NEW CURRENCY LEGISLATION.

United States Will Endeavor to Get More Elastic Currency System.

A determined effort is to be made to improve the banking system of the United States. Representative Glass, chairman of the House Banking and Currency committee, has issued the following statement of the provisions and objects of the proposed currency bill. President Wilson, in a message to Congress, said that it was "absolutely imperative that we should give the business men of this country a banking and currency system by means of which they can make use of the freedom of enterprise and of individual initiative which we are about to bestow upon them."

Responsive to Sound Credit

"We must have a currency," added President Wilson, "not rigid as now, but readily, elastically responsive to sound credit, the expanding and contracting credits of everyday transactions, the normal ebb and flow of personal and corporate dealings. Our banking laws must mobilize reserves; must not permit the concentration anywhere in a few hands of the monetary resources of the country or their use for speculative purposes in such volume as to hinder or impede or stand in the way of other more legitimate, more fruitful uses. And the control of the system of banking and of issue which our new laws are to set up must be public, not private, must be vested in the government itself, so that the banks may be the instruments, not the masters, of business and of individual enterprise and initiative."

Representative Mann, representing the opposition, curtly says that "the President's message is a fine example of classic construction, but there is nothing more to it, unless it be considered a threat that patronage will be withheld until a banking and currency bill is passed."

The following is the statement of Representative Glass:—

The bill prepared by Representative Glass of Virginia, and to be introduced in the House as a basis of legislative action, will be gone over in detail for such alterations as a majority of the Banking and Currency committee may care to make. The purpose of the bill is to be a comprehensive revision of the currency system of the country so as to obtain these principal objects:—

1. Provision of a means for re-discounting commercial paper of specified types.
2. Provision of a basis for elastic note issues properly safeguarded.
3. Provision of machinery for doing foreign banking business.

In order to accomplish these purposes fully, it is necessary to repeal certain portions of existing law, to rectify various conditions in the present national banking system, which are in some cases only indirectly connected with the objects sought; to furnish a new class of institutions for the performance of some functions which cannot well be entrusted to existing banks, or at all events can better be performed by others, and to alter the present reserve system to a very material degree.

The scope of the bill can best be understood by an analytical review of its contents.

Present Situation

The present banking situation in the United States rests upon the National Bank Act proper, as slightly modified from time to time, and upon the so-called Aldrich-Vreeland Act of May 30, 1908. Of these Acts, the latter is completely superseded on the ground that it has never become operative, probably will not become operative except under extreme stress, and was never satisfactory. The National Bank Act itself is modified in numerous essential particulars. In a separate measure, a general revision of the administrative provisions of the National Bank Act will be provided.

New Class of Banks

Fundamental to the idea of the bill is the creation of a new class of banks, to be known as federal reserve banks, the chief points about which are as follows:

1. The number is to be twelve, with possible increase later as provided.
2. The ownership is to be in the hands of the stockholding banks of the twelve districts in which the reserve banks are situated. The national banks are compelled to be members and state banks and trust companies are permitted to be members.
3. The capitalization is to be 20 per cent. of the capital of the stockholding banks, one-half paid in and one-half subject to call.
4. The business of these federal reserve banks is to be as follows:—

(a)—Re-discounting of paper presented by stockholding banks under specified conditions, provided such paper grows out of actual agricultural, commercial or industrial transactions, and does not run more than a specified number of days.

(b)—Buying and selling government securities, gold and silver bullion, and foreign coin, foreign exchange and open market bills of given maturity.

(c)—Government fiscal operations.

Issue of Notes

Every national bank is allowed to continue its note issue exactly as at present, and, in addition, federal reserve treasury notes are authorized to be issued to an amount not exceeding $500,000,000. These notes will, upon application, be issued to the federal reserve banks upon prime short-time commercial paper and other liquid collateral. While the notes will, on their faces, purport to be obligations of the United States, they are required to be secured by a gold reserve of 33 1-3 per cent. provided by the federal reserve bank, and are a first and paramount lien on all the assets of these banks and are redeemable in gold on demand at the Treasury Department in the city of Washington or at any federal reserve bank. Stringent provisions are made against counting any of these notes as a part of bank reserves, and the system is guarded against inflation by lodging power with the Federal Reserve Board to exact an interest charge upon treasury notes in order to insure their prompt redemption. The notes are not made legal tender, but are receivable by the government and every bank of the system at par without exchange. No change is made in the elements of protection afforded existing bank notes.

Overseeing the whole system is created a Federal Reserve Board, consisting of seven members, including the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency as members ex-officio. Four other members are chosen by the president of the United States, by and with the advice and consent of the senate, for a term of six years each. One of the members thus appointed by the president is to be governor of the Federal Reserve Board, one vice-governor and one secretary.

Their term of office is for eight years except that of those first appointed, one is to serve two years, one four, one six and one eight years. At least one of the members appointed by the president is to be a person of banking experience. Thus it will be noted that the government will have absolute control of the system. The salary of each member of the board except the two cabinet officers, who are ex-officio members, is fixed at $10,000, the Comptroller of the Currency to receive $5,000 in addition to the salary which he receives under the existing law.

The powers of the Federal Reserve Board are as follows:

(a) To examine at its discretion the accounts and books of each federal reserve bank, and to require such statements and reports as it deems necessary.

(b) To require, or on application to permit, a federal reserve bank to re-discount the paper of any other federal reserve bank.

(c) To establish each week, or as much oftener as required, a rate of discount which shall be mandatory upon each federal reserve bank and for each class of paper, provided that said rate of discount need not be uniform for all federal reserve banks, but shall be made with a view to accommodating the commerce of the country and promoting a stable price level.

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

(e) To supervise and regulate the issue of treasury notes to federal reserve banks.

(f) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in the act; or to re-classify existing reserve and central reserve cities and to designate the banks therein situated as country banks at its discretion.

(g) To require the removal of officials of federal reserve banks for incompetency, dereliction of duty, fraud or deceit.

(h) To require the writing off of doubtful or worthless assets upon the books and balance sheets of federal reserve banks.

(i) To suspend the further operations of any federal reserve bank and appoint a receiver therefor.

(j) To perform the duties, functions or services specified or implied in the act.

Federal Reserve Banks

The bill is based on the belief that no one should participate in the control of the system unless he is financially interested himself, or chosen by those who are, except in so far as the government steps in and asserts the authority of the whole community. With this in mind, the system has been devised so as to provide for the continuation of existing national banks, with their organization, powers and function unchanged. In addition there is established a system of federal reserve banks, which are incorporated institutions holding federal charters, and in all respects managed like national banks, except as to the election of directors.

As stated, there are twelve of these federal reserve banks, each managed by a board of nine directors, three of whom will be expert bankers, selected by the banks; three will be members selected in the same way, but required to represent the commercial, industrial or agricultural interests of the district, and subject to removal by the Federal Reserve Board in case they do not fairly represent these interests. The remaining three directors are to be chosen by the Federal Reserve Board, and one of them is to be designated by said board as chairman of the board of directors of the federal reserve bank of the district to which he is appointed and is to be the agent of the Federal Reserve Board.

The national banks are compelled to be stockholding members of the federal reserve bank of their respective districts, and state banks and trust companies are permitted to be members under certain well-defined regulations. All the domestic transactions of the federal reserve bank must be with member banks and the government, except that it may purchase bankers' bills and bills of exchange in the open market from individuals, as well as from domestic or foreign banks.

Division of Business

The object of the bill is to effect a moderate division and classification of banking business along indicated lines, the net result, presumably, being summed up as follows:—

1. National reserve banks will be strictly limited to re-discounting actual commercial and industrial transactions evidenced by very short term paper and on rare occasions, under carefully prescribed conditions, to financial operations protected by collateral. They will also be able to engage in foreign exchange operations, sales of government securities; etc., as already explained.

2. National banks will be subjected to precisely the same restrictions as at present, with a relaxation in favor of a moderate amount of real estate loans by country banks under carefully guarded conditions.

3. By a revision of the administrative features of the National Banking Act, provision will be made for close oversight of national institutions with a view to holding them strictly up to the requirements of a legitimate banking business.

4. In order to possess themselves of the kind of paper entitling them to re-discounts, national banks will find themselves obliged to keep a reasonable proportion of their assets in the form of paper eligible for re-discounting, and this will mean very considerable emphasis upon the strictly commercial aspects of the business done by national institutions.

It is believed that the present sub-treasury system is unsatisfactory, clumsy, injurious to business, and difficult to manage in times of stress. The bill, therefore, provides for:

1. The placing of all current funds of the treasury in federal reserve banks and the payment of government creditors by check thereon.

2. The equalization of the public funds between the different reserve banks by direction of the Secretary of the Treasury and subject to a rate of interest to be fixed by the Federal Reserve Board.

3. The trust funds of the treasury are to be held as at present in the vaults of the treasury.

Division of Earnings

Under the terms of the bill, the federal reserve banks, after the payment of all expenses and taxes, are entitled to pay an annual cumulative dividend of 5 per cent. on paid-in capital to their stockholding members. One-half the net earnings of the bank must be paid into the surplus fund until said fund shall amount to 20 per cent. of the paid-in capital of the bank. The remaining one-half of the bank's earnings shall be paid to the United States, and whenever and so long as the surplus fund of each federal reserve bank amounts to 20 per cent. of the paid-in capital, the shareholders having received their permissible dividend of 5 per cent., all excess earnings shall be paid to the United States. Every federal reserve bank in exempt from federal, state and local taxation, except in respect to taxes upon real estate.