

Up-to-Date Banking

By TOM KING

The New Currency and Banking System which has been established in the United States possesses the Same Features as are Advocated for Canada by W. F. Maclean, M.P.

What are the reforms in banking and currency legislation now being wrought out in the United States? We have heard a great deal in this country about the "Federal Reserve Act," "emergency currency," and the activities of Hon. Mr. McAdoo, the secretary of the treasury; we know in a general way that the United States government is taking control of the currency, the banking system, and the bank credits of the country. We know that money famines, unnecessary curtailment of credits, violent contractions of the currency, artificial panics and prolonged periods of financial stringency are to be prevented in the future, if the collective wealth and credit of the nation can prevent them.

But how is this to be brought about and to what extent has it already been accomplished? The Federal Reserve Act, we know, was passed many months ago; has it contributed to solve the present serious situation?

It must be admitted that, as yet, the Federal Reserve Act is not in operation. Whatever relief has been afforded the country during the present crisis, must be credited to the temporary measures, collectively known as the Aldrich-Vreeland Act, and to the remarkable courage and activity of Secretary McAdoo, who has trained all the resources at his command for the relief of business.

National and State Banks

Since 1863 there have been two kinds of banks in the United States, viz.: national banks and state banks. State banks do not issue notes; national banks have been the banks of issue. That function is taken from them by the Federal Reserve Act, but the national banks form the foundation of the new system of banking and currency. Up to this time the government has been limited, by its own legislation, from issuing currency beyond a certain amount, so that the power to regulate the volume of the currency has been confided to the banks. Thus the widely differing systems of Canada and the United States worked out to pretty much the same result, viz.: a national currency and a bank currency side by side with the banks and not the government regulating the volume of the currency.

In another way the two systems, tho starting far apart, arrived at the same result. In Canada a few big banks grew up with branches in every nook and corner of the land, draining money to the big centres and eventually to New York for stock market purposes. In the United States branch banks were forbidden, but the small banks all over the country were permitted to keep their reserves in certain big national banks in New York City. Thus, in time the savings of the country were drained to New York.

What Happened in 1911

In 1907 the big New York banks brought on a money famine which caused such widespread distress that public opinion demanded remedial legislation to enable the government to come to the rescue of the country, should a similar situation occur in the future. This led to the passage of the Aldrich-Vreeland Act, which is still in effect with some amendments. It provides for currency associations composed of national banks and certain qualified state banks. Thru these associations, under an act approved on August 4, 1914, any member bank upon approved security may now obtain from the government an emergency currency up to 125 per cent. of its unimpaired capital and surplus. The banks therefore had the opportunity to help the business of the country, during the present crisis, by making the national credit available for the relief of farmers, planters, merchants, manufacturers, forwarders, carriers and business men generally, to the extent of one billion dollars. The actual amount of money called for up to October 1, was only \$310,000,000. The banks did not co-operate as they should have done; some of them hoarded the money en-

trusted to them by the government, while others charged usury. Secretary McAdoo did his best to make the banks do their duty and deposited government funds with the banks in many localities to enable them, by discounting paper, to help harvest the crops and get them to market. But on the whole the Aldrich-Vreeland law has proved inadequate and everybody in the United States is eagerly looking forward to December, when the Federal Reserve Act will be in active operation.

The Federal Reserve Act

That act, approved by President Wilson on December 23, 1913, is entitled: "An act to provide for the establishment of federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States and for other purposes." It provides for:

1—A Federal Reserve Board at Washington, with powers and duties hereafter mentioned, consisting of seven members appointed by the president, by and with the advice and consent of the senate, including the secretary of the treasury and the comptroller of the currency, who are members ex-officio.

2—The division of the United States into twelve districts, each to contain a federal reserve bank. Every national bank in the district is to subscribe to the stock of the federal reserve bank a sum equal to six per centum of its combined paid-up capital and surplus. Certain state banks and trust companies may also subscribe for capital stock of the federal reserve bank, and in certain contingencies subscriptions to the capital stock may be

received from the general public or from the United States.

Each federal bank (or "regional bank," as it is commonly called) is to be governed by a board of directors, three of whom are to be named by the Federal Reserve Board at Washington, and six are to be elected by the member banks. But of the six directors elected by the member banks three must be men not interested in the banking business, but who are, at the time of their election, actively engaged in commerce, agriculture or other industrial pursuits in the district.

After all expenses of the federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met all the net earnings will accrue paid to the United States as a franchise tax, except that one-half of such earnings shall be paid into a surplus fund until it amounts to forty per centum of the paid-in capital stock of such bank.

3—Each federal reserve, or regional bank, shall establish branch banks. Each branch bank is to have seven directors; four to be named by the parent bank, and three by the federal board of control.

Federal Reserve Banks

So much for organization—the skeleton or framework of the system. But in passing it may be observed that the national banks have very generally come into the scheme and subscribed for stock in the regional banks of their respective districts. The Federal Reserve Board has been appointed and qualified and regional

banks are being established at Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Branches will be established without delay.

The federal reserve or regional banks may receive deposits from member banks and from government of the United States.

They may discount notes, drafts, and bills of exchange arising out of actual commercial transactions. That is, notes, drafts or bills of exchange issued or drawn for agricultural, industrial or commercial purposes. Such paper must be endorsed by at least one member bank, but such discounting or rediscounting is forbidden in the case of notes, drafts or bills of exchange covering merely investments or issued or drawn for the purpose of carrying, or trading in, stocks, bonds or other investment securities, except bonds and notes of the government of the United States.

They may, by the purchase of short time notes, finance any state, county or municipality in their respective districts upon the security of taxes in course of collection or other assured revenue.

They may rediscount among themselves commercial paper already discounted for member banks and any federal reserve bank may be compelled by the Federal Board of Control to come to the assistance of any other federal reserve bank by rediscounting its paper.

They are to be the depositories for the revenues of the United States and are to be the fiscal agents of the government.

They are authorized to buy and sell foreign exchange, to discount bills of exchange drawn against actual exports and imports and to carry on a general commercial banking business, but not to receive deposits from the public. Their principal function is to rediscount commercial paper endorsed by member banks.

Financing District Business

But where is the money to come from which will make it certain that the regional bank can finance the business of its district by rediscounting prime commercial paper offered to it for discount by the member banks? It must happen that, at certain seasons of the year, in various districts there is great necessity for expansion of the currency, times when men of good credit and business ability must have ready money. The Federal Reserve Act deals with this by providing:

Federal Reserve notes to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to federal reserve banks thru federal reserve agents, as hereinafter set forth, and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and federal reserve banks, and for all taxes, customs and other public dues. They shall be redeemed in gold on demand of the Treasury Department of the United States, in the City of Washington, District of Columbia, or in gold or lawful money at any federal reserve bank.

That is to say, the regional banks, as the fiscal agents of the government, will loan the credit of the United States, represented by the national currency, to the farmers, planters, manufacturers and distributors who are deemed worthy of credit by the member banks in the community in which they live. These member banks, under the unit system in the United States, are largely owned and controlled by local capital and each community is guaranteed fair treatment by the law which directs that all parts of the district shall receive equitable treatment without discrimination.

No Undue Currency Inflation

The issue of national currency above provided for is not likely to become too inflated, because,

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Ideas are Worth Money



It is our aim to make The Guide of the utmost service to our readers in every way. We always welcome suggestions for improving the paper and have received hundreds of friendly helpful letters in the past. Now, however, at the beginning of the winter season we want to make a special effort to have The Guide the most welcome visitor at the family circle and are willing to pay for such assistance.

In this issue we have tried to anticipate many of your wishes and trust we have succeeded in producing a paper that will please you. We are not looking for compliments, but we want to know if The Guide pleases you and we want your help to make it still better. What do you want to see in The Guide for the next six months? Is there any special information that would be helpful to you either along agricultural lines or any other lines? How do you like our cartoons? Can you suggest any way of making any of the departments more interesting or helpful? Are there any new departments you would like to have us open? How do you like our short stories? Is there any department or other feature of the paper you do not like? What kind of illustrations appeal to you most? Would you like more or less news about livestock, poultry, agriculture, co-operation, tariff, banking, or direct legislation?

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