bank applying for membership in the National Reserve Association at any time after its formation must subscribe for an amount of the capital of said association equal to twenty per centum of the capital of said subscribing bank, paying therefor its then book value as shown by the last published statement of said association. When the capital of the National Reserve Association has been increased either on account of the increase of capital of the banks in said association or on account of the increase in the membership of said association, the board of directors shall make and execute a certificate showing said increase in capital, the amount paid in and by whom paid. This certificate shall be filed in the office of the Comptroller of the Currency. In case a subscribing bank reduces its capital it shall surrender a proportionate amount of its holdings in the capital of said association, and if a bank goes into voluntary liquidation it shall surrender all of its holdings of the capital of said association. In either case the shares surrendered shall be canceled and the bank shall receive in payment therefor a sum equal to their then book value as shown by the last published statement of said association.

If any member of the National Reserve Association shall become insolvent and a receiver be appointed, the stock held by it in said association shall be canceled and the balance, after paying all debts due by such insolvent bank to said association (such debts being hereby declared to be a first lien upon the paid-in capital stock), shall be paid to the receiver of the insolvent bank.

Whenever the capital stock of the National Reserve Association is reduced, either on account of the reduction in capital of members of said association or the liquidation or insolvency of any member, the board of directors shall make and execute a certificate showing such reduction of capital stock and the amount repaid to each bank. This

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certificate shall be filed in the office of the Comptroller of the Currency.

SEC. 13. The National Reserve Association and its branches and the local associations shall be exempt from local and State taxation except in respect to taxes upon real estate.

SEC. 14. The directors of the National Reserve Association shall annually elect from their number an executive committee and such other committees as the by-laws of the National Reserve Association may provide. The executive committee shall consist of nine members, of which the governor of the National Reserve Association shall be ex officio chairman and the two deputy governors and the Comptroller of the Currency ex officio members, but not more than one of the elected members shall be chosen from any one district.

The executive committee shall have all the authority which is vested in the board of directors, except the power of nomination, appointment, and removal of the governor and deputy governors and except such as may be specifically delegated by the board to other committees or to the executive officers, or such as may be specifically reserved or retained by the board.

SEC. 15. There shall be a board of examination elected annually by the board of directors from among their number, excluding the members of the executive committee, of which the Secretary of the Treasury shall be ex officio chairman. It shall be the duty of this board to carefully examine the condition and the business of the National Reserve Association and of its branches and to make a public statement of the result of such examination at least once a year.

SEC. 16. Each branch shall have a manager and a deputy manager appointed from the district by the governor of the National Reserve Association with the approval of the executive committee of said association and the board of

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directors of the branch, and subject to removal at any time by the governor with the approval of the executive committee of the National Reserve Association. The powers and duties of the manager and deputy manager and of the various committees of the branches shall be prescribed by the by-laws of the National Reserve Association.

SEC. 17. The directors of each local association shall annually elect from their number a president, a vice president, and an executive committee, whose powers and duties shall be determined by the by-laws of the local association, subject, however, to the approval of the National Reserve Association.

SEC. 18. The National Reserve Association shall cause to be kept at all times, at the head office of the association, a full and correct list of the names of the banks owning stock in the association and the number of shares held by each. Such list shall be subject to the inspection of all the shareholders of the association, and a copy thereof on the first Monday of July of each year shall be transmitted to the Comptroller of the Currency.

SEC. 19. The earnings of the National Reserve Association shall be disposed of in the following manner:

After the payment of all expenses and the franchise and other taxes not provided for in this section the shareholders shall be entitled to receive an annual dividend of four per centum on the paid-in capital, which dividend shall be cumulative. Further annual net earnings shall be disposed of as follows: First, a contingent fund shall be created, which shall be maintained at an amount equal to one per centum on the paid-in capital, and shall not exceed in any event two million dollars and shall be used to meet any possible losses. Such fund shall, upon the final dissolution of the National Reserve Association, be paid to the United States and shall not under any circumstances be included in the book value of the stock or be paid to the shareholders. Second, one-half of additional net earnings

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shall be paid into the surplus fund of the National Reserve Association until said fund shall amount to twenty per centum of the paid-in capital, one-fourth shall be paid to the United States as a franchise tax, and one-fourth shall be paid to the shareholders, until the shareholders' dividend shall amount to five per centum per annum on the paid-in capital: *Provided*, That no such dividends, exclusive of the cumulative dividends above provided for, shall at any time be paid in excess of five per centum in any one year. Whenever and so long as the contingent fund has been provided for and the five per centum dividend has been paid to shareholders one-half of the additional earnings shall be added to the surplus fund, and one-half shall be paid to the United States as a franchise tax. Whenever and so long as the surplus fund of the National Reserve Association amounts to twenty per centum of the paid-in capital and the shareholders shall have received dividends not exceeding five per centum, all excess earnings shall be paid to the United States as a franchise tax.

SEC. 20. Any member of a local association may apply to such association for a guaranty of the commercial paper which it desires to rediscount at the branch of the National Reserve Association in its district. Any such bank receiving a guaranty from a local association shall pay a commission to the local association, to be fixed in each case by its board of directors. Expenses and losses in excess of commissions shall be met by an assessment of the members of the local association in proportion to the ratio which their capital and surplus bears to the aggregate capital and surplus of the members of the local association, which assessment shall be made by its board of directors, and the commission received for such guaranty, after the payment of expenses and possible losses, shall be distributed among the several banks of the local

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association in the same proportion. A local association shall have authority to require security from any bank offering paper for guaranty, or it may decline to grant the application. The total amount of guaranties by a local association to the National Reserve Association shall not at any time exceed the aggregate capital and surplus of the banks forming the guaranteeing association.

SEC. 21. Any local association may by a vote of three-fourths of its members and with the approval of the National Reserve Association, assume and exercise such of the powers and functions of a clearing house as are not inconsistent with the purposes of this act. The National Reserve Association may require any local association to perform such services in facilitating the domestic exchanges of the National Reserve Association as the public interests may require.

SEC. 22. All of the privileges and advantages of the National Reserve Association shall be equitably extended to every bank of any of the classes herein defined which shall subscribe to its proportion of the capital stock of the National Reserve Association and shall otherwise conform to the requirements of this act: *Provided*, That the National Reserve Association may suspend a bank from the privileges of membership for refusal to comply with such requirements or for a failure for thirty days to maintain its reserves, or to make the reports required by this act, or for misrepresentation in any report or examination as to its condition or as to the character or extent of its assets or liabilities.

SEC. 23. The National Reserve Association shall be the principal fiscal agent of the United States. The Government of the United States shall upon the organization of the National Reserve Association deposit its general funds with said association and its branches, and thereafter all receipts of the Government, exclusive of trust funds,

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shall be deposited with said association and its branches, and all disbursements by the Government shall be made through said association and its branches.

SEC. 24. The Government of the United States and banks owning stock in the National Reserve Association shall be the only depositors in said association. All domestic transactions of the National Reserve Association shall be confined to the Government and the subscribing banks, with the exception of the purchase or sale of Government or State securities or securities of foreign governments or of gold coin or bullion.

SEC. 25. The National Reserve Association shall pay no interest on deposits.

SEC. 26. The National Reserve Association may through a branch rediscount for and with the indorsement of any bank having a deposit with it, notes and bills of exchange arising out of commercial transactions; that is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, and not including notes or bills issued or drawn for the purpose of carrying stocks, bonds, or other investment securities.

Such notes and bills must have a maturity of not more than twenty-eight days, and must have been made at least thirty days prior to the date of rediscount. The amount so rediscounted shall at no time exceed the capital of the bank for which the rediscounts are made. The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation, rediscounted for any one bank, shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank.

SEC. 27. The National Reserve Association may through a branch also rediscount, for and with the indorsement of any bank having a deposit with it, notes and bills of exchange arising out of commercial transactions as hereinbefore defined, having more than twenty-eight days,

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but not exceeding four months, to run, but in such cases the paper must be guaranteed by the local association of which the bank asking for the rediscount is a member.

SEC. 28. Whenever, in the opinion of the governor of the National Reserve Association, the public interests so require, such opinion to be concurred in by the executive committee of the National Reserve Association and to have the definite approval of the Secretary of the Treasury, the National Reserve Association may through a branch discount the direct obligation of a depositing bank, indorsed by its local association, provided that the indorsement of the local association shall be fully secured by the pledge and deposit with it of satisfactory securities, which shall be held by the local association for account of the National Reserve Association; but in no such case shall the amount loaned by the National Reserve Association exceed three-fourths of the actual value of the securities so pledged.

SEC. 29. The power of rediscount and discount granted to the National Reserve Association by sections twenty-six, twenty-seven, and twenty-eight of this act shall in each case be exercised through the branch in the district in which the bank making the application is located.

SEC. 30. The National Reserve Association shall have authority to fix its rates of discount from time to time, which when so fixed shall be published, and shall be uniform throughout the United States.

SEC. 31. National banks are hereby authorized to accept drafts or bills of exchange drawn upon them, having not more than four months to run, properly secured, and arising out of commercial transactions as hereinbefore defined. The amount of such acceptances outstanding shall not exceed one-half the capital and surplus of the accepting bank, and shall be subject to the restrictions of section fifty-two hundred of the Revised Statutes.

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SEC. 32. The National Reserve Association may, whenever its own condition and the general financial conditions warrant such investment, purchase from a subscribing bank acceptances of banks or acceptors of unquestioned financial responsibility arising out of commercial transactions as hereinbefore defined. Such acceptances must have not exceeding ninety days to run, and must be of a character generally known in the market as prime bills. Such acceptances shall bear the indorsement of the subscribing bank selling the same, which indorsement must be other than that of the acceptor.

SEC. 33. The National Reserve Association may invest in United States bonds; also in obligations, having not more than one year to run, of the United States or its dependencies, or of any State, or of foreign governments.

SEC. 34. The National Reserve Association shall have power, both at home and abroad, to deal in gold coin or bullion, to make loans thereon, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of any of its holdings of United States bonds.

SEC. 35. The National Reserve Association shall have power to purchase from its subscribing banks and to sell, with or without its indorsement, checks or bills of exchange, arising out of commercial transactions as hereinbefore defined, payable in such foreign countries as the board of directors of the National Reserve Association may determine. These bills of exchange must have not exceeding ninety days to run, and must bear the signatures of two or more responsible parties, of which the last one shall be that of a subscribing bank.

SEC. 36. The National Reserve Association shall have power to open and maintain banking accounts in foreign countries and to establish agencies in foreign countries for the purpose of purchasing, selling, and collecting foreign bills of exchange, and it shall have authority to buy and

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

SEC. 37. It shall be the duty of the National Reserve Association or any of its branches, upon request, to transfer any part of the deposit balance of any bank having an account with it to the credit of any other bank having an account with the National Reserve Association. If a deposit balance is transferred from the books of one branch to the books of another branch, it may be done, under regulations to be prescribed by the National Reserve Association, by mail, telegraph, or otherwise, at rates to be fixed at the time by the manager of the branch at which the transaction originates.

SEC. 38. The National Reserve Association may purchase, acquire, hold, and convey real estate for the following purposes and for no other:

First. Such as shall be necessary for the immediate accommodation in the transaction of the business either of the head office or of the branches.

Second. Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third. Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

Fourth. Such as it shall purchase at sales under judgments, decrees, or mortgages held by said association, or shall purchase to secure debts due to it.

But the National Reserve Association shall not hold the possession of any real estate under mortgage or the title and possession of any real estate purchased to secure any debts due to it for a longer period than five years.

SEC. 39. All subscribing banks must conform to the following requirements as to reserves to be held against deposits of various classes, but the deposit balance of any

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subscribing bank in the National Reserve Association and any notes of the National Reserve Association which it holds may be counted as the whole or any part of its required reserve:

First. On demand deposits: National banks in different localities shall maintain the same percentages of reserve against demand deposits as is now required by law, and the same percentages of reserve against demand deposits shall be required of all other subscribing banks in the same localities.

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

SEC. 40. National banks may loan not more than thirty per centum of their time deposits, as herein defined, upon improved and unencumbered real estate, such loans not to exceed fifty per centum of the actual value of the property, which property shall be situated in the vicinity or in the territory directly tributary to the bank: *Provided*, That this privilege shall not be extended to banks acting as reserve agents for banks or trust companies.

SEC. 41. All demand liabilities, including deposits and circulating notes, of the National Reserve Association shall be covered to the extent of fifty per centum by a reserve of gold (including foreign gold coin and gold bul-

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lion) or other money of the United States which the national banks are now authorized to hold as a part of their legal reserve: *Provided*, That whenever and so long as such reserve shall fall and remain below fifty per centum the National Reserve Association shall pay a special tax upon the deficiency of reserve at a rate increasing in proportion to such deficiency as follows: For each two and one-half per centum or fraction thereof that the reserve falls below fifty per centum a tax shall be levied at the rate of one and one-half per centum per annum: *Provided further*, That no additional circulating notes shall be issued whenever and so long as the amount of such reserve falls below thirty-three and one-third per centum of its outstanding notes.

SEC. 42. In computing the demand liabilities of the National Reserve Association a sum equal to one-half of the amount of the United States bonds held by the association which have been purchased from national banks, and which had previously been deposited by such banks to secure their circulating notes, shall be deducted from the amount of such liabilities.

SEC. 43. The National Reserve Association shall make a report, showing the principal items of its balance sheet, to the Comptroller of the Currency once a week. These reports shall be made public. In addition, full reports shall be made to the Comptroller of the Currency by said association coincident with the five reports called for each year from the national banks.

SEC. 44. All subscribing banks shall, under regulations to be prescribed by the National Reserve Association, make a report monthly, or oftener if required, to said association showing the principal items of their balance sheets.

SEC. 45. All reports of national-bank examiners in regard to the condition of banks shall hereafter be made in duplicate, and one copy shall be filed with the National

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Reserve Association for the confidential use of its executive officers and branch managers.

SEC. 46. The National Reserve Association may accept copies of the reports of the national-bank examiners for subscribing national banks and also copies of the reports of State-bank examiners for subscribing State banks and trust companies, in States where the furnishing of such information is not contrary to law: *Provided, however,* That the standard of such examinations, both National and State, meets the requirements prescribed by the National Reserve Association. The National Reserve Association shall have the right at any time to examine or cause to be examined by its own representatives any subscribing bank. The National Reserve Association may make such payments to national and State examiners for such services required of them as the directors may consider just and equitable.

SEC. 47. All provisions of law requiring national banks to hold or to transfer and deliver to the Treasurer of the United States bonds of the United States other than those required to secure outstanding circulating notes and Government deposits are hereby repealed.

SEC. 48. There shall be no further issue of circulating notes by any national bank beyond the amount now outstanding. National banks may maintain their present note issue, but whenever a bank retires the whole or any part of its existing issue its right to reissue the notes so retired shall thereupon cease.

SEC. 49. The National Reserve Association shall, for a period of one year from the date of its organization, offer to purchase at a price not less than par and accrued interest the two per centum bonds held by subscribing national banks and deposited to secure their circulating notes. The National Reserve Association shall take over the bonds so purchased and assume responsibility for the redemption upon presentation of outstanding

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notes secured thereby. The National Reserve Association shall issue, on the terms herein provided, its own notes as the outstanding notes secured by such bonds so held shall be presented for redemption and may issue further notes from time to time to meet business requirements, it being the policy of the United States to retire as rapidly as possible, consistent with the public interests, bond-secured circulation and to substitute therefor notes of the National Reserve Association of a character and secured and redeemed in the manner provided for in this act.

SEC. 50. All note issues of the National Reserve Association shall at all times be covered by legal reserves to the extent required by section forty-one of this act and by notes or bills of exchange arising out of commercial transactions as hereinbefore defined or obligations of the United States.

SEC. 51. Any notes of the National Reserve Association in circulation at any time in excess of nine hundred million dollars which are not covered by an equal amount of lawful money, gold bullion, or foreign gold coin held by said association, shall pay a special tax at the rate of one and one-half per centum per annum, and any notes in excess of one billion two hundred million dollars not so covered shall pay a special tax at the rate of five per centum per annum: *Provided*, That in computing said amounts of nine hundred million dollars and one billion two hundred million dollars the aggregate amount of any national-bank notes then outstanding shall be included.

SEC. 52. The circulating notes of the National Reserve Association shall constitute a first lien upon all its assets and shall be redeemable in lawful money on presentation at the head office of said association or any of its branches. It shall be the duty of the National Reserve Association to maintain at all times a parity of value of its circulating notes with the standard estab-

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lished by the first section of the act of March fourteenth, nineteen hundred, entitled "An act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes."

SEC. 53. The circulating notes of the National Reserve Association shall be received at par in payment of all taxes, excises, and other dues to the United States, and for all salaries and other debts and demands owing by the United States to individuals, firms, corporations, or associations, except obligations of the Government which are by their terms specifically payable in gold, and for all debts due from or by one bank or trust company to another, and for all obligations due to any bank or trust company.

SEC. 54. The National Reserve Association and its branches shall at once, upon application and without charge for transportation, forward its circulating notes to any depositing bank against its credit balance.

SEC. 55. Upon application of the National Reserve Association the Secretary of the Treasury shall exchange the two per centum bonds of the United States bearing the circulation privilege purchased from subscribing banks for three per centum bonds of the United States without the circulation privilege, payable after fifty years from the date of issue. The National Reserve Association shall hold the three per centum bonds so issued during the period of its corporate existence: *Provided*, That after five years from the date of its organization the Secretary of the Treasury may at his option permit the National Reserve Association to sell not more than fifty million dollars of such bonds annually: *And provided further*, That the United States reserves the right at any time to pay any of such bonds before maturity, or to purchase any of them at par for the trustees of the postal savings, or otherwise.

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SEC. 56. The National Reserve Association shall pay to the Government a special franchise tax of one and one-half per centum annually during the period of its charter upon an amount equal to the par value of such United States bonds transferred to it by the subscribing banks.

SEC. 57. That banking corporations for carrying on the business of banking in foreign countries and in aid of the commerce of the United States with foreign countries and to act when required as fiscal agents of the United States in such countries may be formed by any number of persons, not less in any case than five, who shall enter into articles of association which shall specify in general terms the object for which the banking corporation is formed and may contain any other provisions not inconsistent with the provisions of this section which the banking corporation may see fit to adopt for the regulation and conduct of its business and affairs, which said regulations shall be signed, in duplicate, by the persons uniting to form the banking corporation and one copy thereof shall be forwarded to the Comptroller of the Currency and the other to the Secretary of State, to be filed and preserved in their offices.

That the persons uniting to form such banking corporation shall under their hands make an organization certificate which shall specify, first, the name assumed by such banking corporation, which name shall be subject to approval by the comptroller; second, the foreign country or countries or the dependencies or colonies of foreign countries or the dependencies of the United States where its banking operations are to be carried on; third, the place in the United States where its home office shall be located; fourth, the amount of its capital stock and the number of shares into which the same shall be divided; fifth, the names and places of residence of the shareholders and the number of shares held by each of them; and, sixth, a declaration that said certificate is made to enable such

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persons to avail themselves of the advantages of this section.

That no banking corporation shall be organized under the provisions of this section with a less capital than two million dollars, which shall be fully paid in before the banking corporation shall be authorized to commence business, and the fact of said payment shall be certified by the Comptroller of the Currency and a copy of his certificate to this effect shall be filed with the Secretary of State: *Provided*, That the capital stock of any such bank may be increased at any time by a vote of two-thirds of its shareholders with the approval of the Comptroller of the Currency and that the capital stock of any such bank which exceeds two million dollars may be reduced at any time to the sum of two million dollars by the vote of shareholders owning two-thirds of the capital.

That every banking corporation formed pursuant to the provisions of this section shall for a period of twenty years from the date of the execution of its organization certificate be a body corporate, but shall not be authorized to receive deposits in the United States nor transact any domestic business not necessarily related to the business being done in foreign countries or in the dependencies of the United States. Such banking corporations shall have authority to make acceptances, buy and sell bills of exchange, or other commercial paper relating to foreign business, and to purchase and sell securities, including securities of the United States or of any State in the Union. Each banking corporation organized under the provisions of this section shall have power to establish and maintain for the transaction of its business a branch or branches in foreign countries, their dependencies, or the dependencies of the United States at such places and under such regulations as its board of directors may deem expedient.

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A majority of the shares of the capital stock of such banking corporation shall be held and owned by citizens of the United States or corporations chartered under the laws of the United States or of any State of the Union, and a majority of the members of the board of directors of such banking corporations shall be citizens of the United States. Each director shall own in his own right at least one hundred shares of the capital stock of the banking corporation of which he is a director.

Whenever the Comptroller shall become satisfied of the insolvency of any such banking corporation he may appoint a receiver who shall proceed to close up such corporation in the same manner in which he would close a national bank, the disposition of the assets of the branches to be subject to any special provisions of the laws of the country under whose jurisdiction such assets are located.

The annual meeting of every such banking corporation shall be held at its home office in the United States, and every such banking corporation shall keep at its home office books containing the names of all stockholders of such banking corporation and members of its board of directors, together with copies of the reports furnished by it to the Comptroller of the Currency exhibiting in detail and under appropriate heads the resources and liabilities of the banking corporation. Every such banking corporation shall make reports to the Comptroller of the Currency at such times as he may require, and shall be subject to examinations when deemed necessary by the Comptroller of the Currency through examiners appointed by him; the compensation of such examiners to be fixed by the Comptroller of the Currency.

Any such banking corporation may go into liquidation and be closed by the vote of its shareholders owning two-thirds of its stock.

Any bank doing business in the United States and being the owner of stock in the National Reserve Association

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may subscribe to the stock of any banking corporation organized under the provisions of this section, but the aggregate of such stock held by any one bank shall not exceed ten per centum of the capital stock of the subscribing bank.

SEC. 58. Congress reserves the right to alter or amend the provisions of this act to take effect at the end of any decennial period from and after the organization of the National Reserve Association.

SEC. 59. All acts or parts of acts inconsistent with the provisions of this act are hereby repealed.

NELSON W. ALDRICH,
Chairman.

EDWARD B. VREELAND,
Vice Chairman.

JULIUS C. BURROWS.

EUGENE HALE.

H. M. TELLER.

H. D. MONEY.

THEODORE E. BURTON.

JAS. P. TALIAFERRO.

BOIES PENROSE.

JOHN W. WEEKS.

ROBT. W. BONYNGE.

L. P. PADGETT.

GEO. F. BURGESS.

A. P. PUJO.

GEO. W. PRINCE.

JAMES McLACHLAN.

A. PIATT ANDREW,
Assistant to Commission.

ARTHUR B. SHELTON,
Secretary.

WASHINGTON, *January 8, 1912.*

